How Political Tensions Fuel Cross-border Investment: American Consumer Hostility and Mergers and Acquisitions by Chinese and Japanese Firms[*]

Sichen Li[†]   Megumi Naoi[‡]

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Abstract

This paper leverages firm-level data on Japanese and Chinese mergers and acquisitions (M&As) in the United States spanning over three decades to demonstrate that political tensions between two countries increase cross-border mergers and acquisitions, contrary to the conventional wisdom that political tensions reduce cross-border investment. We develop and test a consumer-driven mechanism, whereby the rise of American consumer hostility toward Chinese (since 2016) and Japanese products (in the 1980s) in the United States incentivizes Chinese (Japanese) companies to engage in mergers and acquisitions with American firms to make their national identity less visible to consumers. We find that Chinese firms producing final consumer goods and Japanese firms producing final goods for corporations in global supply chains are more likely to increase mergers and acquisitions with U.S. companies compared to comparable firms that are producing intermediate goods. Profit-seeking firms have a repertoire of tools to address changing consumer preferences abroad and therefore political tensions can fuel, rather than dampen, globalization.

Keywords: Foreign direct investment, mergers and acquisitions, political conflicts, consumer hostility, the U.S., China, Japan

1　Introduction

Do political tensions between countries reduce cross-border investment? The question is at the heart of studies on political (in)stability and economic prosperity. The question is of increasing importance with the rise of tensions among powerful economies, such as the U.S., China, India and Russia. Despite the partisan change in the 2020 election, the U.S. government continues on its protectionist trade and investment policies against China. Economic sanctions against Russia by advanced industrialized nations have never been more swift and effective with more than 1,000 multinational corporations divested within a year (Economist, May 9, 2022).

Empirical evidence accumulated over decades on this question have been mixed at best. The lack of robust evidence is surprising, because theoretically, we have an abundance of studies predicting how political tensions between countries should reduce trade and investment. The mechanism underlying this conjecture is firms' risk assessment about host country environment (Busse and Hefeker, 2007; Jensen, 2008). Firms that engage in trade or investment seek stable political and regulatory environments and avoid engagement with hostile countries (Nguyen and Phan, 2017; Bonaime et al., 2018; Simmons, 2005). Some empirical studies support this conjecture (Heilmann, 2016; Li et al., 2021; Du et al., 2017), while others have found that profit-seeking firms can strategically increase foreign direct investment to avoid tariffs during trade wars or protect themselves against political risks in a hostile environment (Bongiorni, 2007; Johns and Wellhausen, 2016). Finally, other studies have demonstrated "business as usual" even during conflict-ridden times (Davis and Meunier, 2011).

This paper challenges the well-established conjecture about political tensions reducing cross-border investment by developing a consumer-driven mechanism, whereby the rise of consumer hostility toward a foreign nation incentivizes foreign companies to engage in mergers and acquisitions with local firms to make their national identity less visible to consumers. Our

theory predicts that the rise of consumer hostility in a host country is likely to increase mergers and acquisitions by foreign firms that produce final consumer goods compared to comparable firms that produce intermediate goods. The hypothesis and the consumer-driven mechanism we propose differ from the existing studies that emphasize firm-level and host government characteristics as the determinants of foreign direct investment.

We test this argument by leveraging firm-level data on mergers and acquisitions conducted in the United States by Chinese and Japanese firms spanning over three decades (1979-1995 for Japan, 2004-2020 for China). The period encompasses the two waves of rising consumer hostility against China and Japan in the United States. Our identification strategy rests on a difference-in-differences approach with the sharp interventions, i.e., the rise of anti-China/Japan consumer hostility in the U.S. The treatment group consists of firms that produce final consumer goods and the control group consists of firms that produce intermediate and primary goods. We manually code 1,129 Chinese and Japanese firms' positions in the global value chain (hereafter GVC) over three decades using company websites, digitized archives of company history, news reports, and press releases on mergers and acquisitions.

The results lend strong support to our hypothesis. The 2016 presidential campaign, which sharply increased unfavorable opinions of China, led to 16.7 more mergers and acquisitions per year by Chinese firms producing final consumer goods relative to similar firms that were producing intermediate or primary goods. The increase is substantial as Chinese firms on average made 29.6 M&A deals per year in the United States between 2012 and 2015. By contrast, we find no systematic effect of the rise of anti-Japan sentiments in 1982 and 1987 on M&A activities by final consumer goods producers.

We further explain these null results by reclassifying final consumer goods to consumer goods sold to ordinary consumers and those sold to corporate consumers, which we define as "corporations or organizations that purchase final consumer goods for the purposes of internal

use or distribution" (Tilson et al., 2009). We find, both with a case study of a Japanese tire company, Bridgestone's M&A deal in 1988, and with the difference-in-differences estimates that the rise of anti-Japan sentiment in 1982 increased M&A deals by Japanese firms that produced final goods for corporate consumers. The results imply that American corporate consumers were more hostile to Japanese products than were ordinary consumers, and open a new research agenda on the purchasing behavior of corporate consumers during conflict-ridden times. Finally, we rule out three alternative hypotheses about policy shocks to firms that coincided with our research time frame: the effect of U.S.-China and U.S.-Japan trade wars that coincided with our study's time frame, Xi Jinping's Made-in-China initiative announced in 2015, and the Plaza Agreement in 1985 that appreciated the Japanese Yen.

Our research contributes to three research programs. This paper is one of the few studies in the field of international political economy that demonstrates political tensions can increase cross-border investment. We develop and test a consumer-driven mechanism whereby a rise of consumer animosity abroad incentivizes profit-seeking firms to engage in mergers and acquisitions with local firms to hide their national identity. While a well-defined literature on tariff jumping (i.e., firms conduct greenfield FDI abroad to avoid tariffs) has demonstrated that the U.S.-Japan trade wars increased Japanese greenfield investment into the United States, our focus on consumer hostility breaks away from existing studies that exclusively considered firm-driven factors and host country environment (Neto et al., 2010; Klimek, 2011). Our prediction that consumer hostility can increase cross-border investment differs from the existing studies that predict the opposite (Fisman et al., 2014). Moreover, ours is the first among emerging studies on global supply chains to demonstrate how political tensions can deepen, rather than decouple, global supply chains (Antràs and Chor, 2013; Osgood, 2018; Kim et al., 2019).

Second, we advance the common empirical approach to cross-border investment in the field of IPE in three ways. We leverage firm-level data, rather than country-level FDI flows or

stock data commonly used in the existing studies. This is important because our theory is about firm-level decision to engage in M&As based on what firms produce and sell. The firm-level approach also allows us to discriminate the effect of consumer animosity from the effect of government policy or elite-led campaign (Fisman et al., 2014; Kim, 2018). Second, we manually code GVC positions of products produced by each of the 1,129 firms including historical merger and acquisition cases going back to 1979. Existing studies on GVC, by contrast, tend to rely on industry classifications as a proxy for their GVC positions (Antràs and Chor, 2013). Our manual coding reveals the diversity of GVC positions within the same industry. Finally, our focus on a specific entry mode, merger and acquisitions, is critical for our study because our consumer-driven theory predicts this mode of entry increases in the face of rising anti-foreign sentiments, but not necessarily other modes of entry, such as greenfield FDI.

Finally, our research contributes to a better understanding of the rise of hostile consumers and its consequences for the world economy. We have witnessed increasing consumer boycotts against foreign products due to ethical, environmental and health concerns as well as diplomatic tensions (Fong et al., 2015). Our study challenges a long-standing skepticism in the field of international political economy about whether public opinion influences elite behavior or policy outcomes by demonstrating that ordinary consumers powerfully shape firm's investment strategies. In the case of mergers and acquisitions, this effect is long-lasting and relatively irreversible even after the anti-foreign sentiments die down. Our study demonstrates that profit-seeking firms have a repertoire of tools to address changing citizen preferences abroad and that once these endogenous efforts are taken into consideration, political tensions can fuel, rather than dampen, globalization.

2 Theory: Consumer Hostility, National Brands and Global Value Chains

We begin with three established observations about consumer behavior when firms have options to produce some parts or entire goods across multiple countries (i.e., global value chains). First, consumers choose products based on various factors beyond price, variety and quality, such as brand image, ethical and environmental concerns and historical animosity (Bruning, 1997; Elliott and Cameron, 1994; Pandya and Venkatesan, 2016; Fisman et al., 2014). Indeed, consumer boycotts are on the rise everywhere. 4 in 10 consumers in the United States surveyed in 2020 have indicated that they were boycotting at least one company, up by 12 points since 2019 (LendingTree, 2020). 84 percent of Americans surveyed in 2021 said they will boycott Russian brands (Brand Keys, 2022). 71 percent of consumers surveyed in India in 2020 said they did not purchase products with a Made in China tag during Diwali to express their disapproval of the Galwan Valley clash between Chinese and Indian military forces in June of 2020, which led to the death of 20 Indian soldiers (Dutta, 2020).

Political tensions between governments can mobilize consumer hostility against a product identified with the enemy country. The exact source of this consumer hostility can vary across cases and individuals, and includes nationalism, exposure to economic competition, and ethical and ideological objection to the enemy country (Davis and Meunier, 2011; Autor et al., 2013; Vekasi and Nam, 2019; Li et al., 2021; Fisman et al., 2014). Our theory does not distinguish different sources of consumer hostility but predicts that the rise of political tensions between two governments increases consumer exposure to negative information and elite messages about the adversarial country. In India, for instance, Prime Minister Narendra Modi and the Confederation of All India Traders (CAIT) mobilized an anti-China campaign to "be vocal for local" to purchase Made-in-India products (Dutta, 2020). Responding to the increase in negative information about the adversarial country, consumers are more likely to avoid purchasing goods that are produced by companies identified with the adversarial

country.

Second, despite the rise of consumer sensitivity to world affairs as well as ethical and environmental concerns, consumers have limited information about a product – both its inputs and manufacturing process – compared to firms that produce a given product. For instance, among the 84 percent of Americans who responded that they will "boycotts Russian brands," only 8 percent could correctly name Russian brands. Among all of the Russian brands respondents named, 95 percent of the brands were not Russian – simply sounding "Russian heritage" (LendingTree, 2020; Pandya and Venkatesan, 2016). Third, this information asymmetry between consumers and producers means that consumers want to act on their beliefs and preferences but must rely on short cuts to infer a product's association with the adversarial country or unethical actions (Akerlof, 1978). The national brand recognition and country-of-origin labels serve as a powerful short cut for consumers in guiding their purchasing decisions.

In sum, studies have documented the rise of hostile and ethical consumers, who boycott products associated with foreign governments. Consumers often rely on two cues to guide their behavior: national brand and country-of-origin labels.

We argue that the evolution of global value chains (GVCs) – defined here as the manufacturing and delivery process of a product or service conducted in more than one country – exacerbates the information asymmetry between consumers and firms especially in the market for intermediate goods. For instance, the deepening of GVCs has made country-of-origin label less informative for consumers. Because "Made in China is everywhere," it is impractical to boycott Made-in-China products that can be made by one of many multinational corporations (Bongiorni, 2007). For example, Qing Yuan City Shoetown Footwear Co., Ltd. produces parts for Nike shoes (Shoetown Footwear Co., 2022), yet most American consumers are unable to associate Nike shoes with parts that are manufactured in China by a Chinese company.

Another way in which the deepening of GVC makes the country-of-origin label less informative

for consumers is the incompleteness of domestic regulations. Only 14 percent of WTO member countries require the country-of-origin label for all products (Mendel and Bauer, 2016). The majority of WTO member countries require a country-of-origin label for particular consumer goods such as food and pharmaceutical products. Most of the intermediate and primary goods are only required to report their country-of-origin for the purposes of customs exit and entry (Mendel and Bauer, 2016). By contrast, it is harder for a company to hide the national brand of final consumer goods because consumer recognition of a brand or a company name is essential to compete in the consumer market. Indeed, the rise of political tensions or the revelation of unethical government behavior directly affected final product producers through consumer boycotts, exemplified by the boycotts of Chinese products in India since the Galwan clash in 2020 and the hashtag movement to boycott Uniqlo products (Japanese casual apparel chain) for staying its operations in Russia after its invasion of Ukraine (Matsuyama and Bloomberg, 2022).

Multinational firms leverage this information asymmetry and the complexity of GVC and devise strategies to cope with hostile consumers abroad by hiding their national identity. Because consumers use short cuts to infer a product association with a foreign country, strategies of firms differ between those who produce final consumer goods and those who produce intermediate or primary goods. Firms that produce primary or intermediate goods can hide their national identity by providing intermediate parts to local final consumer goods producers via export or greenfield FDI. By contrast, firms that produce final consumer goods can conduct mergers and acquisitions with local firms to produce and sell final consumer goods under the local brand. We argue that consumer hostility in the host's market would incentivize firms producing final consumer goods to engage in mergers and acquisitions with local firms compared to comparable firms that are producing intermediate or primary goods. Our theory, thus, predicts firms' GVC positions are associated with their entry mode in the face of rising consumer hostility in the host country.

The above discussion leads to the following hypothesis:

Hypothesis: The rise of political tensions between two governments is associated with an increase in cross-border mergers and acquisitions by firms that produce final consumer goods in the adversarial country compared to comparable firms that produce intermediate or primary goods.

3 Research Design

To investigate the effect of political tensions on mergers and acquisitions, we employ a difference-in-differences design with sharp interventions (Angrist and Pischke, 2009). The unit of analysis is firm-year. The universe of cases are all Chinese and Japanese firms that (a) conducted at least one M&A in the United States over 16 years for each country (1979-1995 for Japan; 2004-2020 for China) and (b) were established at least 8 years before the first treatment. In proprietary data we purchased from Thomson One and other M&As data we obtained, we identified 673 Chinese firms and 456 Japanese firms that meet this sampling criteria, totalling 1,129 firms. The time frame ensures that there are sufficient pre-treatment mergers and acquisitions cases to set the benchmark and test for pre-treatment parallel trends.

We construct a balanced panel of firms during these time periods. The sampling and research design rest on the idea that these firms were comparable in their capacity and desire to conduct mergers and acquisitions in the United States, but differed in the timing of U.S. market entry due to different sensitivity and strategies to cope with the rise of American consumer hostility. Sampling these firms allows us to infer the causal effect of the rise of consumer animosity on a relatively similar set of firms.

The treatment is the rise of consumer hostility in the United States towards the target country in a given year. The treatment group includes firms that are final goods producers and the control group consists of firms producing intermediate and primary products. We identified the timing of sharp interventions – the rise of hostility against China and Japan

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among the American public – by examining nationally-representative public opinion surveys and key historical events. For the case of China, we identify two waves in the rise of anti-China sentiments documented by Pew survey data. Pew Research Center has asked every few years whether American respondents have favorable or unfavorable feelings toward China. We detected a sharp rise in anti-China sentiments starting in 2012, during the presidential campaign, and this trend accelerated in 2016, again, during the presidential election campaign and the Trump administration (Pew Research Center, 2020)(see Figure A1 in Appendix). We thus use 2012 and 2016 as intervention years.

For the Japanese sample, we identified two key moments in the rise of anti-Japan sentiments in the United States. The first was 1982, when a public opinion survey reported a 21-point drop in the share of American people viewing Japan favorably. In 1982, 1 in 5 auto workers in Detroit was unemployed and Vincent Chin, a Chinese graduate student, was mistaken as Japanese and murdered. The Washington Post and the New York Times both reported in the spring of 1982 that the rise of anti-Japan sentiments is growing among the workers and legislators. Importantly, Japanese businesses were exposed to this rise of anti-Japan sentiments through reporting of American sentiments by Japanese newspapers and televisions in 1982 (Mathews, 1982). Another intervention year we identified was 1987 when Congress legislated an import ban on Toshiba products due to its violation of the COCOM agreement and television news aired nine members of Congress sledgehammering Toshiba radio (Packard, 1987; Lindsey, 1982). The key assumption of the research design is that firms producing intermediate and primary products can hide their identity to consumers, but not firms producing final consumer goods.

The econometric model is shown below.

$$Y_{it} = \gamma_i + \delta_t + \alpha D_{it} + X'_{it}\beta + \epsilon_{it}$$

The dependent variable (Y_{it}) is a count variable that captures the number of M&As made by a firm in a given year, where i indicates an individual firm in our dataset and t denotes the year. The main estimand of interest is the difference-in-difference coefficient α. It captures the average treatment effect of consumer animosity within certain time periods. D_{it} is the product of the dummy variable (A_t) that indicates whether consumer animosity is on the rise in a given year and another dummy variable (P_i) that indicates whether one firm is a final good producer. We include firm fixed effects to address any time-invariant and unobservable confounders among firms. We also address common trends across different firms by including year fixed effects. Standard errors are clustered at the level of 2-digit NAICS industries to deal with correlation of errors within the same industry.

Product-Based Coding of Firms' Supply-Chain Positions

To classify firms into the treatment group (i.e., they produce final consumer goods) and the control group (i.e., they produce intermediate and primary products), we manually code products produced by 1,129 companies during the year they conducted mergers and acquisitions in the United States. A product is defined as final consumer goods if (a) it is directly sold to consumers, and (b) the company' brands are identifiable and visible to consumers. Examples of final products may include sneakers, computers, and automobiles. Intermediate products are goods that are half-processed such as the mid-sole of a sneaker, computer cameras, and the engines of automobiles. Primary products are barely processed goods that are used to make processed products. Relevant examples are silicon and steel. We use three major sources to code products manufactured and/or sold by Chinese companies in our data: firms' official websites, Qichacha, Thomson One dataset, and other websites that provide reliable information about the firms (Qichahca, 2022; Thomson One, 2022). For Japanese firms, we code a product's supply-chain position by using company websites, archives of company history, and news reports and press releases about the mergers and acquisitions. When a firm made both final and intermediate goods, we classify this firm as

the final goods producer. The detailed coding rules are described in the Appendix.
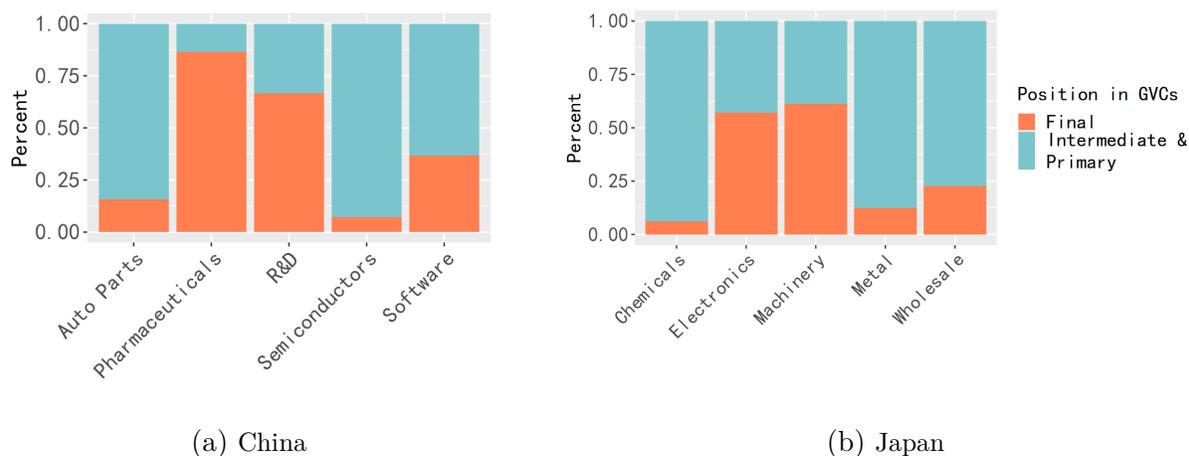

(a) China

(b) Japan

Figure 1: Within-Industry Variations of Firms' GVC Positions

Source: The authors' own coding of 1,129 firms in Thomson One, Zephyr, and EMIS datasets.

Figure 1 shows within-industry variation in firms' positions in global supply chains. Chinese firms shown here are classified by 4-digit NAICS industry codes and Japanese firms are classified by 2-digit SIC industry codes. The figure shows that firms within the same industry can differ in their GVC positions. For example, around 57% firms in the electronics sector produce final products while others mainly produce intermediate products. The evidence suggests that firm or product-level coding of GVC positions is a superior strategy to using industry as a proxy.

Ruling Out Alternative Hypotheses

Made in China 2025

Because our research design rests on sharp interventions, one potential confounder is the Made in China 2025 initiative (MIC) announced by the Chinese government in 2015, a year before our first intervention year for the Chinese case. The MIC is a state-led industrial policy formally released by the Chinese government on May 19, 2015 (The State Council of the P.R.C., 2015). It aims to upgrade China's manufacturing sector from labor-intensive to

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one that is capital and technology-intensive. The program identifies ten strategic industries: information technology, high-end computerized machines and robotics, aerospace equipment, ocean engineering and high-tech ships, advanced railway transportation equipment, new energy and energy-saving vehicles, power equipment, agriculture machinery, new materials, and bio pharma and high-tech medical devices (Congressional Research Service [CRS], 2020). Since the release of the MIC, the Chinese government has used policy tools such as government subsidies, government-backed investment funds, and facilitation of technology transfer to promote the technological upgrading of Chinese manufacturing firms in these industries. Since then the Chinese government and firms view M&As as an important tool to acquire new technology and management strategies.

Zenglein and Holzmann (2019) has demonstrated that the MIC significantly increased Chinese firms' M&A activities in OECD countries. Although the MIC does not explicitly aim to increase "Made in China" in final consumer goods, it is possible that Chinese government might have prioritized national brand recognition of final goods producers over intermediate goods producers. We thus test whether firms in industries targeted by the MIC are more likely to engage in M&A activities. To measure whether a firm is chosen by the MIC, we follow the approach of Wen and Zhao (2021) and utilize the data provided by China Securities Index Co., Ltd (CSI), a financial market index provider jointly founded by the Shanghai Stock Exchange and the Shenzhen Stock Exchange (China Securities Index, 2015a,b). The CSI selected a group of stocks from industries that it believed to be the targets of the MIC and created two indices, "CSI China Manufacture 2025" and "SSE China Manufacture 2025," based on these stocks. We define a firm as targeted by the MIC if its stock is used to create the two indices or if it belongs to an industry that is deemed to be the target of the MIC according to the CSI. The resulting MIC variable is a dummy variable that is 1 if a firm is targeted by the MIC and 0 otherwise. The MIC variable thus reflects the Chinese stock market experts' judgements on whether firms are targeted by the MIC.

The U.S.-China Trade War

Another potential confounder is the U.S-China Trade War. Studies have demonstrated that many Japanese firms chose to invest and establish factories in the United States to circumvent the trade barriers during the U.S.-Japan Trade War in the 1980s (Blonigen, 2002; Belderbos and Sleuwaegen, 1998). This strategy is called tariff jumping. Tariff jumping theory does not consider firms' incentive to invest abroad to differ between producers of final consumer goods vs. intermediate goods. Scholars have also debated whether the evidence of tariff jumping is limited to the Japanese case. We thus systematically test the effect of the U.S.-China Trade War on Chinese firms' decisions to conduct M&As in the United States in order to bypass the Trump administration's tariffs.

To rule out this alternative argument, we assign a dummy variable that indicates whether a firm is the target of section 301 tariffs during the Trade War. As of the end of 2020, the United States has imposed five rounds of section 301 tariffs on Chinese products. We obtain the tariff lists that specify the HS codes of these products from the USTR website and connect them with the 4-digit NAICS code of firms in our sample (The United States Trade Representative, 2022). The trade war variable is coded as 1 if a firm's industry is the target of the tariffs in a given year and 0 otherwise.

In addition, we control for the effect of trade disputes in general. We construct an indicator variable that takes on the value of 1 if there is one or more ongoing anti-dumping/countervailing (ADCV) investigations targeted towards a firms' industry, which is indicated by a 4-digit NAICS code, in a given year. The ADCV data are obtained from the Temporary Trade Barriers Database (Bown, 2011).

4   Results

Trends in M&As from China and Japan to the U.S.

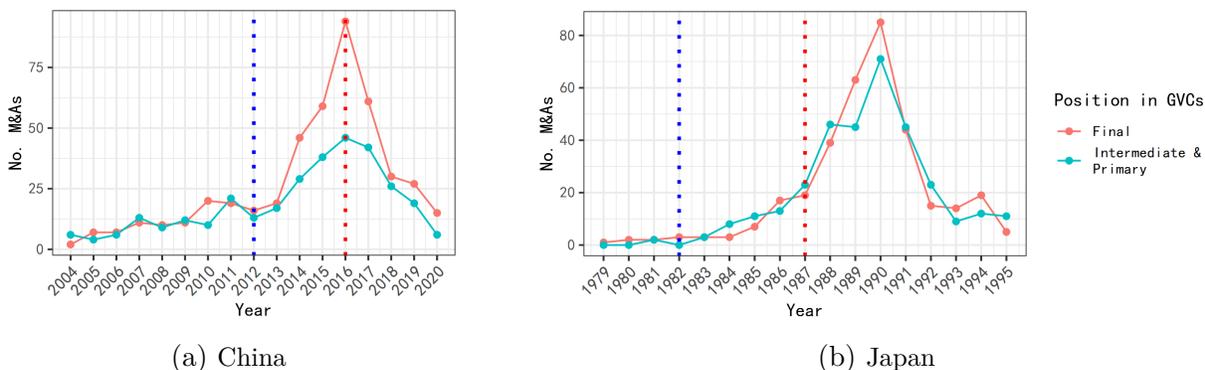(a) China   (b) Japan

Figure 2: Trends in M&As from China/Japan to the U.S.

Notes: The M&A data about Chinese firms come from Thomson One, Zephyr, and EMIS. The data about Japanese firms are from Thomson One. Firms' positions in GVCs are based on the authors' own coding of 1,129 firms in these datasets.

Figure 2(a) summarizes the number of M&A deals completed by Chinese firms for final and non-final producers between 2004 and 2020. Shown in Figure 2, annual numbers of M&A deals for final and non-final producers follow almost identical trends before the first spike in anti-China sentiment in 2012. Before 2012, on average, final-product producers completed 10.88 M&A deals and intermediate and primary goods producers completed 10.13 deals each year. After experiencing the sharp rise in unfavorable opinion toward China in 2012, the trend of two groups of firms diverge substantially: there was a rapid increase in M&A deals concluded by firms that produce final consumer goods, relative to firms that produce intermediate or primary goods. The further increase in anti-China sentiment in the U.S. in 2016 dampens the M&A activities from China and widens the divergence in M&A behavior between final- and intermediate- product producers.

Figure 2(b) summarizes the number of M&A deals completed by Japanese firms in treated vs. control groups between 1979 and 1995. We find parallel trends between firms in the treated vs. control group until 1988 in the Japanese data, a year after our second intervention year

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(Toshiba COCOM violation revelation in 1987). After 1988, our data documents a sharp increase in M&A deals by final goods producers relative to intermediate and primary goods producers. Yet, after 1990, the two group of firms seem to follow parallel trends again until 1992. We will return to this observation when we discuss the results of difference-in-differences estimates of Japanese data.

Consumer Animosity and M&As

Results for the Chinese Sample

Table 1 summarizes our difference-in-differences estimates of M&A deals completed by Chinese firms. As shown in Model 1, the DID coefficient (Year 2016 times the dummy variable that indicates whether a firm produces final consumer products) is 0.049 and statistically significant at 5 percent level. Substantively, this means that to cope with rising consumer hostility in the United States, final product producers on average complete 0.049 more M&A deals compared to intermediate and primary goods producers after subtracting the firm-level mean M&As and common year effects. Together, this translates into around 16.7 more M&As as we have 340 final product producers in the dataset. This is a substantial increase, because on average, Chinese firms made around 29.6 M&A deals each year between 2012 and 2015 and the number is only 10.5 before 2012. The results are robust in controlling for firms' status in the Made in China initiative as well as their status in the U.S.-China Trade War.

Model 2 summarizes the results on the effect of the first, but weaker intervention, i.e., the rise of consumer animosity during the 2012 presidential election campaign. The DID coefficient (Year 2012 times the dummy variable that indicates whether a firm produces final consumer products) is 0.044 and the p value is smaller than 0.1. The effect is weaker in its substantive magnitude as well as its statistical significance. One potential explanation as to why the 2012 effect is weaker than the 2016 intervention is the treatment intensity. The

2016 election campaign and the Trump administration's anti-China rhetoric was stronger and more incendiary than during the 2012 campaign. Models 3 and 4 examine the effect of the 2016 intervention after accounting for the lasting effects of the 2012 spike. Model 3 assumes that the effect of the 2012 intervention lasts from 2012 onward, while Model 4 assumes that the first intervention takes effect in 2012 and ends in 2015. Accordingly, the variable Year 2012-2015 in Model 4 takes on the value of 1 between 2012 and 2015 and 0 for other years. Table 1 demonstrates that the key effects of rising consumer animosity remains in Model 4.

All four models show that when a firm is officially chosen for the MIC, it is more likely to engage in M&A deals in the United States, yet the effect is not statistically significant. We further checked whether the MIC is likely to target firms with particular supply-chain positions. We find that the MIC has targeted firms that produce intermediate goods rather than firms that produce final consumer goods. The correlation is statistically significant at 1 percent level. The MIC has encouraged M&As for firms in the control group (i.e., intermediate goods producers), potentially offsetting our consumer animosity effect –i.e., consumer hostility increasing M&A deals for final goods producers. Yet, we still find the statistically significant effects of the rise of consumer hostility. This gives us more confidence about the robustness of our results.

Consistent with the prediction of the tariff-jumping literature, section 301 tariffs increased Chinese firms' M&A deals in the United States. Compared to those not affected by the tariffs, firms that are targets of the trade war tend to establish new facilities located in the U.S. to avoid tariffs and make it easier for them to apply for exemptions from trade barriers. The effects of the ADCV investigations or onset have no statistically significant effects on M&As and the results are shown in the Appendix Table A.3.

Table 1: The Rise of Consumer Hostility and M&A Deals by Chinese Firms
(Final Goods for Firms and Ordinary Consumers)

	The number of M&As			
	(1)	(2)	(3)	(4)
Year 2016:Final	0.049*		0.031*	0.058*
	(0.020)		(0.014)	(0.026)
Year 2012:Final		0.044†	0.026	
		(0.025)	(0.024)	
Year 2012-2015:Final				0.026
				(0.024)
Section 301 Tariff	0.106**	0.105**	0.106**	0.106**
	(0.034)	(0.035)	(0.034)	(0.034)
Made in China 2025	0.031	0.030	0.032	0.032
	(0.036)	(0.035)	(0.036)	(0.036)
Observations	8,296	8,296	8,296	8,296
R^2	0.147	0.147	0.147	0.147
Adjusted R^2	0.092	0.092	0.092	0.092
Residual Std. Error	0.355 (df = 7789)	0.355 (df = 7789)	0.355 (df = 7788)	0.355 (df = 7788)
F Statistic	2.652*** (df = 506; 7789)	2.651*** (df = 506; 7789)	2.650*** (df = 507; 7788)	2.650*** (df = 507; 7788)

Notes: The M&A data come from Thomson One, Zephyr, and EMIS. "Final" indicates whether a target firm is a final product producer. In this table, both firms and ordinary consumers are allowed to be buyers of final products. Robust standard errors clustered within industries are shown in the table. †p<0.1; *p<0.05; **p<0.01; ***p<0.001.

Results for the Japanese Sample

Table 2 summarizes our difference-in-differences estimates of M&A deals completed by Japanese firms. Contrary to our expectation, both waves of rising anti-Japan sentiments have no systematic effects on Japanese firms' mergers and acquisitions. The 1987 Toshiba COCOM incident does not have a statistically significant effect on firms' M&A activities. Model (2) demonstrates that the 1982 rise in consumer animosity actually reduced the M&A activities by final goods producers if we use non-final product producers as the baseline. The effect is statistically significant at 5 percent level.

The 1985 Plaza Accord is a dummy variable that is 1 in 1985 and 0 otherwise. The baseline year is 1979. As shown in all models in Table 2, the Plaza Accord increases M&A activities of Japanese firms in the U.S. This finding is consistent with the prediction of the tariff-jumping literature which argues that firms tend to make investment overseas to avoid trade barriers, in this case, fluctuations in exchange rates.

| | The number of M&As | | | |
	(1)	(2)	(3)	(4)
Year 1982:Final		−0.017*	−0.012	
		(0.007)	(0.011)	
Year 1987:Final	−0.013		−0.008	−0.020
	(0.014)		(0.017)	(0.010)
Year 1982-1986:Final				−0.012
				(0.011)
ADCV	0.063**	0.063**	0.064**	0.064**
	(0.014)	(0.014)	(0.014)	(0.014)
The Plaza Accord	0.043***	0.052***	0.049***	0.049***
	(0.005)	(0.007)	(0.008)	(0.008)
Observations	6,528	6,528	6,528	6,528
R^2	0.177	0.177	0.177	0.177
Adjusted R^2	0.123	0.123	0.123	0.123
Residual Std. Error	0.341 (df = 6126)	0.341 (df = 6126)	0.341 (df = 6125)	0.341 (df = 6125)
F Statistic	3.285*** (df = 401; 6126)	3.285*** (df = 401; 6126)	3.277*** (df = 402; 6125)	3.277*** (df = 402; 6125)

Notes: The M&A data come from Thomson One. "Final" indicates whether a target firm is a final product producer. Both firms and ordinary consumers are allowed to be buyers of final products. Robust standard errors clustered within industries are shown in the table. †p<0.1; *p<0.05; **p<0.01; ***p<0.001.

We suspect three potential explanations for the null results. One is that Japanese products were already ubiquitous in the American consumer market by 1982 and thus consumer hostility toward Japanese products was not as strong as consumer hostility toward Chinese products. The Washington Post, for instance, reporting the rise of anti-Japan sentiments and resentment in 1982 said: "Japan accounts for 23 percent of the American car market, 90 percent of the motorcycle, 50 percent of the recording equipment and 30 percent of cameras and 25 percent of televisions" (Mathews, 1982). Indeed, Potomac Associates, who conducted the nationally-representative survey of Americans in 1982 documents that while favorable opinion dropped by 21 points between 1980-1982 (from 84 points to 63 points), 63 percentage of respondents still had a favorable opinion toward Japan in 1982. A 1983 Roper survey asked American respondents how they felt about the news that Toyota formed a joint venture with GM and reopened a factory closed by GM to hire American workers

in California. Favorable opinions dominated: 67 percent of respondents said this is a good thing because of the increased employment of American workers and 39 percent said this is a good thing because an American company can learn Japanese technology. 34 percent said this is a good thing because Americans can buy small cars at an affordable "Japanese" price (Roper Center, 1983).

A second possible interpretation for the null results is that GVCs were still developing in the 1980s and thus the results are not comparable to the more recent Chinese sample. It is likely that the transaction costs of conducting overseas mergers and acquisitions are higher in the 1980s compared to nowadays. As a results, firms are less likely to make M&As in a foreign country to cope with the rise in consumer animosity.

A third possible interpretation, which we explore further below, is that there are in fact two types of consumers of final goods who might differ in how much they boycott foreign products: ordinary consumers and corporate consumers. We define corporate consumers as American firms and organizations that purchase final consumer goods for the purpose of internal use or distribution. Good examples are hospitals or doctors purchasing medical equipment, discount tire shops purchasing tires, and national chain grocery shops purchasing food products. The key point here is that these corporate consumers can have a large impact on market shares by gatekeeping products that are available to ordinary consumers (or patients who pay their the medical bills). An interesting question is whether ordinary consumers or corporate consumers are more likely to boycott a product associated with the adversarial country and how Japanese firms addressed these potentially divergent sentiments.

To explore this question further, we reclassified our product-level coding of GVC positions. We differentiate corporate consumers and ordinary consumers by examining each of the 1,129 firms in our dataset. We identified 76 Japanese firms that produced final goods for corporate consumers and 131 firms that produced final consumer goods for ordinary consumers. Our Chinese data has 28 firms whose products are mainly sold to corporate consumers, and 563

to ordinary consumers. Figure 3 describes the time trends of M&A activities by the three groups of Japanese firms: final goods producer for ordinary consumers, final goods producer for corporate consumers and intermediate and primary goods producers. Table 3 summarizes the results of exactly the same difference-in-differences estimates shown in Table 2, except that "Final" now takes a value of 1 if a firm produces final consumer goods for ordinary consumers, and 0 otherwise. The results suggest that the rise of anti-Japan sentiments in 1982 has more robust and stronger dampening effects on mergers and acquisitions among producers of goods that cater to ordinary consumers relative to producers of intermediate goods. The effect is statistically significant at 0.01 percent level. The results suggest that American consumers might had been less hostile to Japanese products relative to American firms that import and distribute either final goods for corporations ("corporate consumers") or intermediate goods. Japanese firms might have perceived that American firms importing Japanese intermediate goods were more likely to avoid Japanese products with the rise of hostility compared to those importing Japanese final consumer goods.
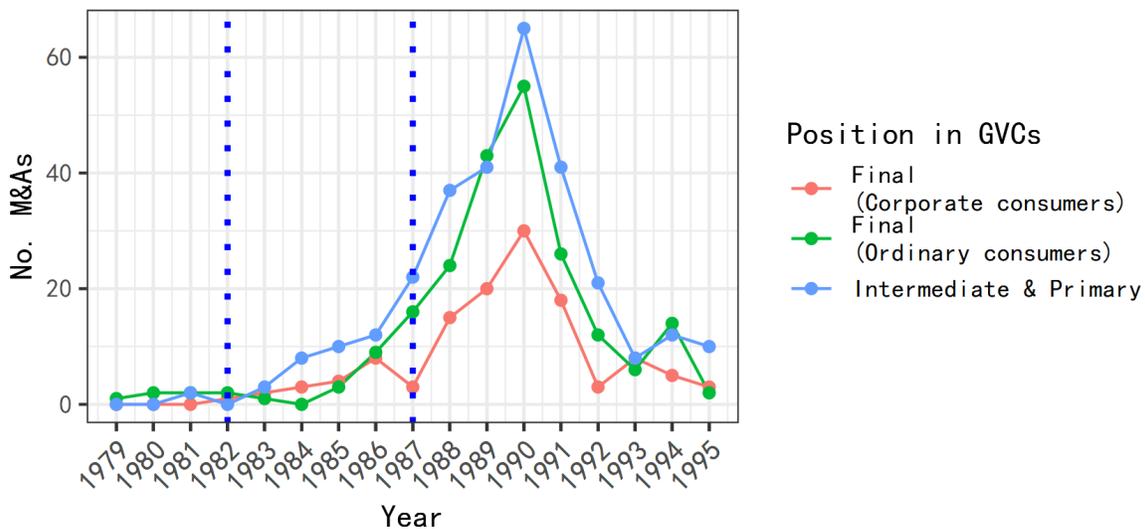

Figure 3: Time Trends in M&A Deals by Groups for Japanese Sample

Source: The authors' own coding of 1,129 firms in Thomson One.

Table 3: The Rise of Consumer Hostility and M&As by Japanese Firms
(Final Goods for Consumers)

	The number of M&As			
	(1)	(2)	(3)	(4)
Year 1982:Final		−0.018**	−0.029**	
		(0.004)	(0.008)	
Year 1987:Final	0.006		0.017	−0.012
	(0.013)		(0.015)	(0.009)
Year 1982-1986:Final				−0.029**
				(0.008)
ADCV	0.063**	0.063**	0.063**	0.063**
	(0.013)	(0.014)	(0.013)	(0.013)
The 1985 Plaza Accord	0.043***	0.049***	0.053***	0.053***
	(0.005)	(0.005)	(0.006)	(0.006)
Observations	6,528	6,528	6,528	6,528
R^2	0.177	0.177	0.177	0.177
Adjusted R^2	0.123	0.123	0.123	0.123
Residual Std. Error	0.341 (df = 6126)	0.341 (df = 6126)	0.341 (df = 6125)	0.341 (df = 6125)
F Statistic	3.283*** (df = 401; 6126)	3.285*** (df = 401; 6126)	3.278*** (df = 402; 6125)	3.278*** (df = 402; 6125)

Notes: The M&A data come from Thomson One. "Final" indicates whether a target firm is a final product producer. Only ordinary consumers are allowed to be buyers of final products. Robust standard errors clustered within industries are shown in the table. †p<0.1; *p<0.05; **p<0.01; ***p<0.001.

To further verify this intuition, Table 4 replicates analysis done in Tables 2 and 3 with the exception that we interact the intervention year dummy with an indicator 1 if a firm produces a product that caters to a corporate consumer and zero otherwise. The results suggest that the rise of anti-Japan sentiments among American citizens in 1982 increased M&A activities by firms that catered to corporate consumers. According to Model 3, in aggregate, the 1982 treatment accounts for 1.7 more M&As from Japan to the United States. The Toshiba COCOM violation revelation in 1987, which led to an import ban on Toshiba products, dampened M&As by firms that catered to corporate consumers. This divergent effect of two waves of anti-Japan sentiments, one more worker-based resentment and another more a political and ideological campaign led by elites, lend additional support to our intuition that

corporate consumers might have been more anti-Japanese products than ordinary consumers during the time period we examined.

We add one brief case study, a 1988 merger and acquisition by a Japanese firm to further illustrate the difference between corporate consumers and ordinary consumers. Bridgestone is an old and well-established tire company in Japan. Bridgestone began selling their tires in the American market in 1979 by opening its first shop in Los Angeles. The Washington Post reported in 1981 that labor officials in the Los Angeles area accused Bridgestone of using the company name to obscure its Japanese origins. The CEO of Bridgestone was furious because the company's name was 50-years old and is the literal translation of the last name of its founder family ("Ishibashi") (Lippman, 1981). While Bridgestone's sales in tire shops for vehicle owners improved over time, the company was not able to secure any deals with American car companies (i.e., corporate consumers) (M and A Online, 2022). While no media reporting or Bridgestone's company history archives indicate why Bridgestone was not able to secure any contracts with American car companies, it is reasonable to imagine the push back from American auto workers and executives to use Japanese tires for American cars, when 1 in 5 auto workers was unemployed and the share of Japanese cars was already at 23 percent. in 1988, to address this difficulty to tap into procurement deals with America's car manufactures and to increase their tire sales, Bridgestone decided to buy Firestone, the second largest tire manufacture, in the United States.

Table 4: M&As by Japanese Firms
(Firms Producing Final Goods for Corporate Consumers vs the Rest)

	The number of M&As			
	(1)	(2)	(3)	(4)
Corporate:Year 1982	−0.001		0.022*	
	(0.009)		(0.008)	
Corporate:Year 1982-1986				0.022*
				(0.008)
Corporate:Year 1987		−0.027*	−0.036**	−0.014
		(0.009)	(0.009)	(0.011)
ADCV	0.073***	0.074***	0.074***	0.074***
	(0.007)	(0.007)	(0.007)	(0.007)
Observations	6,256	6,256	6,256	6,256
R^2	0.178	0.178	0.178	0.178
Adjusted R^2	0.124	0.124	0.124	0.124
Residual Std. Error	0.340 (df = 5870)	0.340 (df = 5870)	0.340 (df = 5869)	0.340 (df = 5869)
F Statistic	3.300*** (df = 385; 5870)	3.306*** (df = 385; 5870)	3.298*** (df = 386; 5869)	3.298*** (df = 386; 5869)

Notes: The M&A data come from Thomson One. Robust standard errors clustered within industries are shown in the table. [†]p<0.1; [*]p<0.05; [**]p<0.01; [***]p<0.001.

5 Anticipation and Post-Treatment Effects

To test if the rise in consumer animosity has any anticipation or post-treatment effects, we add indicator variables for 7 years before the rise of consumer animosity in 2016 and 4 years after it for the Chinese sample. As shown in Figure 4, positive anticipation effects exist two years before the rise in consumer animosity in 2016 but they are not statistically significant. The treatment effect quickly diminishes but remains positive 4 years after 2016. The rapid decrease may be explained by the increasingly restrictive investment screening mechanism of the U.S. in recent years (Tingley et al., 2015).
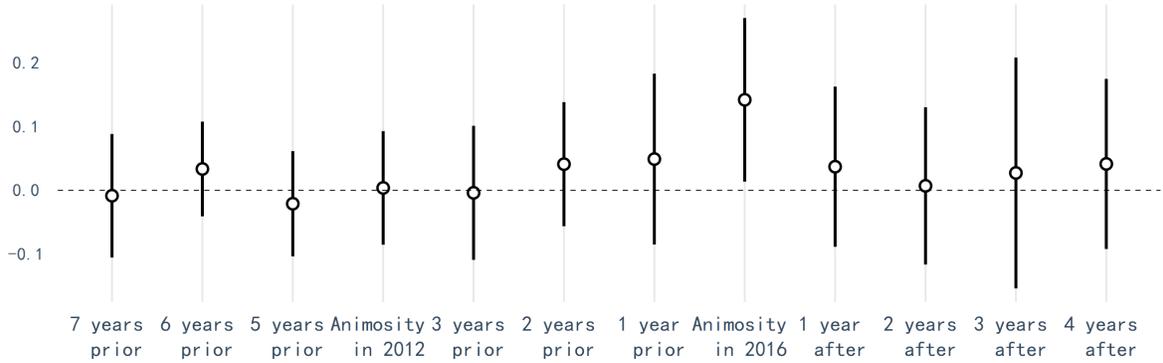
Figure 4: Estimated Anticipation and Post-Treatment Effects of Consumer Animosity on M&A Deals

Notes: The figure is based on the results of model 2 in Table A.4.

Conclusion

Do political tensions between countries reduce cross-border investment? This paper is one of the first to develop and verify a consumer-driven mechanism whereby the rise of hostile consumers incentivizes firms in adversarial countries to conduct mergers and acquisitions with host country firms to hide their national identity from consumers. With four waves of rising anti-sentiments against Chinese and Japanese products spanning over three decades, we find strong support for our theory with merger and acquisition decisions by Chinese firms, and weak support with the Japanese firms. We further explore why Japanese cases differ from Chinese counter-parts by reclassifying firms that cater to ordinary consumers vs. corporate consumers. The results of this reanalysis suggest that worker-driven resentment about Japanese company and products in the United States (i.e., treatment year is 1982) increased M&A activities by firms that catered to corporate consumers. The Toshiba COCOM violation, a more ideological and elite-led anti-Japan campaign, seemed to dampen M&A activities by Japanese companies that catered to corporate consumers.

Our findings suggest that the rise of political tensions is not necessarily the nail in the coffin of globalization (Reinhart, 2020). Profit-seeking firms have a repertoire of tools to hide their

national identities from consumers. Furthermore, not all political tensions lead to consumer boycotts and we find differential effects of conflicts that emerged from worker resentment vs. ideological warfare on firms' entry strategies with the Japanese case.

To conclude, we discuss broader implications of our findings and generalizability beyond the empirical scope of our paper. First, are our theory and findings generalizable beyond political tensions arising mainly from economic competition? Evidence on consumer boycotts over territorial disputes or military conflicts abounds such as disputes between Japan and South Korea, China and India, Israel and Palestine, and Russia's invasion of Ukraine. We expect, other things being equal, the magnitudes of consumer boycotts to be larger for military or territorial disputes than the case of economic competition due to the rally-around-the flag effects. This implies that final goods producers might have stronger incentives to enter the hostile market through conducting M&As. By contrast, national security concerns allows the government to increase the investment screening that can directly dampen the M&A deals. The net effects is unknown and calls for systematic empirical investigations.

Second, are our theory and findings generalizable to ethical consumers who boycott products based on their ethical concerns about a foreign government or firm? Emerging evidence from MNCs' divestment from Russia suggests that stock market investors rewarded these MNCs for the diverstment. Studies on how stock markets respond to the unethical vs. ethical behavior of firms is still nascent and call for more research.

Finally, what do our theory and findings on mergers and acquisitions tell us about a broader research agenda on political tensions and globalization? We acknowledge that foreign direct investment, especially mergers and acquisitions, is relatively irreversible compared to trade. Indeed, studies on the effect of political tensions on trade flows have found the contracting effect to be short-lived, spanning over a few months (Heilmann, 2016; Fisman et al., 2014). Our study also demonstrates that political tensions triggered the surge in merger and acquisition deals for a short period of time. Yet, what distinguishes M&As from trade is

that these acquisition projects often persisted and survived over decades and contributed to the deepening of global supply chains, cross-border exchanges of technology, human capital, management strageties, and culture. We conjecture that this relative irreversibility of M&As contributes to deeper and longer-lasting effects of political tensions and consumer animosity on the global economy.

6 Appendices

6.1 Coding Rules

Firms' positions in global supply chains are based on the products they produce. If their products are directly sold to consumers, then they are final product producers (e.g., shoes, computers, automobiles). If they sell half-processed products, they are intermediate product producers (e.g., processed leather for making shoes, computer cameras, engines of automobiles). If they sell ingredients that are used to make processed products, they are primary product producers (e.g., cows, silicon, steel).

The coding of Chinese firms are based on three major sources: firms' official websites, Qichacha (https://www.qcc.com/), Thomson One dataset, and other websites that provide reliable information about the firms. Software companies whose target consumers are firms will be coded as intermediate producers. If the target consumers are ordinary people, then final.

Below are the coding rules for some special cases.

- Pharmaceutical companies producing drugs are coded as final producers.

- Pharmaceutical companies who are contract development and manufacturing organizations (CDMOs) are coded as intermediate product producers.

- Iron, oil, and gas are coded as primary products.

- Real estate developers are coded as final product producers.

- Investors, including both individual investors and investment firms, are coded as "investors" and not included in the regression analyses.

6.2 Coding the Treatments

Negative views of China continue to grow in U.S.

% who say they have a ___ opinion of China

100 %

Unfavorable

66

60

55 54 55

52   47 47

52   44

50 49 51   38

43 42 42   40

39 39 38   40   37   38 37

35   36 36   35

29   26 26

Favorable

0

2005   2008   2011   2014   2017   2020
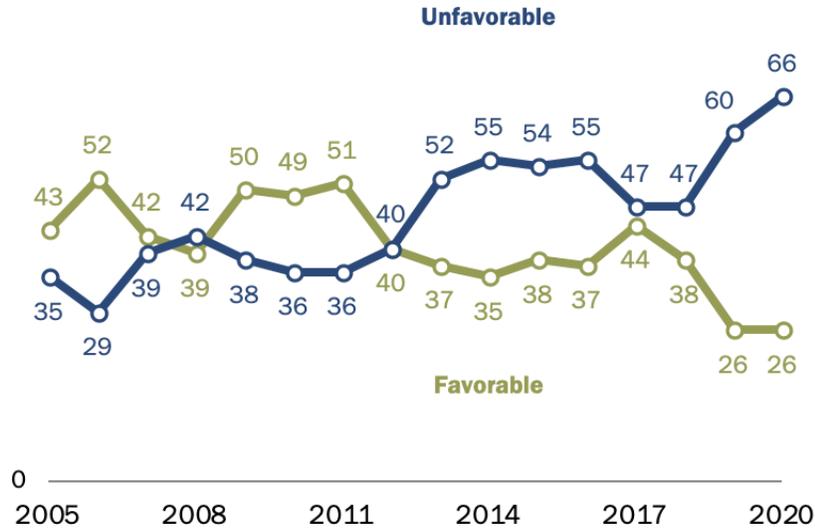
Note: Don't know responses not shown.
Source: Survey of U.S. adults conducted March 3-29, 2020. Q5b.
"U.S. Views of China Increasingly Negative Amid Coronavirus Outbreak"

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Figure 5: The U.S. Public's Views towards China

6.3 Robustness Checks

Table A.1: The Rise of Consumer Hostility and M&As by Chinese Firms
(Final Goods for Firms and Ordinary Consumers)

	The number of M&As			
	(1)	(2)	(3)	(4)
Year 2016:Final	$0.044^{\dagger}$		0.026	$0.053^{\dagger}$
	(0.023)		(0.018)	(0.029)
Year 2012:Final		$0.042^{\dagger}$	0.027	
		(0.025)	(0.024)	
Year 2012-2015:Final				0.027
				(0.024)
ADCV	0.006	0.007	0.007	0.007
	(0.015)	(0.014)	(0.014)	(0.014)
Made in China 2025	0.037	0.035	0.037	0.037
	(0.032)	(0.032)	(0.032)	(0.032)
Observations	8,296	8,296	8,296	8,296
R^2	0.144	0.145	0.145	0.145
Adjusted R^2	0.089	0.089	0.089	0.089
Residual Std. Error	0.356 (df = 7789)	0.356 (df = 7789)	0.356 (df = 7788)	0.356 (df = 7788)
F Statistic	2.599*** (df = 506; 7789)	2.600*** (df = 506; 7789)	2.598*** (df = 507; 7789)	2.598*** (df = 507; 7788)

Notes: The M&A data come from Thomson One, Zephyr, and EMIS."Final" indicates whether a target firm is a final product producer. Robust standard errors clustered within industries are shown in the table. Both firms and ordinary consumers are allowed to be buyers of final product. †p<0.1; *p<0.05; **p<0.01; ***p<0.001.

Table A.2: The Rise of Consumer Hostility and M&As by Chinese Firms
(Final Goods for Consumers)

	The number of M&As			
	(1)	(2)	(3)	(4)
Year 2016:Final	0.056***		0.036*	0.067**
	(0.015)		(0.014)	(0.022)
Year 2012:Final		0.051*	0.032	
		(0.024)	(0.027)	
Year 2012-2015:Final				0.032
				(0.027)
Section 301 Tariff	0.109**	0.106**	0.109**	0.109**
	(0.034)	(0.035)	(0.034)	(0.034)
Made in China 2025	0.034	0.032	0.035	0.035
	(0.036)	(0.035)	(0.036)	(0.036)
Observations	8,296	8,296	8,296	8,296
R^2	0.147	0.147	0.148	0.148
Adjusted R^2	0.092	0.092	0.092	0.092
Residual Std. Error	0.355 (df = 7789)	0.355 (df = 7789)	0.355 (df = 7788)	0.355 (df = 7788)
F Statistic	2.658*** (df = 506; 7789)	2.658*** (df = 506; 7789)	2.658*** (df = 507; 7788)	2.658*** (df = 507; 7788)

Notes: Only ordinary consumers are allowed to be buyers of final products. The M&A data come from Thomson One, Zephyr, and EMIS."Final" indicates whether a target firm is a final product producer. Robust standard errors clustered within industries are shown in the table. †p<0.1; *p<0.05; **p<0.01; ***p<0.001.

Table A.3: Different Measurements of Trade Disputes for the Chinese Sample
(Final Goods for Firms and Ordinary Consumers)

	The number of M&As			
	(1)	(2)	(3)	(4)
Year 2016:Final	0.053†	0.054†	0.054†	0.053
	(0.029)	(0.028)	(0.028)	(0.033)
Year 2012-2015:Final	0.027	0.027	0.026	0.026
	(0.024)	(0.024)	(0.025)	(0.026)
Made in China 2025	0.037	0.037	0.038	0.037
	(0.032)	(0.032)	(0.032)	(0.032)
ADCV onset	0.007			
	(0.014)			
Ongoing ADCV		0.003		
		(0.009)		
ADCV final measure			−0.019	
			(0.012)	
Ongoing ADCV final measure				−0.001
				(0.008)
Observations	8,296	8,296	8,296	8,296
R^2	0.145	0.145	0.145	0.145
Adjusted R^2	0.089	0.089	0.089	0.089
Residual Std. Error (df = 7788)	0.356	0.356	0.356	0.356
F Statistic (df = 507; 7788)	2.598***	2.598***	2.601***	2.597***

Notes: The M&A data come from Thomson One, Zephyr, and EMIS. "Final" indicates whether a target firm is a final product producer. In this table, both firms and ordinary consumers are allowed to be buyers of final products. Robust standard errors clustered within industries are shown in the table. †p<0.1; *p<0.05; **p<0.01; ***p<0.001.

Table A.4: The Rise of Consumer Hostility and M&As by Chinese Firms
(Anticipation and Post-Treatment Effects)

	The number of M&As		
	(1)	(2)	(3)
Animosity 2016_{t-7}	−0.007	−0.008	0.009
	(0.039)	(0.049)	(0.049)
Animosity 2016_{t-6}	0.036	0.034	0.068
	(0.028)	(0.038)	(0.086)
Animosity 2016_{t-5}	−0.018	−0.021	0.035
	(0.036)	(0.042)	(0.135)
Animosity 2016_{t-4}	0.007	0.004	0.087
	(0.025)	(0.045)	(0.195)
Animosity 2016_{t-3}	0.0002	−0.004	0.111
	(0.024)	(0.054)	(0.274)
Animosity 2016_{t-2}	0.046	0.041	0.193
	(0.052)	(0.050)	(0.395)
Animosity 2016_{t-1}	0.058	0.049	0.250
	(0.048)	(0.068)	(0.477)
Animosity 2016_0	0.152*	0.142*	0.390
	(0.066)	(0.065)	(0.596)
Animosity 2016_{t+1}	0.047	0.037	0.336
	(0.042)	(0.064)	(0.720)
Animosity 2016_{t+2}	0.013	0.007	0.364
	(0.028)	(0.063)	(0.856)
Animosity 2016_{t+3}	0.034	0.027	0.446
	(0.039)	(0.092)	(1.004)
Animosity 2016_{t+4}	0.049	0.041	0.526
	(0.026)	(0.068)	(1.184)
Made in China 2025	0.033	0.009	0.058
	(0.036)	(0.040)	(0.054)
Trade War	0.103**	0.159*	0.176*
	(0.034)	(0.074)	(0.082)
Firm*Time Trends	No	Yes	Yes
Firm*Time Trends^2	No	No	Yes
Observations	8,296	8,296	8,296
R^2	0.149	0.228	0.277
Adjusted R^2	0.092	0.122	0.118
Residual Std. Error	0.355 (df = 7778)	0.349 (df = 7291)	0.350 (df = 6804)
F Statistic	2.630*** (df = 517; 7778)	2.143*** (df = 1004; 7291)	1.747*** (df = 1491; 6804)

Notes: The M&A data come from Thomson One, Zephyr, and EMIS."Final" indicates whether a target firm is a final product producer. Standard errors clustered within industries are shown in the table. Both firms and ordinary consumers are allowed to be buyers of final product. †p<0.1; *p<0.05; **p<0.01; ***p<0.001.

Table A.5: The Rise of Consumer Hostility and M&A Deals by Japanese Firms
(Final Goods for Consumers)

	The number of M&As			
	(1)	(2)	(3)	(4)
Year 1982:Final		−0.018***	−0.029***	
		(0.004)	(0.008)	
Year 1987:Final	0.006		0.017	−0.012
	(0.013)		(0.015)	(0.009)
Year 1982-1986:Final				−0.029***
				(0.008)
ADCV	0.063***	0.063***	0.063***	0.063***
	(0.013)	(0.014)	(0.013)	(0.013)
The Plaza Accord	0.043***	0.049***	0.053***	0.053***
	(0.005)	(0.005)	(0.006)	(0.006)
Observations	6,528	6,528	6,528	6,528
R^2	0.177	0.177	0.177	0.177
Adjusted R^2	0.123	0.123	0.123	0.123
Residual Std. Error	0.341 (df = 6126)	0.341 (df = 6126)	0.341 (df = 6125)	0.341 (df = 6125)
F Statistic	3.283*** (df = 401; 6126)	3.285*** (df = 401; 6126)	3.278*** (df = 402; 6125)	3.278*** (df = 402; 6125)

Notes: The M&A data come from Thomson One. "Final" indicates whether a target firm is a final product producer. Only ordinary consumers are allowed to be buyers of final products. Robust standard errors clustered within industries are shown in the table. [†]p<0.1; [*]p<0.05; [**]p<0.01; [***]p<0.001.

Table A.6: Models with More Control Variables for the Chinese Sample
(Final Goods for Firms and Ordinary Consumers)

	The number of M&As			
	(1)	(2)	(3)	(4)
Year 2016:Final	0.089		0.082	0.134**
	(0.073)		(0.079)	(0.043)
Year 2012:Final		0.103*	0.052	
		(0.042)	(0.067)	
Year 2012-2015:Final				0.052
				(0.067)
Ongoing ADCV final measure	0.015	0.017	0.015	0.015
	(0.030)	(0.032)	(0.030)	(0.030)
Made in China 2025	−0.110	−0.101	−0.105	−0.105
	(0.094)	(0.082)	(0.094)	(0.094)
Employee	−0.006	−0.007	−0.006	−0.006
	(0.008)	(0.008)	(0.009)	(0.009)
Total asset	−0.00000	−0.00000	−0.00000	−0.00000
	(0.00000)	(0.00000)	(0.00000)	(0.00000)
Intangible asset	0.00000	0.00000	0.00000	0.00000
	(0.00001)	(0.00001)	(0.00001)	(0.00001)
Observations	958	958	958	958
R^2	0.229	0.228	0.229	0.229
Adjusted R^2	0.033	0.032	0.032	0.032
Residual Std. Error	0.421 (df = 763)	0.421 (df = 763)	0.421 (df = 762)	0.421 (df = 762)
F Statistic	1.168 (df = 194; 763)	1.161 (df = 194; 763)	1.161 (df = 195; 762)	1.161 (df = 195; 762)

Notes: Robust standard errors clustered within industries are shown in the table. †p<0.1; *p<0.05; **p<0.01; ***p<0.001.

Data on the number of employees, total assets, total intangible assets of firms in a given year come from Compustat. The Compustat only has information about around 20% of the firms in our sample. So adding the three control variables makes us lose around 80% observations. The results shown in the table are thus only suggestive.

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