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Cross-border mergers and acquisitions: Evidence from the Indochina region

Manapol Ekkayokkaya[a], Pimnipa Foojinphan[a], Christian C.P. Wolff[b,c,*]

[a] Chulalongkorn Business School, Chulalongkorn University, Bangkok, Thailand
[b] Luxembourg School of Finance, University of Luxembourg, Luxembourg
[c] CEPR, London, United Kingdom

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ABSTRACT

We study cross-border mergers and acquisitions (M&As) in ten countries in the Indochina region during the period 1993–2015. Countries with a French colonial history showed markedly lower levels of cross-border M&As (value as well as volume) than other countries, whether previously colonized or not. This difference persists even after accounting for the known drivers of cross-border M&A activity, including legal origin, trade openness, and labor cost levels. Together, these findings suggest that the colonial past of a country plays an important role in cross-border M&A activity.

1. Introduction

Cross-border mergers and acquisitions (M&As) have received considerable attention in the financial economics literature (e.g. Bris and Cabolis, 2008; Erel et al., 2012; Ferreira et al., 2009). Among several factors, the recent literature attributes the volume of M&A activity to the quality of investor protection (e.g., Rossi and Volpin, 2004). La Porta et al. (1998) argue that the legal origin of a country's jurisdiction underlies the quality of investor protection. In many studies, several emerging markets that are associated with poorer investor protection are ex-colonies of European empires. For such emerging markets, it is the colonial settlement that installed their legal origin and modern-day legal system (see also La Porta et al., 1998).

In this paper, we investigate whether a country's colonial past is relevant to the value and volume of cross-border transactions in its economy. To our knowledge, we are the first to study this fundamental, but as yet largely neglected, element that underlies the widely recognized role of legal origin in corporate activities. For our analysis, we exploit the setting of cross-border M&As involving targets from ten countries in the Indochina region: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

* Corresponding author.
E-mail address: christian.wolff@uni.lu (C.C.P. Wolff).

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2. Background

The Indochina region presents itself as a suitable ground to conduct our investigation as it comprises a set of countries with diverse colonial backgrounds and a sovereign country. Brunei, Malaysia, Myanmar and Singapore are former British colonies. Cambodia, Laos, and Vietnam are former French colonies. Indonesia was a Dutch colony. Spanish rule was established in the Philippines, which subsequently became a U.S. territory. Thailand remained sovereign throughout the colonial era. Different colonial rules had implications for not only languages, but also legal codes that are still present to a considerable extent today.

Voluminous literature documents a systematic influence of legal origin on several economic measures, such as capital market size and breadth (La Porta et al., 1997), private benefits of control (Dyck and Zingales, 2004), analyst following (Lang et al., 2004), and foreign ownership holdings (Leuz et al., 2009). Given that it is colonization that imposed a legal system in emerging markets, such documented influence appears linked to the literature on the economic effects of colonization, much of which focuses on the effects of French colonization in particular (see, e.g., Acemoglu et al., 2001; Crowder, 1968; Stuart-Fox, 1995; Terra and El Kallab, 2014). The picture that emerges from these sources is that French colonization (compared with other European countries' colonization) focused more on extraction and exportation of natural resources. Also, the colonies were compelled to trade mainly with France, punitive taxation and forced labor were imposed, and relatively poor institutions were installed. One plausible interpretation is that French colonization left countries with a poorer infrastructure, in the most general sense of the word, than was the case for the other countries. In this view, former French colonies could be associated with reduced attractiveness for economic activities, such as cross-border acquisitions.

3. Methodology and data

For our investigation, we employ multiple regression models of the following general form:

$$ACQ_{i,t} = \beta_0 + \beta_1 French_{i,t} + \sum_{j=2}^{k} \beta_j X_{i,t,j} + \varepsilon_{i,t}, \tag{1}$$

where $ACQ_{i,t}$ represents the value of cross-border M&As per capita in country i in during year t. Our variable of interest is $French_{i,t}$, which takes the value of 1 for countries with a French colonial history and 0 otherwise. $X_{i,t,j}$ represents a $(k-1)$-dimensional vector of control variables, some of which are binary, and $\varepsilon_{i,t}$ represents the regression error term. The empirical results reported are based on Tobit model estimation. The Tobit model is chosen because the dependent variable is (left-)censored.

The (quarterly) data on the value of M&A deals in U.S. Dollars were provided by Security Data Corporation's (SDC) Mergers and Corporate Transactions database. We restrict ourselves to completed deals, excluding self-tender offers, repurchases, and deals in which the acquirer is a government agency. We collected a number of additional data items from SDC, including the number of transactions, the country of domicile of both the target and the acquirer, and the fraction of the target firms owned by the acquirers before and after the acquisition. Deals in which the acquirer already owned more than 50% of the shares before the acquisition are also excluded, since owners' interest was not affected. All completed deals in which the acquirer's and target's nationalities are the same are also excluded in the light of our cross-border focus. After these exclusions, the final sample has a total U.S. Dollar value of 171,817 million and a total of 2454 transactions for the period 1993Q1–2015Q4.

For the control variables, we largely took inspiration from Erel et al. (2012). These variables are constructed using data collected from different sources. The World Development Indicator (World Bank) provided us with GDP, labor cost, corruption index, and trade openness. WM/Reuters Datastream provided exchange rates. Dummy variables for communist regimes and legal origin (Common Law, Civil Law) are from the CIA World Factbook (La Porta et al., 1999). We complemented these variables with two additional potentially relevant control variables: a country's road density (as measured by UNCTAD's infrastructure index) and education level (as measured by the World Bank's education index). The control variables and their expected signs are summarized and defined in Table 1. Expected signs were inferred from the references mentioned in the table with the exception of the sign of labor cost, which is obvious.

4. Empirical results

In this section we report our empirical results. Preliminary inspection of the data reveals that countries with a French colonial history yield per capita M&A transaction values that are different from the values generated in other countries. This point is made quite clearly in Table 2.

Table 2 shows mean and median quarterly transaction values, and compares the differences in order to verify whether these are statistically significant. The transaction values are indeed statistically significantly different, and moreover, they appear economically significant. The latter is especially true when comparing the results for former British and French colonies. It is possible, but not guaranteed, that these differences are fully accounted for by the control variables that we employ in our regression analysis. We address this issue by estimating Eq. (1). The empirical results for our main regression equation are presented in three panel regressions in Table 3.

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