

How Political Tensions Fuel Cross-Border Investment: American Consumer Hostility and Mergers and Acquisitions by Chinese and Japanese Firms

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Research Question

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(Mansfield and Pollins 2001; Li and Vashchilko 2010; Heilmann 2016)
- The tariff-jumping literature: **No, increase FDI**
(Blonigen 2002; Cole and Davies 2011)
- Our answer: **No, increase M&As**

Consumer-driven mechanism: Firms strategically respond to the rise of consumer hostility with M&As with local firms to hide their national identity

Political Tensions and Consumer Boycotts

7 out of Top-12 GDP Economies Involved



As the French government and elites continue to treat Muslims like second-class citizens who can be demonized for political points, consider speaking against them with your money by boycotting French products.
#BoycottFrance



Theory: How Political Tensions Fuel Mergers and Acquisitions via Consumer Hostility

- **Our Argument: Firms strategically respond to the rise of consumer animosity via M&As to hide their national identity**
- Hostile consumers rely on two cues to guide their product choices: country-of-origin label and national brands
- The development of global supply chains weakens the significance of country-of-origin labels esp. for intermediate goods
 - Complexity of GVC, the lack of regulatory standards for labeling & "Made in China" is everywhere
- Consumers increasingly target national brands to boycott
 - Firms producing final consumer products can hide their nationality by making M&As
 - Intermediate and primary product producers' nationality are invisible to consumers

How Political Tensions Fuel Mergers and Acquisitions

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

Research Design: Difference in Differences

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

- Unit of analysis: Firm-year
- Universe of cases: Chinese firms that invested in the U.S. between 2004 and 2020, and Japanese firms between 1979 and 1995

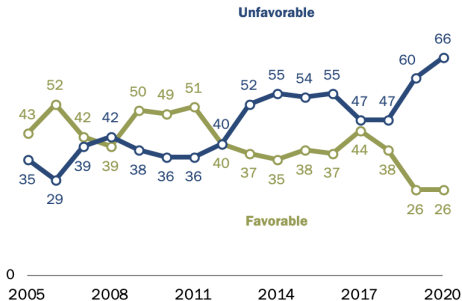
Design	Measurement
Dependent variable	No. M&A deals by a firm in a given year
Treatment	American consumer animosity in 2012 and 2016 toward China, and 1982 and 1987 toward Japan.
Treatment group	Final product producers
Control group	Intermediate and primary product producers
Alternative explanations	The Trade War, Made in China 2025, and the 1985 Plaza Accord

The U.S. Public's Views towards China

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

% who say they have a ___ opinion of China

100%



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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Research Design: Difference in Differences

- Difference in differences with sharp interventions
- Treatments for the Chinese sample



2012



2016

Research Design: Difference in Differences

- Difference in differences with sharp interventions
- Treatments for the Japanese sample



1982



1987

Research Design: Difference in Differences

- Difference in differences with sharp interventions
- Manually coded 1129 firms' positions in supply chains based on products they produce and assigned them into treatment and control groups

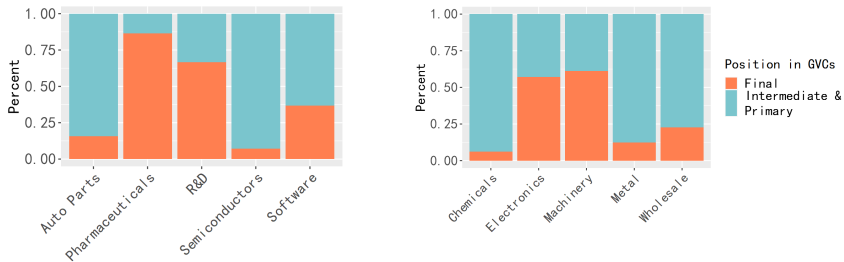


Intermediate goods



Final goods

Intra-Industry Variations in Firms' GVC Positions



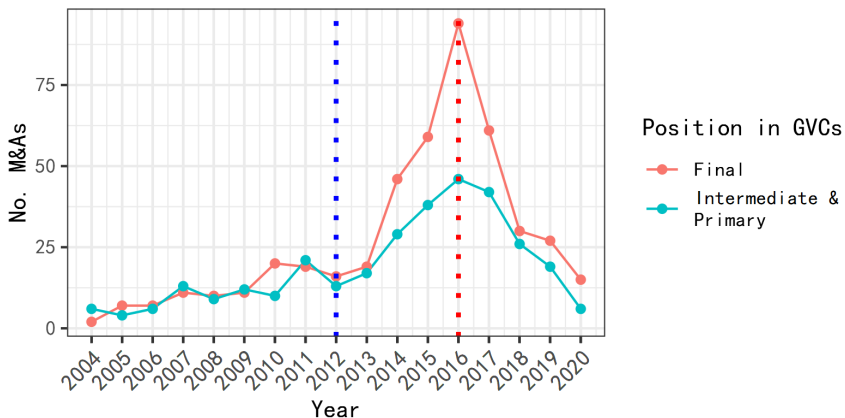
(a) China

(b) Japan

Figure: Intra-Industry Variations in Firms' GVC Positions

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

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



Source: The M&A data are from Thomson One, Zephyr, and EMIS.

Results for the Chinese Sample

Table: The Rise of Consumer Hostility and M&A Deals by Chinese Firms

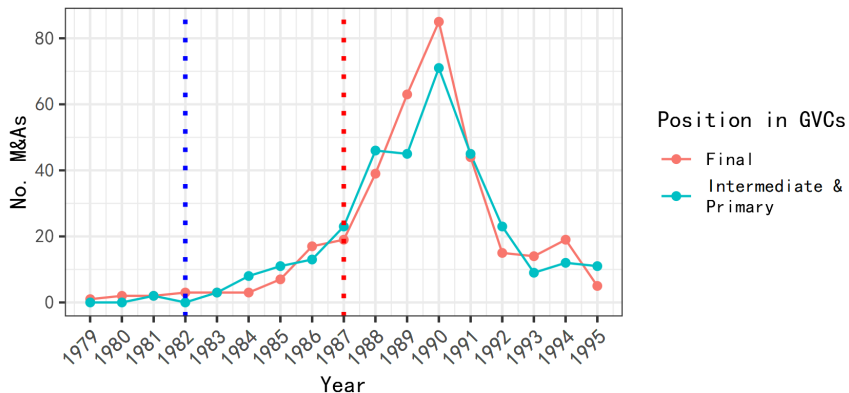
	No. M&A			
	(1)	(2)	(3)	(4)
Year 2016:Final	0.049* (0.020)		0.031* (0.014)	0.058* (0.026)
Year 2012:Final		0.044 (0.025)	0.026 (0.024)	
Year 2012-2015:Final				0.026 (0.024)
Trade War	0.106** (0.034)	0.105** (0.035)	0.106** (0.034)	0.106** (0.034)
Made in China 2025	0.031 (0.036)	0.030 (0.035)	0.032 (0.036)	0.032 (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

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

Results for the Chinese Sample

- 2016 intervention increased M&As
- 2012 intervention did not
- 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
- Industries targeted by trade war increased M&As, lending support to the tariff jumping argument
- Industries targeted by the Made in China 2025 did not increase M&As

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



Source: The M&A data are from Thomson One.

Results for the Japanese Sample

Table: The Rise of Consumer Hostility and M&A Deals by Japanese Firms

	The number of M&As			
	(1)	(2)	(3)	(4)
Year 1982:Final		-0.017* (0.007)	-0.012 (0.011)	
Year 1987:Final	-0.013 (0.014)		-0.008 (0.017)	-0.020 (0.010)
Year 1982-1986:Final				-0.012 (0.011)
ADCV	0.063** (0.014)	0.063** (0.014)	0.064** (0.014)	0.064** (0.014)
The Plaza Accord	0.043*** (0.005)	0.052*** (0.007)	0.049*** (0.008)	0.049*** (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

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.

Why Null Results for the Japanese Case?

- Weaker consumer hostility toward Japanese products
- Less developed global supply chains and higher transaction costs (Helpman, Melitz, and Yeaple 2004)
- More protectionist American firms procuring final goods (“corporate consumers”) in the 1980s (Lee and Osgood 2021)

Corporate Consumers vs. Ordinary Consumers

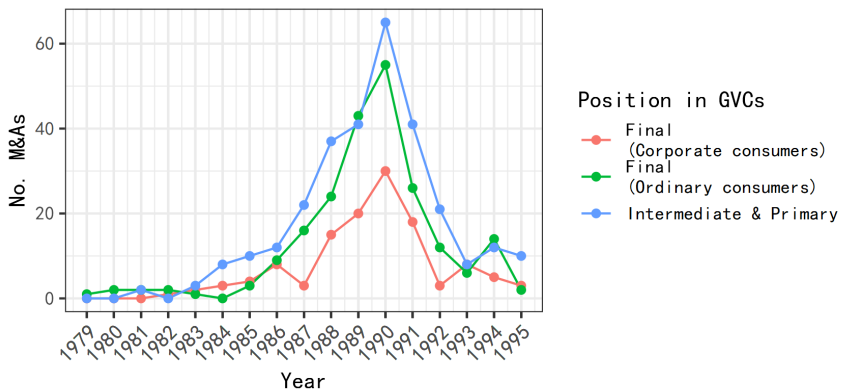
- Corporate consumers: firms and organizations that purchase final consumer goods for the purposes of internal use or distribution



E.g., bulldozers, medical equipments, tires, food products.

Reclassifying M&A Deals by Japanese Firms that Catered to Corporate Consumers vs. Ordinary Consumers

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



Why Null Results for the Japanese Case?

Table: M&As by Japanese Firms
(Firms Selling Products to Corporate Consumers vs the Rest)

	No. M&A			
	(1)	(2)	(3)	(4)
Corporate consumer:Year 1982	0.001 (0.009)		0.022** (0.007)	
Corporate consumer:Year 1987		-0.026** (0.009)	-0.034*** (0.009)	-0.012 (0.011)
Corporate consumer:Year 1982-1986				0.022** (0.007)
Observations	6,256	6,256	6,256	6,256
R ²	0.177	0.178	0.178	0.178
Adjusted R ²	0.123	0.124	0.124	0.124

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

Takeaways

- Firms differ in their sensitivity to the rise of consumer animosity in adversarial countries depending on their positions in GVCs
- The rise of anti-China consumer sentiments increased Chinese firms' M&A activities in the U.S. with final product producers doubling their investment
- Hostility from American corporate consumers increased M&As of Japanese firms in the 1980s
- **Political tensions can fuel M&As by firms that produce final goods via consumer hostility mechanism**

The Long-term Consequences of Short-term Burst of M&As

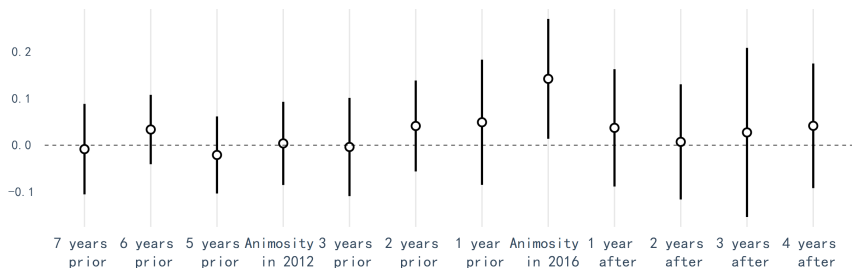
- Unlike trade, M&As are sticky and much less likely to be reversed after anti-sentiments die down
- M&As are mergers of culture, technology, distribution channels, personnel etc
- Even the short-term burst of M&As can have the long-term consequences

Thank you for listening!

Supplementary Information

Anticipation and Post-Treatment Effects (China)

Figure: Estimated Anticipation and Post-Treatment Effects of Consumer Animosity on M&A Deals



Case Study 1: Bridgestone's M&A with Firestone in 1988 (Japan → U.S.)

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1988

BRIDGESTONE MERGES WITH THE FIRESTONE TIRE & RUBBER COMPANY

In May 1988, Bridgestone acquired The Firestone Tire & Rubber Company, which transformed Bridgestone into one of the world's largest tire and rubber companies. The acquisition of Firestone gave Bridgestone a large number of production sites in North America, Central and South America, Europe, and other locations. Bridgestone also began operations in Turkey under a joint management agreement in 1988.

Source: <https://www.bridgestoneamericas.com/en/company/foundations/history1980s>

Case Study 2: CTrip's M&A with Trip.com in 2017 (China → U.S.)

Trip.com Destination, attraction, hotel, etc.

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Suggested Languages

- English (United States)
- Español (Estados Unidos)
- English

Hotels Flights Trains Cars Tours & Tickets Bundle & Save

Destination or property name
City, airport, region, land...

Check-in
Sat, Oct 8

1 night

Check-out
Sun, Oct 9

Rooms and Guests
1 Room, 1 Adult

Keywords (Optional)
Airport, station, property nam...

I'm traveling for work

Star Rating ≤ 2 ☆ 3 ☆ 4 ☆ 5 ☆

Border Reopening [Japan further ease its border and reopen to independent travelers without arrival cap on 11 Oct 2022.](#)

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Source: <https://us.trip.com/?locale=en-us>

American Consumers Less Hostile to Japanese Products?

70. In general, as far as American...consumers...are concerned, do you think that automobiles imported into this country from Japan are very beneficial, somewhat beneficial, somewhat harmful, or very harmful to American...consumer?



22%	Very beneficial
37%	Somewhat beneficial
20%	Somewhat harmful
16%	Very harmful
4%	Not sure

Survey Information

Survey Organization:	Louis Harris & Associates
Study Date:	March 5, 1982 - March 21, 1982
Sample:	National Adult
Sample Size:	1599
Geographic Coverage:	United States
Interview Method:	Telephone interview
Topics:	Consumer; Japan; Trade; Transportation

[Cite...](#)

American Consumers Less Hostile to Japanese Products?

26. (As you may have heard, General Motors and Toyota have made an agreement to jointly produce small-size cars in a GM plant in California that had been closed down. The plant will hire American workers, but will be managed by the Japanese, using Japanese production methods. The cars will be sold through Chevrolet dealers. Here are some things--both favorable and unfavorable--that have been said about the agreement. (Card shown respondent) Would you please read over those statements, and then I'd like to ask you some questions.) Which of the statements on that card are the reasons you (favor, oppose or have mixed feelings about)... the GM-Toyota agreement?

- 67% a. It will provide jobs for Americans d. It is an opportunity for an American auto
- 39% company to learn Japanese production methods f. It will give an American auto manufacturer a chance to compete better against small
- 34% Japanese cars h. It will provide Americans with more small cars
- 32% of Japanese quality at Japanese prices g. It is a way of letting Toyota sell more cars in this country than it would be allowed to if
- 22% they were all made in Japan
- 20% c. They may hire non-union workers b. It puts American Motors, Chrysler and Ford
- 16% at a real disadvantage e. It joins the largest and third largest
- 13% automobile manufacturers in the world
- 2% None (vol.)
- 1% Don't know

Survey Information

Survey Organization:	The Roper Organization
Study Date:	March 19, 1983 - March 26, 1983
Sample:	National adult
Sample Size:	2000
Geographic Coverage:	United States
Interview Method:	Face-to-face interview
Topics:	Business

Detailed Coding Rules

The coding of Chinese firms are based on three major sources: firms' official websites, Qichacha, Thomson One dataset, and other websites that provide reliable information about the firms.

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.
- Software companies whose target consumers are firms are coded as intermediate producers. If the target consumers are ordinary people, then final.

Discussion

- Other covariates:
 - Firms' size and productivity
 - Level of state control over firms
 - Previous overseas investment experiences
- Better measurement of the treatments based on newspaper reports