Asian Development Policy Review
ISSN(e): 2313-8343
ISSN(p): 2518-2544
DOI: 10.55493/5008.v10i2.4546
Vol. 10, No. 2, 146-164.
© 2022 AESS Publications. All Rights Reserved.
URL: www.aessweb.com

THE ROLE OF POLITICAL INSTITUTIONS OF EMERGING MULTINATIONAL ECONOMIES' CROSS-BORDER MERGERS AND ACQUISITIONS IN THE OECD COUNTRIES

Yaoan Wu[1]
Yi Qu[2]
Guowang Wen[3]
Jiatong Bao[4+]

[1,3]*Industrial and Commercial Bank of China, Beijing, China.*
[1]*Email* yaoanwu2022@163.com *Tel+8618624392661*
[3]*Email* guowangwen2022@163.com *Tel: +8613624053156*
[2,4]*Dongbei University of Finance and Economics Dalian, China.*
[2]*Email* quyijerry@dufe.edu.cn *Tel+8618624363658*
[4]*Email* bao_jiatong@126.com *Tel 008618742051359*

(+ Corresponding author)

Article History
Received: 25 April 2022
Revised: 16 June 2022
Accepted: 30 June 2022
Published: 21 July 2022

Keywords
CBMAs
EEs
EMNEs
OECD countries
Political institutions
WGI.

ABSTRACT

Cross-border mergers and acquisitions (CBMAs) have experienced a phenomenal growth. This is partly fueled by the continued development of multinational enterprises (MNEs) in developed economies (DEs). This empirical study investigates the role of political institutions in location choice regarding CBMAs in the emerging multinational economies (EMNEs) of OECD countries. Using the six-dimension framework of WGI indicators, we examine the relationship between the political environment in the host/home countries and EMNEs' CBMAs in the organization of economic co-operation and development in OECD countries. The empirical results indicate that EMNEs escape tight political control and weak regulatory framework in the home country compared to DEs. Violent and unstable investment environments impede domestic development, and more exporting activities occur. The results confirm that emerging economies (EEs) should improve the quality of institutions to increase outward CBMAs. Meanwhile, DEs should make full use of open and market-friendly policies to attract more inward CBMAs.

Contribution/Originality: This study combines home and host countries' institutions in an integrated framework and a wide range of factors including voice and accountability. Specifically, it looks at whether the political institutions have different effects on CBMAs by EMNEs in OECD countries, which has rarely been covered in the existing studies.

1. INTRODUCTION

In recent decades, cross-border mergers and acquisitions (CBMAs) have experienced phenomenal growth that is partly fueled by the continued development of multinational enterprises (MNEs) in developed economies (DEs). But rapidly increasing MNEs from emerging economies (EEs) have ascended to the world stage and taken leading positions in a number of industries, such as container shipping, petroleum refining, steel, mining, electronics and telecommunications (UNCTAD, 2000; UNCTAD, 2007; UNCTAD, 2011). Unlike their counterparts in DEs, MNEs from EEs (henceforth referred to as EMNEs) usually do not possess firm-specific advantages that can act as ownership advantages, which is one of the three conditions for a firm's internationalization in Dunning's eclectic paradigm (Dunning & Lundan, 2008). It has been highlighted in the literature that institutions play an important role in these firms' internationalization, particularly political institutions (Bénassy-Quéré, Coupet, & Mayer, 2007; Bevan, Estrin, & Meyer, 2004; Coeurdacier, De Santis, & Aviat, 2009; Gelbuda, Meyer, & Delios, 2008; Mudambi &

© 2022 AESS Publications. All Rights Reserved.

Navarra, 2002; Peng, Wang, & Jiang, 2008) (henceforth, "institution" refers to political institutions unless otherwise specified). The institutional factors can be split into two categories: push factors in home countries and pull factors in host countries. Home countries' institutional weakness is a push factor. Inefficient government, a weak legal system, poor property rights and high political risk all contribute to EMNEs' strong incentives to expand into overseas markets to avoid risk and high transaction costs in the domestic market (Buckley et al., 2007; Jormanainen & Koveshnikov, 2012). Push factors also include home countries' government support, policy promotion and liberalization. To improve firms' competitiveness, EE governments support EMNEs to seek advanced technologies and strategic assets that are mostly available in DEs (Buckley et al., 2007; Luo, Xue, & Han, 2010). In spite of the growing recognition of the role of home countries' political institutions in EMNEs' cross-border activities, both theoretical development and empirical evidence on the topic remain limited (Wu & Chen, 2014). However, home country institutional factors may also hinder outward foreign direct investment (FDI). A favorable environment may encourage firms to stay at home and reduce their propensity to invest abroad. Existing empirical studies on the role of home countries' institutions are limited.

More attention has been paid to the pull factors of host countries. The locational advantage emphasized in Dunning's eclectic paradigm (Daude and Stein, 2007) explores the importance of a wide range of institutional factors, including the unpredictability of laws, regulations and policies, an excessive regulatory burden, government instability and lack of commitment, and find a positive relationship between institutions and FDI. Clarke (2001) found that political stability can have a positive impact on inward FDI because the high quality of institutions positively impacts the upgradation of technology. Globerman and Shapiro (2002a) looked into FDI and institutions in developing countries and found that improved political governance in developing countries may result in more inward FDI. Bénassy-Quéré et al. (2007) also supported this outcome and found that an efficient government with low levels of corruption and an effective legal system attract more inward FDI. Better legal systems in host countries lead to less corruption, thereby reducing the possibility of losing business (Gani, 2007). Other studies with similar findings include Bevan et al. (2004); Busse and Hefeker (2007) and Jensen (2008). However, there are also studies that did not find evidence of any significant effect of institutions on FDI (Fan, Morck, Xu, & Yeung, 2009; Wheeler & Mody, 1992). In view of the lack of empirical studies on home country institutional factors and the mixed findings on host countries' institutional factors, this paper adds to the FDI literature in several ways. First of all, this study considers home and host countries' institutions in an integrated framework. Existing research often treats these two groups of variables separately. There are studies that have examined institutional distance between home and host countries which show that CBMA deals are often significantly influenced by the differences between home and host countries' political institutions (Shimizu, Hitt, Vaidyanath, & Pisano, 2004), but MNEs may not always compare a home country's institutions against a host country's institutions. It is likely that they consider both groups of variables in absolute terms simultaneously. Further, the study develops hypotheses based on the concepts of Kaufmann, Kraay, and Zoido-Lobatón (1999): voice and accountability, political stability and lack of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. At the conceptual level, under the broad umbrella of political institutions, a wide range of factors has been covered in the literature. But with the exception of Globerman and Shapiro (2002a), existing studies only examine limited aspects of institution. Globerman and Shapiro (2002a), on the other hand, did not pay attention to whether the above six dimensions of political institutions may have different effects on FDI. Therefore, this study tries to answer the following question: What is the role of political institutions regarding location choice in EMNEs' CBMAs in the OECD countries?

The rest of the paper is structured as follows: Section 2 provides an overview of existing literature on political institutions and FDI in general, and hypotheses are proposed regarding the impact of political institutions on the CBMAs by EMNEs in DEs. Section 3 describes the data, variables and methodology; Section 4 discusses the empirical results and findings, and Section 5 contains the conclusion, contribution and implications.

© 2022 AESS Publications. All Rights Reserved.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

With booming economies in developing countries and their firms' increased venturing onto the world stage, current studies have increasingly focused on the role of institutions (Bénassy-Quéré et al., 2007; Globerman & Shapiro, 2002a; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1999; North, 1990; Oliver, 1997). Different dimensions to institutions have been examined, including politics, economics, finance, administration, knowledge, global connectedness, demography and culture. This study focuses on political institutions. Following Kaufmann, Kraay, and Mastruzzi (2012), political institutions have six dimensions: voice and accountability (VA), political stability (PS), government effectiveness (GE), regulatory quality (RQ), rule of law (RL) and corruption control (CC). Together they build trust and credibility, prevent illegal opportunists, regulate business activities, and can affect perceptions and intentions in foreign business investment transactions and the economic and strategic choices of firms (Oliver, 1997). Linkage between institution and FDI, which includes CBMAs and greenfield investment, has increasingly gained academic attention.

Existing literature categorizes institutional factors into pull factors in host countries and push factors in home countries (e.g., Bénassy-Quéré et al., 2007; Buckley et al., 2007; Dikova & Van Witteloostuijn, 2007; Gani, 2007; Jormanainen & Koveshnikov, 2012; Luo et al., 2010). Pull factors in host countries are often argued to positively influence inward FDI. Institutionally well-developed countries enjoy locational advantages, for example, a transparent and well-functioning host country government reduces uncertainty and political instability. "Good" institution can bring more property and investor protection, and a well-structured legal system in host countries leads to less corruption, thereby providing more protection for investors and reducing the possibility of losing business (Gani, 2007). Therefore, countries with "good" institutions are more likely to attract more FDI.

As mentioned earlier, most of the empirical research on institution and FDI in general, and CBMAs in particular, is carried out from the perspective of the host country. MNEs come into contact with the host country's institutions when they operate in the country, and the continuity of these operations is constrained by the host country's institutions. Early research by Wheeler and Mody (1992) does not provide significant evidence of the impact of good host institutions, measured by the risk index, which contains political stability, corruption, bureaucratic quality and the legal system, on US FDI. However, this study sparks further research on political institution and FDI. A study by Wei (1997) suggests that corruption significantly inhibits inward FDI. Stein and Daude (2001) found that not only corruption but also other institutional factors, for example, government effectiveness and political stability, have a significant and economically important impact on FDI. Furthermore, they show that not all institution factors have the same level of impact on FDI decision-making, with government effectiveness being the most important institutional factor followed by political stability. Clarke (2001) found that good institutions can have a positive impact on FDI because good institutional quality positively impacts technology upgrades. Globerman and Shapiro (2002a) examined 144 countries and confirmed that good institutions attract inward FDI. In developed countries, institutions characterized by policies promoting competition, open and transparent legal and regulatory regimes and effective delivery of government service, create a favorable climate for FDI. Because their dataset is not bilateral and FDI flows between the host and home countries, they should compare and contrast home versus host country institutions based on the bilateral FDI flows in further research.

Although there is support for the finding that better government effectiveness, less corruption within government, and an effective legal system attract more inward FDI, the existence of a positive link between a host country's institutions and inward FDI is not universal. Fan et al. (2009) show that poor quality institutions in China do not act as a deterrent to FDI inflows. Emerging economies have been playing a major role on the international business stage for decades. They not only act as a receiver of FDI, but also actively invest overseas. Especially since the start of the twenty-first century, more and more EMNEs have been participating in FDI activities, in particular CBMAs (Globerman & Shapiro, 2002a; Stein & Daude, 2001). Different from their counterparts in DEs, EMNEs do not have firm-specific advantages, such as advanced technologies, professional knowledge marketing techniques and

© 2022 AESS Publications. All Rights Reserved.

well-established distribution networks that can act as ownership advantages for the firms to overcome the "liability of foreignness" in the host country. Instead, they invest in DEs to acquire firm-specific assets that can be integrated into their system so that they can gain firm-specific advantages. It has been argued that these EMNEs are "pushed" by their home country's institutions to go abroad for different reasons. First, EEs' institutional weaknesses, such as inefficient government, a weak legal system, poor property rights protection and high political risk, all give EMNEs strong incentives to operate overseas to avoid their own risk and high transaction costs in the domestic market (Buckley et al., 2007; Jormanainen & Koveshnikov, 2012). Second, there are also positive push factors, such as home country government support, promotion policies and liberalization. EE governments encourage domestic enterprises to invest overseas by providing stable and supportive regulation and institution (Buckley et al., 2007; Luo et al., 2010). Empirical studies on institution and FDI from the home country's perspective are limited. Globerman and Shapiro (2003) state that the relationship between a home country's institutions and outward FDI is complex. On the one hand, a favorable home country business environment limits capital outflow, but on the other hand, these same factors may also encourage the growth of domestically owned MNEs that further establish their foreign affiliates. The empirical investigation of 144 countries shows that improvements in home country's institutions restrict FDI for very small economies. For most of the countries, the effect of institution on FDI is positive. Wu and Chen (2014) investigated two dimensions of the home country's institution, the level of institutional development and institutional instability, and found that the former had a positive impact, while the latter had a negative impact on the propensity of 921 Chinese firms for foreign expansion from 1996 to 2000.

To sum up, the existing literature widely considers political system factors, including political stability, corruption, bureaucratic quality, legal system and government efficiency. With the exception of Globerman and Shapiro (2002a), existing studies only cover limited aspects of institution. This empirical study adopts the Worldwide Governance Indicators (WGI) framework developed by Kaufmann et al. (1999) and Kaufmann, Kraay, and Zoido-Lobaton (2000) to analyze the six dimensions of political institution. This framework is comprehensive and has been widely used in institution research (Gani, 2007; Globerman & Shapiro, 2002a; Globerman & Shapiro, 2003; Globerman & Shapiro, 2005; Hur, Parinduri, & Riyanto, 2011; Mengistu & Adhikary, 2011; Stein & Daude, 2001; Wernick, Haar, & Singh, 2009). The following section discusses the impact of each dimension of political institution on CBMAs in the context of EEs being home countries and DEs being host countries.

2.1. Voice and Accountability (VA)

Voice and accountability captures the extent to which a citizen can acknowledge and participate in a country's political and government activities, such as elections and policy making, and also associate with free access and expression with the independent media. In other words, VA is linked to democratic decision-making and media independence. As democratic institutions provide check and balance on the elected government officials and transparent political systems, which are likely to reduce arbitrary government intervention, this lowers the risk of sudden policy change, strengthens property rights protection and improves the quality of information flows (Holmes, Miller, Hitt, & Salmador, 2013). Therefore, it is expected that DEs in host countries with favorable VA conditions would attract FDI.

However, from the home country's perspective, the impact of VA on CBMAs by EMNEs is less clear at the theoretical level. EEs tend to have weak democratic institutions. Governments rely less on popular support, citizens tend to be less informed about and influential on government activities, and government officials are more self-serving and more likely to manipulate institutions for personal gain (Holmes et al., 2013). As a consequence, on the one hand, successful firms may enjoy the favors and protection offered by an autocratic government and exploit their oligopolistic and monopolistic positions at home, and therefore have fewer incentives to invest abroad. On the other hand, they may be encouraged by an autocratic government to internationalize to acquire strategic assets abroad. Thus, the overall effect of VA in the home country on FDI is an empirical question. To summarize the

© 2022 AESS Publications. All Rights Reserved.

above discussion, only one hypothesis regarding the positive relationship between the level of VA of a host DE and CBMAs by EMNEs can be clearly formulated. The impact of VA of a home EE on CBMAs by EMNEs could be positive, negative or negligible if the positive effects are balanced out by the negative effects.

H1: The higher the VA of the host DE, the more CBMAs are undertaken by EMNEs.

There are a few empirical studies on the role of the host country VA. However, to the best of the author's knowledge, there is no empirical study that examines the role of VA in the home country. In the study of FDI and political institutions by Stasavage (2002), it was found that when the host country moves from an authoritarian system with less public acknowledgement and supervision to a democratic system with legitimate and executive supervision of a separate and independent media and public, the inflow of FDI into the country can increase by 16% in a long-term effect. Harms and Ursprung (2002) showed a positive relationship between democracy and FDI, which means that MNEs prefer to invest in the countries where civil rights and public freedom are respected. Similarly, Busse and Hefeker (2007) found that democratic rights are significant to FDI inflows, and MNEs prefer democratic destinations because these can be supervised by public media and can be considered as "transparent". Though these empirical studies are based on inward FDI in developing countries, the findings may also be applicable to DEs. Many EEs are moving towards better political institutions, including giving VA to their citizens. For example, India and Mexico are learning from the Western nations. Even socialist countries such as China, compared to their past, act much more transparently and give their citizens more political rights and civil liberties.

2.2. Political Stability and Absence of Violence

Political stability (PS) and absence of violence captures the level of stability in political and constitutional conditions. Political instability and violence may disrupt the economic process, damage infrastructure, impose financial constraints on the country and crowd out investments in other areas such as education and public health. They may also be associated with regime change that can potentially create additional difficulties for firms, including the threat of nationalization, expropriation, capital control and high tax rates. Political instability and violence could also obstruct business operations, affect the effectiveness of resource allocation and increase transaction costs. From the perspective of the host country, it is clear that political instability and violence discourage inward FDI. From the perspective of the home country, political instability and violence encourage outward FDI as investors try to avoid the possibility that uncertainty and risks could erode the future value of their asset holdings. In the context of DEs as host countries and EEs as home countries, it can be safely argued that a more politically unstable EE is likely to push EMNEs abroad, while stable and mature DEs as host countries provide the necessary institutions for EMNE investors. As a long-term strategy, CBMAs are more likely to happen in host countries with low levels of uncertainty, violence and terrorism as they create a stable institution for foreign investors (Hur et al., 2011). Therefore, the following hypotheses are constructed:

H2a: The higher the political stability and absence of violence of the host DE, the more CBMAs are undertaken by EMNEs.

H2b: The lower the political stability and absence of violence of the home EE, the more CBMAs are undertaken by EMNEs.

A number of empirical studies clearly show that stable political institutions with a competitive business environment are a significant determinant of inward FDI, and this applies to both developed and developing countries. Schneider and Frey (1985) revealed a reduction of FDI inflows in developed countries when domestic PS decreases, a result further confirmed by Asiedu (2006) in a study of FDI in Africa. Based on FDI inflows into the Gulf Cooperation Council (GCC) countries from 1984 to 2002, Mina (2009) showed that foreign investors prefer to target more stable institutions. Hayakawa, Kimura, and Lee (2013) examined FDI inflows in developed and developing countries from 1985 to 2007 and found that the low level of PS reduces FDI inflows. Brada, Kutan, and Yigit (2006) found that FDI inflows into Balkan countries during the period from 1991 to 2001 significantly reduced because of the wars. They suggest that foreign investors should avoid investing in host countries when their perception of instability exceeds the expected level. Especially in the Balkan case, foreign investors can expect

© 2022 AESS Publications. All Rights Reserved.

much more stability in western European countries than Balkan countries. Hayakawa et al. (2013) also included the conflict factor in their study and showed the negative effect of frequent internal conflicts in developed and developing countries on FDI. However, there are also studies that found no significant relationship between FDI and political instability (Noorbakhsh, Paloni, & Youssef, 2001).

Empirical studies on FDI from the perspective of PS in the home country are limited. However, there are some studies on political risks and capital flight. For example, Le and Zak (2006) and Lensink, Hermes, and Murinde (2000) found a positive relationship between political instability and capital outflow. This can be indirect evidence of the suggested positive relationship between political instability of the home country and outward FDI. Moreover, for emerging countries with rapid growth, political instability limits the domestic expansion of local firms and also raises the worries regarding nationalization. Investing in stable and regulated western DEs is shown to be an effective way to diversify the risk (Mengistu & Adhikary, 2011).

2.3. Government Effectiveness

Government effectiveness (GE) includes the quality of civil and public service by government and the degree of independence of the service from political influence. These reflect the credibility of government commitment to the public. Host countries design and perform effective government services to attract foreign investors because higher GE lowers the cost barrier of entry.

While DEs are considered to have an effective government and investment environment, EEs are more likely to be less effective, with excessive and unclear regulations. EMNEs can break out of the home country constraints by acquiring overseas targets. Malhotra, Sivakumar, and Zhu (2009) also argue that effective government encourages outward CBMAs. CBMAs increase according to the perception of lower coordination costs and a less time-consuming process in home countries for domestic enterprises to go overseas. Thus, the following hypotheses are proposed:

H3a: The better the government effectiveness of the host DE, the more CBMAs are undertaken by EMNEs.

H3b: The better the government effectiveness of the home EE, the more CBMAs are undertaken by EMNEs.

There are a small number of empirical studies that explicitly investigate the role of government effectiveness in FDI and CBMA decisions. In the study of US inward and outward CBMAs from 1989 to 1999, Kiymaz (2004) shows that foreign investors invested in the US in anticipation of the wealth gains and returns from the lower information costs and easier operation management of investing in the US. Likewise, US bidders tend to choose targets from an institution with an effective government. The empirical results of Malhotra et al. (2009) indicate that EEs tend to invest in DEs to avoid their own domestic barriers caused by ineffective home government and with the help of the improvement of home GE. Mengistu and Adhikary (2011) revealed that even when EEs invest in developing countries, EMNEs still prefer to target countries with more effective governments.

2.4. Regulatory Quality

Regulatory quality (RQ) represents the ability of government to formulate and implement policies that promote, permit and regulate public and private sectors. In other words, governments can not only produce market-friendly policies to attract FDI inflows, but also implement regulations to influence market price and supervise bank operations for foreign investment and business development. The regulatory role of government is a fundamental determinant of FDI inflows in host countries (Asiedu, 2004; Asiedu, 2006; Busse & Groizard, 2008; Davidson, 1989). A good regulatory system provides a creditable and consistent investment environment which enhances the confidence of foreign investors. Open policies boost FDI inflows in host countries. Better RQ increases inward CBMAs (Hur et al., 2011). However, it is not about individual policies in host countries; it is essential to provide an integrated regulation framework to liberalize the host market through effective supervision. To be more specific, both the lack of host government regulatory functions and highly restricted regulations lead to less FDI

© 2022 AESS Publications. All Rights Reserved.

inflows because an institutional void and highly regulated economies create market distortion (Busse & Groizard, 2008). Compared with EEs, DEs are known for a comprehensive and extensive regulation framework, which can be attractive to EMNEs in their quest for strategic assets to improve their competitive advantage.

Although EEs impress the world with rapid economic development, political institutions are weaker than DEs, and EEs learn from DEs when making economic and development policies. Poor RQ and high restrictions limit domestic firms from expanding internally and force local firms to seek opportunities internationally (Campos & Kinoshita, 2002). On the other hand, EEs traditionally have tight control on outward FDI (Rasiah, Gammeltoft, & Jiang, 2010). The improvement and promotion policies in EEs move more slowly than the long-standing weak regulatory framework. A large number of EEs do not provide supportive policies on outward foreign direct investment (OFDI) (Sauvant, Maschek, & McAllister, 2010). For EMNEs, domestic government is not always supportive; in order to break the constraints and compete with counterparts from DEs, EMNEs expand into better regulated institutions to achieve competitive advantages. Hence, two possibilities are proposed for RQ in the home country:

H4a: The higher the regulatory quality of the host DE, the more CBMAs are undertaken by EMNEs.

H4b: The lower the regulatory quality of the home EE, the more CBMAs are undertaken by EMNEs.

Empirical studies looking at the impact of RQ are few and they all focus on host countries. Taylor (2000) argued that when host countries only promote trade policies, such as a low tax tariff, it is inadequate. Policy restrictions on technology transfer in a host country reduce FDI inflows as foreign investors fear the investment to be non-beneficial. Taylor (2000) also suggested that open policies for both trade and investment are important to attract FDI. Azémar and Desbordes (2010) examined US FDI outflow into both developed and developing countries from 1983 to 1993 and found that deregulation and active labor policies in host countries boost FDI inflows, lift the possibility for highly skilled workers to find a job in the active labor market, and promote the acquirers' incentives to achieve a human resource advantage. They also revealed the positive effect of open economic policies on FDI inflows. Kirkpatrick, Parker, and Zhang (2006) showed that an effective regulation framework is a transparent and independent system free from political interference.

2.5. Rule of Law

Rule of law (RL) postulates the fairness and power of a legal system to protect society, property rights, contract enforcement and other aspects of economic development. A powerful and fair judiciary and court in host countries enhance foreign investors' confidence in the protection of contract enforcement. An effective legal system also prevents and reduces crime and other illegal activities; thus, foreign investors perceive a secure business environment in host countries. Better RL can increase CBMAs in host countries. Meanwhile, La Porta et al. (1999) classified that various worldwide legal systems are all inextricably derived from four types of legal origins: English common law, French civil law, German or Scandinavian law, and socialist law. La Porta, Lopez-de-Silanes, Shleifer, and Vishny (2000), in their further research, and Levine (1999) argued that legal systems with English common law origins can better protect investors and shareholders. They suggest that economic development can be more effective and secure in host countries under English common law, which results in more FDI inflows.

In the meantime, the low level of legal infrastructure in home EEs forces domestic firms to transfer their knowledge to better overseas legal institutions and introduce overseas investors seeking better protection. A high risk of corporate value appropriation in EEs exists, which deters the expansion of EMNEs (Rasiah et al., 2010). Lee and Mansfield (1996) pointed out that the protection of intellectual property rights (IPR) in developing economies is very low. Hence EMNEs transfer their knowledge to better legal institutions for strong protection. Also, EMNEs perceive that contract enforcement and supervision is not guaranteed in the home EE. Without effective and legal regulations, commitments in business activities in EEs may be unpredictable and unreliable. EMNEs seek

© 2022 AESS Publications. All Rights Reserved.

better investor protection overseas because of the lack in home countries (Rossi & Volpin, 2004). Therefore, the following hypotheses are proposed:

H5a: The better the rule of law in the host DE, the more CBMAs are undertaken by EMNEs.

H5b: The weaker the rule of law in the home EE, the more CBMAs are undertaken by EMNEs.

Existing empirical studies focus on the RL in host countries, while attention on the RL in home countries is limited. Rossi and Volpin (2004) examined the impact of investor protection and CBMAs in 49 countries between 1990 and 1999. The results show that more CBMAs occur in countries with higher investor protection. They concluded that the reason is because corporate control becomes ineffective when shareholder protection is low. Private arbitrage benefits from weak corporate control and operation, which harms the investor and corporate value. Lee and Mansfield (1996) conducted research on the relationship between IPR protection in developing economies and FDI inflows from US firms, and they found that strong IPR protection in host countries attracts more FDI inflows. This finding is supported by Javorcik (2004), who focused on developing economies in Eastern Europe and the former Soviet Union and showed the negative effect of a weak legal system in host countries on inward FDI. Campos and Kinoshita (2002) examined the FDI inflows into 25 transition economies between 1990 and 1998 and found that foreign investors prefer countries with better legal institutions. Poor legal conditions in EEs prompt the EMNEs to invest in DEs because the extensive and comprehensive legal practices in DEs provide a safer investment environment and learning example.

2.6. Corruption Control

Corruption control (CC) captures the degree of a government's control of private gains with public power, including corruption. Corruption in host countries increases the unpredictable volume of transaction costs for foreign investors. DEs hold the symbol of a "clean" government; a high level of CC enables foreign investors to predict the cost of investment. Moreover, when CC is improved in host countries, it also attracts more FDI because foreign investors can reduce the cost of bank loans and portfolio capital and receive more financial support in host countries.

Because of the relatively lower level of CC in EEs, EMNEs suffer from the negative influence of domestic corruption. Although EMNEs may be familiar with local corrupt institutions, the unpredictable cost brought by home market corruption is not a favorable business environment for EMNEs (Weitzel & Berns, 2006). Literature also points out that the improvement of CC in home countries can create a favorable business investment at home for EMNEs. Thus CC can enhance the EMNEs' confidence in expanding in their home market rather than going overseas, further reducing outward FDI (Globerman & Shapiro, 2003; Habib & Zurawicki, 2002). Therefore, the following hypotheses have been formulated:

H6a: The better the corruption control in the host DE, the more CBMAs are undertaken by EMNEs.

H6b: The weaker the corruption control in the home EE, the more CBMAs are undertaken by EMNEs.

Empirical studies mainly focus on host countries rather than home countries. Even EEs are analyzed as host countries for FDI inflows. Wei (2000) analyzed the relationship between FDI inflows and corruption based on FDI data from 12 home countries to 45 host countries during the early 1990s and showed that less CC and a high level of corruption in the host countries had a significant negative impact on FDI inflows. The results also suggest that corrupt host countries receive less FDI because foreign investors suffer from the high cost of bank loans and portfolio capital in host countries. Existing literature also reports that when CC in host countries improves, FDI inflows rise significantly. Vittal (2001) points out that the FDI flow to India can increase by 12% if its corruption is strictly controlled, and he also suggests that FDI in China could be doubled if the Chinese government reduces red tape and corruption. In addition to Asian developing countries, African developing countries can also benefit from CC. Brunetti et al. (1997) showed that FDI inflows to Nigeria increase by 5% when it reduces the corruption level to that of Hong Kong between 1974 and 1989.

© 2022 AESS Publications. All Rights Reserved.

By taking the example of Japanese outward FDI into 59 host countries, Voyer and Beamish (2004) found that when Japan as the home country tends to target less corrupt countries, less Japanese FDI flows into countries where there is an undeveloped legal system, activities are relatively unrestricted, and a high level of corruption exists. A similar result was found in the studies of EEs' outward FDI (Al-Sadig, 2009; Habib & Zurawicki, 2002), when the lower level of CC in the home market increases the EEs' outward FDI in DEs where the corruption is better controlled. Globerman and Shapiro (2003) pointed out that the relationship between better home country institutions and outward FDI can be negative. Favorable home country institutions created by improved CC limits capital outflows. Their empirical investigation of 144 countries shows that improvements in home country institutions restrict FDI for very small economies. For most countries, the effect of institution on FDI is positive.

3. DATA AND METHODOLOGY

3.1. Data and Variables

This empirical analysis is based on the data gathered from four main sources: the SDC Platinum database, the World Bank's Worldwide Governance Indicators (WGI) (Kaufmann et al., 2012), the World Trade Organization WTO) Regional Trade Agreements database, and institution distance indices (Berry, Guillén, & Zhou, 2010). SDC reports that CBMAs were completed by EMNEs in the OECD countries from January 1, 2009, to December 31, 2019. The WGI (Kaufmann et al., 2012) measures political institutions based on six indicators: voice and accountability, political stability and no violence, government effectiveness, regulatory quality, rule of law and corruption control. Berry et al. (2010) provided data for control variables of eight dimensions of institutional distances (e.g., economic distance) between acquiring and targeting countries. Eight countries (Chile, the Czech Republic, Estonia, Hungary, Mexico, Poland, the Slovak Republic, and Turkey) considered as emerging economies also became members of the OECD during the sample period. Given the research interests, they were retained in the EE category. The full list of EEs is provided in Appendix 1. The final sample contains 2,906 completed CBMA transactions undertaken by EMNEs from 43 EEs in 26 OECD countries during the period from 2009 to 2019. The final sample includes 1,086 paired country observations.

Following studies by Coeurdacier et al. (2009); Di Giovanni (2005); Hyun & Kim (2010); Kiymaz (2004); Malhotra et al. (2009); Malhotra, Sivakumar, & Zhu (2011); Manchin (2004); Markides & Ittner (1994); Rossi & Volpin (2004); Uddin & Boateng (2011); and Zhang, Zhou, & Ebbers (2011), the number of completed CBMA deals by EMNEs from country i to an individual OECD country j in the year t was used as a dependent variable. SDC also reports transaction values; however, the information is incomplete for EMNEs. Therefore, the number of deals was chosen as a dependent variable rather than the values because the former is a better indicator of a firm's behavior profile. (Malhotra et al., 2009).

The model combines the number of CBMA deals with independent measures of six governance indicators from the WGI (Kaufmann et al., 2012). The WGI has been widely tested by a number of previous scholars and is proven to be an established and comprehensive method for quality institution research (Busse & Hefeker, 2007; Gani, 2007; Globerman & Shapiro, 2002a; Globerman & Shapiro, 2005; Hur et al., 2011; Jensen, 2008; Mengistu & Adhikary, 2011; Stasavage, 2002; Wernick et al., 2009). Based on 31 separate data sources provided by various organizations, the WGI index combines a large number of qualitative and quantitative variables into six governance indicators. They improved the dataset in 2019, which covers 212 countries and territories.

The choice of control variables is based on the existing literature. The most controlled factors are economic factors (GDP per capita, inflation rate and GDP growth rate) and infrastructure factors (internet use) (Coeurdacier et al., 2009; Cuervo-Cazurra, 2006; Darby, Desbordes, & Wooton, 2010; Globerman & Shapiro, 2002a; Hur et al., 2011; Kirkpatrick et al., 2006; Mengistu & Adhikary, 2011; Singh, 2012; Wernick et al., 2009). Four more control variables were added, such as knowledge factors, administrative factors, an EU dummy variable, and regional trade agreements (RTAs). The EU dummy variable has a value of 1 when the host country is an EU member and 0

© 2022 AESS Publications. All Rights Reserved.

otherwise. Therefore, the study employs economic distance, knowledge distance, global connectedness distance and administrative distance from the institution distance indices by Berry et al. (2010). In order to minimize the effect of national cooperation, the number of physical RTAs by home and host countries are employed as the control variable (Asiedu, 2006; Di Giovanni, 2005). The WTO Regional Trade Agreements database provides the data for the full list of the number of physical RTAs signed by each country.

3.2. Regression Model

The dependent variable (the number of CBMA deals) is a data series which takes discrete integer values and presents considerable overdispersion (with the variance being greater than the mean). A generalized linear model (GLM) assumes that a Poisson or negative binomial distribution is called for. A Poisson process describes events that happen independently and randomly in time. The probability that the number of CBMA deals *(yi)* will occur in a given set of explanatory variables *(xi)* can be represented by the following equation:

$$f(y_i \mid \mathbf{x}_i) = \frac{e^{-\lambda_i} \lambda^{y_i}}{y_i!}, \quad y_i = 0, 1, 2, \ldots$$

However, the Poisson model needs to meet the requirement of equality between its first two moment conditions. Because of the unobserved effects, such as the uncertainty inherent in undertaking CBMA deals, a problem of 'overdispersion' may occur, whereby the conditional variance exceeds the conditional mean. In this case, a negative binomial model can be used to overcome the problem as it offers a more efficient estimator than a Poisson model. Both models can be estimated by maximum likelihood estimation. The equations below show the regression (1):(1).

Table 1 presents the descriptive statistics and correlation matrix. A review of the correlations between the WGI variables shows the presence of multicollinearity. Thus, this empirical study follows the established methods to test each political institution's factor in a separate regression, which is supported by Globerman and Shapiro (2002a); Globerman and Shapiro (2005); Globerman and Shapiro (2003). They suggest that the WGI indictors are highly correlated to each other, so it is not possible to examine them all in one regression, and a single regression should be run to test each of the WGI factors.

4. RESULTS AND DISCUSSION

Table 2 shows the estimation results of the political institution variables. Reg1, Reg2, Reg3, Reg4, Reg5 and Reg6 are separate estimations of the WGI variables. Six control variables (ED, KD, GCD, AD, EU dummy and RTAs) are included in each regression. H2a, H3b, H4a, H4b, H5a, H5b, H6a and H6b are fully supported. The estimation results fail to support H1, H2b and H3a.

The estimation results of the WGI factors show that PS, RQ, RL and CC are statistically significant for the home country, with expected signs, while VA and GE are statistically insignificant for the home country. GE, RQ, RL and CC are statistically significant for the host country, with expected signs, while VA and PS are statistically insignificant for the host country. This implies that the home country pays more attention to PS, RQ, RL and CC in its domestic institutions, while VA and GE are not influential on the home country effect. For the host countries, GE, RQ, RL and CC have a significant function in the decision-making of inward CBMAs, but VA and PS draw less attention. This is discussed further below.

© 2022 AESS Publications. All Rights Reserved.

Table 1. Descriptive statistics and correlation matrix.

Variable	Mean	S.D.	Homeva	Homeps	Homege	Homerq	Homerl	Homecc	Hostva	Hostps	Hostge	Hostrq	Hostrl	Hostcc	Hostrta
Number of CBMAs	2.681	4.152													
Homeva	-0.184	0.826													
Homeps	-0.228	0.785	0.222												
Homege	0.246	0.502	0.316	0.694											
Homerq	0.216	0.531	0.428	0.737	0.835										
Homerl	0.028	0.562	0.363	0.708	0.792	0.781									
Homecc	-0.050	0.600	0.363	0.791	0.822	0.848	0.851								
Hostva	1.324	0.219	0.052	0.024	0.061	0.066	0.069	0.056							
Hostps	0.702	0.485	0.053	0.041	0.061	0.066	0.066	0.033	0.648						
Hostge	1.597	0.399	0.056	0.026	0.060	0.072	0.059	0.060	0.801	0.611					
Hostrq	1.489	0.285	-0.007	0.002	0.047	0.053	0.048	0.028	0.616	0.358	0.647				
Hostrl	1.541	0.374	0.002	0.013	0.084	0.061	0.059	0.029	0.773	0.669	0.758	0.700			
Hostcc	1.637	0.566	0.034	0.039	0.085	0.078	0.080	0.054	0.834	0.638	0.844	0.745	0.855		
Hostrta	13.202	10.374	0.088	0.129	0.037	0.115	0.135	0.101	0.015	-0.015	-0.141	-0.026	-0.122	-0.095	
Homerta	25.616	11.348	0.460	-0.102	-0.005	0.088	-0.009	-0.214	0.038	0.056	0.024	-0.028	0.004	0.026	0.109

© 2022 AESS Publications. All Rights Reserved.

Table 2. Estimation results of political institutions.

Number	Reg1	Reg2	Reg3	Reg4	Reg5	Reg6
Homeva	-0.095 [0.073]					
Hostva	0.212 [0.171]					
Homeps		-0.240*** [0.061]				
Hostps		-0.039 [0.087]				
Homage			-0.105 [0.081]			
Hostge			0.190*** [0.072]			
Homerq				-0.456*** [0.089]		
Hostrq				0.581*** [0.135]		
Homerl					-0.127** [0.059]	
Hostrl					0.356*** [0.083]	
Homecc						-0.294*** [0.071]
Hostcc						0.189*** [0.055]
Homerta	0.008** [0.004]	0.008** [0.003]	0.005 [0.003]	0.015*** [0.004]	0.006* [0.003]	0.005 [0.003]
Hostrta	0.065*** [0.015]	0.048*** [0.016]	0.061*** [0.016]	0.059*** [0.015]	0.070*** [0.017]	0.069*** [0.016]
EU	-1.995*** [0.368]	-1.544*** [0.394]	-1.855*** [0.383]	-1.810*** [0.371]	-2.050*** [0.401]	-2.031*** [0.375]
AD	-0.006*** [0.002]	-0.006*** [0.002]	-0.006*** [0.002]	-0.005*** [0.002]	-0.007*** [0.002]	-0.006*** [0.002]
KD (x 10^{-3})	0.002 [0.005]	-0.001 [0.003]	0.013 [0.011]	0.003 [0.003]	0.001 [0.003]	0.002 [0.005]
ED	0.015*** [0.005]	0.016*** [0.004]	0.016*** [0.005]	0.014*** [0.004]	0.013*** [0.004]	0.014*** [0.004]
GCD (x 10^{-3})	-0.042*** [0.001]	-0.011*** [0.005]	-0.051*** [0.007]	-0.037*** [0.005]	-0.021*** [0.003]	-0.078*** [0.002]
N	763	763	763	763	763	763
R2						
pseudo R2	0.046	0.053	0.047	0.063	0.049	0.053

Note: * p < 0.10, ** p < 0.05, *** p < 0.01. Robust standard errors are in parentheses.

For the home countries, empirical findings support previous scholars (Campos & Kinoshita, 2002; Rasiah et al., 2010; Sauvant et al., 2010). Poor and constrained RQ in home institutions is still the main push factor for EMNEs' CBMAs. EMNEs escape from tight political control and weak regulatory framework in the home countries to DEs. The negative effect of PS on home countries in the empirical findings is in line with the existing literature (Hayakawa et al., 2013; Hur et al., 2011). Compared with DEs, the political stability level in EEs is lower, and it is harmful for local firms to expand domestically. EMNEs lower the risk of domestic political instability via CBMAs. It is easy to conclude that violent and unstable investment environments impede domestic development, and more exporting activities occur. The negative result for RL proves that EMNEs are worried about their home countries' ability to control companies and protect their values, because the ability of contract execution and commitment are weak in the domestic market. Hence, when the shareholder protection in the home country decreases, more CBMAs occur. The negative effect of CC in the home country confirms that the unpredictable cost of operation in the corrupt home market in EEs forces EMNEs to transfer their knowledge to better overseas legal institutions.

© 2022 AESS Publications. All Rights Reserved.

In addition, VA and GE seem to play an insignificant role in home institutions because when EMNEs acquire targets overseas, information and government effectiveness in host countries are much more important than the conditions in the home country. Information asymmetry occurs on the host country's side. With sufficient acquaintance with their own institutions, EMNEs require better information access to their targets. Thus, VA and GE in EEs become less important.

For the host countries, the empirical results of GE, RQ, RL and CC are consistent with the hypotheses and literature. An effective host government (GE) reduces the cost barrier of entry and gives the foreign investor the perception of easier operation management (Kiymaz, 2004). Better RQ in the host country provides a market-friendly policy and institution for foreign investors. The integrated regulation framework can liberalize the host market with effective supervision. A good regulation system provides a creditable and consistent investment environment to enhance the confidence of foreign investors in the private sector. Compared with EEs, DEs are reputable for their comprehensive and extensive regulation framework, which makes them a favorable target as a host country for EEs (Busse & Hefeker, 2007; Taylor, 2000). Good RQ in DEs has a positive effect on attracting inward CBMAs. Therefore, the result supports previous findings on RQ, that better RQ in DEs can attract more CBMAs from EEs. Advanced RL in DEs has extensive and comprehensive legal practices. It enhances foreign investors' confidence with better shareholder protection and contract enforcement, especially because most of the legal systems in DEs are rooted in English common law, French civil law, or are of German or Scandinavian origin. Economic development can be more effective and secure because of these legal origins. In order to obtain more corporate control and independent operation for more shareholder value and protection, EMNEs escape from weak legal systems to good legal systems (La Porta et al., 2000; Levine, 1999; Rossi & Volpin, 2004). Most of the literature shows a significant positive effect of CC in host countries on attracting CBMAs, because high control of corruption prevents bribery. Bribery is considered wrong and more costly to foreign investors, which then deters inward CBMAs in host countries (Cuervo-Cazurra, 2006; Habib & Zurawicki, 2002; Wei, 2000).

Finally, little impact of VA and PS is found in host countries on EMNEs' CBMAs. Existing literature argues that transparent and independent public media as a separate party can provide objective and direct supervision, and democratic political systems are supposed to be a favorable investment environment (Busse & Hefeker, 2007; Stasavage, 2002). A stable political institution (PS) lowers the nationalization risk, and a non-violent market reduces the cost of investment by cutting down the insurance premiums of foreign investment (Busse & Hefeker, 2007; Jensen, 2008). For the adopted sample, DEs from the OECD as host countries all maintain high levels of PS, so the impact of the PS in DEs on EMNEs' CBMA location choice becomes less sensitive. Therefore, the results show that VA and PS in host countries have an insignificant effect on EMNEs' CBMAs.

5. CONCLUSION

This study examines the role of political institutions of both the home country (EEs) and the host country (DEs) in EMNEs' CBMAs. Empirical findings show that in the home country, the negative effects of PS, RQ, RL and CC are in line with existing literature. Poor and constrained RQ in domestic institutions is still the main push factor for EMNEs' CBMAs (Campos & Kinoshita, 2002; Rasiah et al., 2010; Sauvant et al., 2010). EMNEs escape from tight political control and weak regulatory framework in the home country to DEs. Violent and unstable investment environments impede domestic development, leading to more illegal activities (Hayakawa et al., 2013; Hur et al., 2011). The negative result for RL proves that when there is insufficient investor protection in the home country, more CBMAs occur. The negative effect of CC shows that a low level of CC in EEs increases the cost of domestic business activities for EMNEs, and the unpredictable institution forces EMNEs to seek for help from foreign investors to make overseas acquisitions. However, VA and GE seem to play an insignificant role in EMNEs' CBMAs in the home countries, because when EMNEs acquire targets overseas, information and government effectiveness in the host countries are much more important than the conditions in their home country. Also,

© 2022 AESS Publications. All Rights Reserved.

information asymmetry occurs on the host country side. With sufficient knowledge of their own institutions, EMNEs require better information access to their targets. Thus, VA and GE in EEs become less important.

For the host countries, the empirical results of GE, RQ, RL and CC are consistent with the hypotheses and literature. An effective host government (GE) reduces the cost barrier of entry and gives foreign investors the perception of easier operation management (Kiymaz, 2004). Better RQ in the host country provides a market-friendly policy and institution for foreign investors. The integrated regulation framework can liberalize the host market with effective supervision. A good regulation system provides a creditable and consistent investment environment to enhance the confidence of foreign investors in the private sector. Compared with EEs, DEs are reputable for their comprehensive and extensive regulation framework, which makes them a favorable target as a host country for EEs (Busse & Hefeker, 2007; Taylor, 2000). Good RQ in DEs has a positive effect on attracting inward CBMAs. Therefore, the finding supports previous findings on RQ that better RQ in DEs can attract more CBMAs from EEs. Advanced RL in DEs has extensive and comprehensive legal practices. It enhances foreign investors' confidence with better shareholder protection and contract enforcement, especially because most of the legal systems in DEs are rooted in English common law, French civil law, or are of German or Scandinavian origin. In order to obtain more corporate control and independent operation for more shareholder value and protection, EMNEs escape from a weak legal system to a good legal system (La Porta et al., 2000; Levine, 1999; Rossi & Volpin, 2004). Most of the literature shows the significant positive effect of CC in host countries in attracting CBMAs, because high control of corruption prevents bribery. Bribery is considered wrong and is more costly to foreign investors, which deters the inward CBMAs in host countries (Cuervo-Cazurra, 2006; Habib & Zurawicki, 2002; Wei, 2000).

Finally, the results show little impact of VA and PS in host countries on EMNEs' CBMAs. Existing literature argues that transparent and independent public media can provide objective and direct supervision, and a democratic political system is supposed to be a favorable investment environment (Busse & Hefeker, 2007; Stasavage, 2002). A stable political institution (PS) lowers the nationalization risk, and a non-violent market reduces the cost of investment by cutting down the insurance premiums for foreign investment (Busse & Hefeker, 2007; Jensen, 2008). For the adopted sample, DEs from the OECD as host countries all maintain high levels of PS, so the impact of PS in DEs on EMNEs' CBMA location choices becomes less sensitive. Therefore, VA and PS in host countries have an insignificant effect on EMNEs' CBMAs.

Although the empirical findings are in line with the existing literature, the paper contributes to the existing literature with several points. First, it adds to the literature by studying both EEs as the home country and DEs as the host country, with the comprehensive WGI framework. Existing literature mostly focuses on either DEs as the home country, or EEs as the host country. The academic work on EEs as the home country is very limited. Second, our findings indicate that not all the political institutions have a significant effect on EMNEs' CBMAs. Findings of a significant positive relationship between hostGE, hostRQ, hostRL, hostCC and EMNEs' CBMAs support the existing literature on EMNEs' CBMAs. Findings of an insignificant relationship between hostVA and hostPS on EMNEs' CBMAs suggest that DEs from the OECD as the host countries maintain a high level of PS, so the impact of incidents between DEs on EMNEs' CBMA location choices becomes less sensitive.

This research has important implications at both government and managerial levels. For EEs, supportive exporting policies and improved government effectiveness can always promote EMNEs' CBMAs. It significantly helps domestic firms to acquire targets overseas. For DEs, active exposure on the international stage with good institutions and supportive policies can attract more inward CBMAs. For the managerial level of EMNE and DE firms, strategic assets and human resources at the firm level are no longer the only main determinants. Managers should evaluate the political institutions while choosing locations and searching for targets as the effect of institution can be vital and costly.

© 2022 AESS Publications. All Rights Reserved.

Funding: This study received no specific financial support.
Competing Interests: The authors declare that they have no competing interests.
Authors' Contributions: All authors contributed equally to the concept and design of the study.

REFERENCES

Al-Sadig, A. (2009). The 3ffects of corruption on FDI inflows. *Cato Journal*, *29*(2), 267.

Asiedu, E. (2004). Policy reform and foreign direct investment in Africa: Absolute progress but relative decline. *Development Policy Review*, *22*(1), 41-48.Available at: https://doi.org/10.1111/j.1467-8659.2004.00237.x.

Asiedu, E. (2006). Foreign direct investment in Africa: The role of natural resources, market size, government policy, institutions and political instability. *World Economy*, *29*(1), 63-77.Available at: https://doi.org/10.1111/j.1467-9701.2006.00758.x.

Azémar, C., & Desbordes, R. (2010). Short-run strategies for attracting foreign direct investment. *The World Economy*, *33*(7), 928-957.Available at: https://doi.org/10.1111/j.1467-9701.2010.01226.x.

Bénassy-Quéré, A., Coupet, M., & Mayer, T. (2007). Institutional determinants of foreign direct investment. *World Economy*, *30*(5), 764-782.

Berry, H., Guillén, M. F., & Zhou, N. (2010). An institutional approach to cross-national distance. *Journal of International Business Studies*, *41*(9), 1460-1480.Available at: https://doi.org/10.1057/jibs.2010.28.

Bevan, A., Estrin, S., & Meyer, K. (2004). Foreign investment location and institutional development in transition economies. *International Business Review*, *13*(1), 43-64.Available at: https://doi.org/10.1016/j.ibusrev.2003.05.005.

Brada, J. C., Kutan, A. M., & Yigit, T. M. (2006). The effects of transition and political instability on foreign direct investment inflows: Central Europe and the Balkans 1. *Economics of Transition*, *14*(4), 649-680.Available at: https://doi.org/10.1111/j.1468-0351.2006.00272.x.

Brunetti, A., Kisunko, G., & Weder, B. (1997). Institutions in transition: reliability of rules and economic performance in former socialist countries (Vol. 9708): World Bank Publications.

Buckley, P. J., Clegg, L. J., Cross, A. R., Liu, X., Voss, H., & Zheng, P. (2007). The determinants of Chinese outward foreign direct investment. *Journal of International Business Studies*, *38*(4), 499-518.

Busse, M., & Hefeker, C. (2007). Political risk, institutions and foreign direct investment. *European Journal of Political Economy*, *23*(2), 397-415.Available at: https://doi.org/10.1016/j.ejpoleco.2006.02.003.

Busse, M., & Groizard, J. L. (2008). Foreign direct investment, regulations and growth. *World Economy*, *31*(7), 861-886.Available at: https://doi.org/10.1111/j.1467-9701.2008.01106.x.

Campos, N. F., & Kinoshita, Y. (2002). Foreign direct investment as technology transferred: Some panel evidence from the transition economies. *The Manchester School*, *70*(3), 398-419.Available at: https://doi.org/10.1111/1467-9957.00309.

Clarke, G. R. (2001). How the quality of institutions affects technological deepening in developing countries. World Bank, Development Research Group, Regulation and Competition Policy.

Coeurdacier, N., De Santis, & Aviat. (2009). Cross-border mergers and acquisitions: Financial and institutional forces. ECB Working Paper No. 1018.

Cuervo-Cazurra, A. (2006). Who cares about corruption? *Journal of International Business Studies*, *37*(6), 807-822.Available at: https://doi.org/10.1057/palgrave.jibs.8400223.

Darby, J., Desbordes, R., & Wooton, I. (2010). Does public governance always matter? How experience of poor institutional quality influences FDI to the South. How Experience of Poor Institutional Quality Influences FDI to the South (December 30, 2010).

Daude, C., & Stein, E. (2007). The quality of institutions and foreign direct investment. *Economics & Politics*, *19*(3), 317-344.

Davidson, W. H. (1989). *Impact of trade policies on multinational operations. In T. Agmon & C. R. Hekman (Eds.), Trade Policy and Corporate Business Decisions*. New York: Oxford University Press.

Di Giovanni, J. (2005). What drives capital flows? The case of cross-border M&A activity and financial deepening. *Journal of international Economics*, *65*(1), 127-149.Available at: https://doi.org/10.1016/j.jinteco.2003.11.007.

© 2022 AESS Publications. All Rights Reserved.

Dikova, D., & Van Witteloostuijn, A. (2007). Foreign direct investment mode choice: entry and establishment modes in transition economies. *Journal of International Business Studies, 38*(6), 1013-1033.Available at: https://doi.org/10.1057/palgrave.jibs.8400297.

Dunning, J. H., & Lundan, S. M. (2008). *Multinational enterprises and the global economy* (2nd ed.). Cheltenham, UK ; Northampton, MA: Edward Elgar.

Fan, J. P. H., Morck, R., Xu, L. C., & Yeung, B. (2009). Institutions and foreign direct investment: China versus the Rest of the World. *World Development, 37*(4), 852-865.Available at: http://dx.doi.org/10.1016/j.worlddev.2008.07.016.

Gani, A. (2007). Governance and foreign direct investment links: Evidence from panel data estimations. *Applied Economics Letters, 14*(10), 753-756.Available at: https://doi.org/10.1080/13504850600592598.

Gelbuda, M., Meyer, K. E., & Delios, A. (2008). International business and institutional development in Central and Eastern Europe. *Journal of International Management, 14*(1), 1-11.Available at: https://doi.org/10.1016/j.intman.2007.05.011.

Globerman, S., & Shapiro, D. (2002a). Global foreign direct investment flows: The role of governance infrastructure. *World Development, 30*(11), 1899-1919.Available at: https://doi.org/10.1016/s0305-750x(02)00110-9.

Globerman, S., & Shapiro, D. (2003). Governance infrastructure and US foreign direct investment. *Journal of International Business Studies, 34*(1), 19-39.Available at: https://doi.org/10.1057/palgrave.jibs.8400001.

Globerman, S., & Shapiro, D. (2005). 5. Assessing international mergers and acquisitions as. *Governance, Multinationals, and Growth*, 68-99.

Habib, M., & Zurawicki, L. (2002). Corruption and foreign direct investment. *Journal of International Business Studies, 33*(2), 291-307.

Harms, P., & Ursprung, H. W. (2002). Do civil and political repression really boost foreign direct investments? *Economic Inquiry, 40*(4), 651-663.Available at: https://doi.org/10.1093/ei/40.4.651.

Hayakawa, K., Kimura, F., & Lee, H. H. (2013). How does country risk matter for foreign direct investment? *The Developing Economies, 51*(1), 60-78.Available at: https://doi.org/10.1111/deve.12002.

Holmes, R. M., Miller, T., Hitt, M. A., & Salmador, M. P. (2013). The interrelationships among informal institutions, formal institutions, and inward foreign direct investment. *Journal of Management, 39*(2), 531-566.Available at: https://doi.org/10.1177/0149206310393503.

Hur, J., Parinduri, R. A., & Riyanto, Y. E. (2011). Cross-border M&A inflows and quality of country governance: Developing versus developed countries. *Pacific Economic Review, 16*(5), 638-655.Available at: https://doi.org/10.1111/j.1468-0106.2011.00568.x.

Hyun, H.-J., & Kim, H. H. (2010). The determinants of cross-border M&As: The role of institutions and financial development in the gravity model. *World Economy, 33*(2), 292-310.Available at: https://doi.org/10.1111/j.1467-9701.2009.01224.x.

Javorcik, S. B. (2004). Does foreign direct investment increase the productivity of domestic firms? In search of spillovers through backward linkages. *American Economic Review, 94*(3), 605-627.Available at: https://doi.org/10.1257/0002828041464605.

Jensen, N. (2008). Political risk, democratic institutions, and foreign direct investment. *The Journal of Politics, 70*(4), 1040-1052.Available at: https://doi.org/10.1017/s0022381608081048.

Jormanainen, I., & Koveshnikov, A. (2012). International activities of emerging market firms. *Management International Review, 52*(5), 691-725.

Kaufmann, D., Kraay, A., & Zoido-Lobatón, P. (1999). Aggregating governance indicators (Vol. 2195): World Bank Publications.

Kaufmann, D., Kraay, A., & Zoido-Lobaton, P. (2000). Governance matters from measurement to action. *Finance & Development, 37*(002), 10.

Kaufmann, D., Kraay, & Mastruzzi. (2012). *The worldwide governance indicators (WGI) project reports*. Washington DC, USA: The World Bank Group.

Kirkpatrick, C., Parker, & Zhang, J. (2006). Foreign direct investment in infrastructure in developing countries: Does regulation make a difference? *Transnational Corporations, 15*(1), 143.

© 2022 AESS Publications. All Rights Reserved.

Kiymaz, H. (2004). Cross-border acquisitions of US financial institutions: Impact of macroeconomic factors. *Journal of Banking & Finance*, *28*(6), 1413-1439.Available at: https://doi.org/10.1016/s0378-4266(03)00125-0.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. (1999). The quality of government. *The Journal of Law, Economics, and Organization*, *15*(1), 222-279.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. (2000). Investor protection and corporate governance. *Journal of Financial Economics*, *58*(1-2), 3-27.

Le, Q. V., & Zak, P. J. (2006). Political risk and capital flight. *Journal of International Money and Finance*, *25*(2), 308-329.

Lee, J.-Y., & Mansfield, E. (1996). Intellectual property protection and US foreign direct investment. *The review of Economics and Statistics*, 181-186.

Lensink, R., Hermes, N., & Murinde, V. (2000). Capital flight and political risk. *Journal of International Money and Finance*, *19*(1), 73-92.Available at: http://dx.doi.org/10.1016/S0261-5606(99)00034-0.

Levine, R. (1999). Law, finance, and economic growth. *Journal of Financial Intermediation*, *8*(1-2), 8-35.

Luo, Y., Xue, Q., & Han, B. (2010). How emerging market governments promote outward FDI: Experience from China. *Journal of World Business*, *45*(1), 68-79.Available at: https://doi.org/10.1016/j.jwb.2009.04.003.

Malhotra, S., Sivakumar, K., & Zhu, P. (2009). Distance factors and target market selection: The moderating effect of market potential. *International Marketing Review*, *26*(6), 651-673.Available at: https://doi.org/10.1108/02651330911001332.

Malhotra, S., Sivakumar, K., & Zhu, P. (2011). A comparative analysis of the role of national culture on foreign market acquisitions by US firms and firms from emerging countries. *Journal of Business Research*, *64*(7), 714-722.Available at: https://doi.org/10.1016/j.jbusres.2010.08.003.

Manchin, M. (2004). Determinants of European cross-border mergers and acquisitions: Directorate General Economic and Financial Affairs (DG ECFIN), European Commission No. 212.

Markides, C. C., & Ittner, C. D. (1994). Shareholder benefits from corporate international diversification: Evidence from US international acquisitions. *Journal of International Business Studies*, *25*(2), 343-366.Available at: https://doi.org/10.1057/palgrave.jibs.8490204.

Mengistu, A. A., & Adhikary, B. K. (2011). Does good governance matter for FDI inflows? Evidence from Asian economies. *Asia Pacific Business Review*, *17*(3), 281-299.Available at: https://doi.org/10.1080/13602381003755765.

Mina, W. (2009). External commitment mechanisms, institutions, and FDI in GCC countries. *Journal of International Financial Markets, Institutions and Money*, *19*(2), 371-386.Available at: https://doi.org/10.1016/j.intfin.2008.02.001.

Mudambi, R., & Navarra, P. (2002). Institutions and internation business: A theoretical overview. *International Business Review*, *11*(6), 635-646.Available at: https://doi.org/10.1016/s0969-5931(02)00042-2.

Noorbakhsh, F., Paloni, A., & Youssef, A. (2001). Human capital and FDI inflows to developing countries: New empirical evidence. *World Development*, *29*(9), 1593-1610.Available at: http://dx.doi.org/10.1016/S0305-750X(01)00054-7.

North, D. C. (1990). *Institutions, institutional change and economic performance*. Cambridge, MA: Cambridge University Press.

Oliver, C. (1997). Sustainable competitive advantage: Combining institutional and resource-based views. *Strategic Management Journal*, *18*(9), 697-713.Available at: https://doi.org/10.1002/(sici)1097-0266(199710)18:9%3C697::aid-smj909%3E3.0.co;2-c.

Peng, M. W., Wang, D. Y., & Jiang, Y. (2008). An institution-based view of international business strategy: A focus on emerging economies. *Journal of International Business Studies*, *39*(5), 920-936.Available at: https://doi.org/10.1057/palgrave.jibs.8400377.

Rasiah, R., Gammeltoft, P., & Jiang, Y. (2010). Home government policies for outward FDI from emerging economies: Lessons from Asia. *International Journal of Emerging Markets*, *5*(3/4), 333-357.Available at: https://doi.org/10.1108/17468801011058415.

Rossi, S., & Volpin, P. F. (2004). Cross-country determinants of mergers and acquisitions. *Journal of Financial Economics*, *74*(2), 277-304.Available at: https://doi.org/10.1016/j.jfineco.2003.10.001.

© 2022 AESS Publications. All Rights Reserved.

Sauvant, K. P., Maschek, W. A., & McAllister, G. (2010). Foreign direct investment by emerging market multinational enterprises, the impact of the financial crisis and recession, and challenges ahead, Foreign Direct Investments from Emerging Markets (pp. 3-29). New York: Palgrave Macmillan.

Schneider, F., & Frey, B. S. (1985). Economic and political determinants of foreign direct investment. *World Development, 13*(2), 161-175.Available at: https://doi.org/10.1016/0305-750x(85)90002-6.

Shimizu, K., Hitt, M. A., Vaidyanath, D., & Pisano, V. (2004). Theoretical foundations of cross-border mergers and acquisitions: A review of current research and recommedations for the future. *Journal of International Management, 10*(3), 307-353.Available at: https://doi.org/10.1016/j.intman.2004.05.005.

Singh, P. (2012). Does poor quality of institutions attract cross-border mergers and acquisitions? *South Asian Journal of Macroeconomics and Public Finance, 1*(2), 191-230.Available at: https://doi.org/10.1177/2277978712473399.

Stasavage, D. (2002). Private investment and political institutions. *Economics & Politics, 14*(1), 41-63.Available at: https://doi.org/10.1111/1468-0343.00099.

Stein, E., & Daude, C. (2001). *Institutions, integration and the location of foreign direct investment*. Paper presented at the Global Forum on International Investment: New Horizons for Foreign Direct Investment.

Taylor, C. T. (2000). The impact of host country government policy on US multinational investment decisions. *The World Economy, 23*(5), 635-635.Available at: https://doi.org/10.1111/1467-9701.00294.

Uddin, M., & Boateng, A. (2011). Explaining the trends in the UK cross-border mergers & acquisitions: An analysis of macro-economic factors. *International Business Review, 20*(5), 547-556.Available at: https://doi.org/10.1016/j.ibusrev.2010.11.003.

UNCTAD, T. (2000). *Development report 1990 - 1999*. New York and Geneva: UNCTAD.

UNCTAD, T. (2007). *Development report 2007*. New York and Geneva: UNCTAD.

UNCTAD, T. (2011). *Development report 2011*. New York and Geneva: UNCTAD.

Vittal, N. (2001). Corruption and the State. *Harvard International Review, 23*(3), 20-25.

Voyer, P. A., & Beamish, P. W. (2004). The effect of corruption on Japanese foreign direct investment. *Journal of Business Ethics, 50*(3), 211-224.Available at: https://doi.org/10.1023/b:busi.0000024737.57926.bf.

Wei, S.-J. (1997). *Why is corruption so much more taxing than tax? Arbitrariness kills*: National Bureau of Economic Research.

Wei, S.-J. (2000). How taxing is corruption on international investors? *Review of Economics and Statistics, 82*(1), 1-11.

Weitzel, U., & Berns, S. (2006). Cross-border takeovers, corruption, and related aspects of governance. *Journal of International Business Studies, 37*(6), 786-806.Available at: https://doi.org/10.1057/palgrave.jibs.8400225.

Wernick, D. A., Haar, J., & Singh, S. (2009). Do governing institutions affect foreign direct investment inflows? New evidence from emerging economies. *International Journal of Economics and Business Research, 1*(3), 317-332.Available at: https://doi.org/10.1504/ijebr.2009.024307.

Wheeler, D., & Mody, A. (1992). International investment location decisions: The case of US firms. *Journal of international Economics, 33*(1-2), 57-76.

Wu, J., & Chen, X. (2014). Home country institutional environments and foreign expansion of emerging market firms. *International Business Review, 23*(5), 862-872.Available at: http://dx.doi.org/10.1016/j.ibusrev.2014.01.004.

Zhang, J., Zhou, C., & Ebbers, H. (2011). Completion of Chinese overseas acquisitions: Institutional perspectives and evidence. *International Business Review, 20*(2), 226-238.Available at: https://doi.org/10.1016/j.ibusrev.2010.07.003.

© 2022 AESS Publications. All Rights Reserved.

Appendix 1. List of Emerging Economies (EEs) and OECDs

There are different lists for "emerging economies" produced by the IMF, the Emerging Market Global Players project at Columbia University, the FTSE Group, MSCI Barra, Standard and Poor's, Dow Jones, BBVA Research, MasterCard and the Economist. To ensure the comprehensiveness of the study, I included all countries that have appeared in these lists. They are: Argentina, Bahrain, Bangladesh, Brazil, Bulgaria, Chile, China, Colombia, Czech Republic, Egypt, Estonia, Hungary, India, Indonesia, Iran, Jordan, Kuwait, Latvia, Lithuania, Malaysia, Mauritius, Mexico, Morocco, Nigeria, Oman, Pakistan, Peru, Philippines, Poland, Qatar, Romania, Russian Federation, Saudi Arabia, Slovak Republic, South Africa, Sri Lanka, Thailand, Tunisia, Turkey, Ukraine, United Arab Emirates, Venezuela, Vietnam.

And all involving host countries that have appeared in the OECD list as follows: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland-Republic, Israel, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Slovenia, South Korea, Spain, Sweden, Switzerland, United Kingdom, United States.

Views and opinions expressed in this article are the views and opinions of the author(s), Asian Development Policy Review shall not be responsible or answerable for any loss, damage or liability etc. caused in relation to/arising out of the use of the content.

© 2022 AESS Publications. All Rights Reserved.