Institutional Factors and Cross-border Merger and Acquisition: Evidence from Selected Asian Countries

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งานวิจัยนี้มีวัตถุประสงค์เพื่อศึกษาผลของปัจจัยเชิงสถาบันที่มีต่อการเข้ามาลงทุนโดยการควบรวมกิจการจากต่างประเทศโดยใช้การวิเคราะห์ Panel data จาก 18 ประเทศในทวีปเอเชีย ช่วงระหว่างปี ค.ศ. 2002 ถึง 2016 งานวิจัยฉบับนี้ศึกษาว่าปัจจัยเชิงสถาบันในด้านต่างๆ 6 ด้าน ซึ่งประกอบด้วย การควบคุมคอร์รัปชัน คุณภาพของมาตรการควบคุม การมีสิทธิ์มีเสียงของประชาชน ประสิทธิผลของรัฐบาล นิติธรรม และ ความมีเสรีภาพทางการเมือง เป็นปัจจัยกำหนดการเข้ามาลงทุนโดยการควบรวมกิจการจากต่างประเทศในประเทศในทวีปเอเชียหรือไม่ และพิจารณาความสัมพันธ์ดังกล่าวเมื่อแบ่งประเทศตามระดับรายได้ ผลจากการศึกษาประกอบด้วย 2 ประเด็นหลัก ประเด็นแรก การควบคุมคอร์รัปชันและความมีสิทธิ์มีเสียงของประชาชนหรือประชาธิปไตยในประเทศ มีนัยสำคัญต่อการเข้ามาลงทุนของต่างชาติในกลุ่มตัวอย่างประเทศจากทวีปเอเชีย โดยพบว่า ประเทศผู้รับเงินลงทุนที่มีระดับของการควบคุมคอร์รัปชันที่สูงกว่า จะมีให้การไหลเข้ามาลงทุนโดยการควบรวมกิจการในระดับที่น้อยกว่า สำหรับแหล่งลงทุนที่ประชาชนในประเทศมีสิทธิ์มีเสียงมากกว่าเมื่อเปรียบเทียบกับประเทศอื่น มีแนวโน้มที่จะดึงดูดเงินลงทุนในระดับที่ต่ำกว่า ซึ่งผลที่ได้เป็นไปในทิศทางตรงกันข้ามกับสมมติฐานที่คาดการณ์ ประเด็นที่สอง เมื่อแบ่งกลุ่มตัวอย่างประเทศในภูมิภาคเอเชียตามระดับระดับรายได้ ออกเป็นสามกลุ่ม ได้แก่ กลุ่มประเทศรายได้สูง กลุ่มประเทศรายได้ปานกลางระดับสูง และกลุ่มประเทศรายได้ปานกลางระดับต่ำ พบว่า ปัจจัยเชิงสถาบันส่งผลแตกต่างกันในแต่ละกลุ่มประเทศ สำหรับประเทศที่มีรายได้สูง การควบคุมคอร์รัปชันและการมีสิทธิ์มีเสียงของประชาชนยังคงเป็นปัจจัยสำคัญต่อนักลงทุนต่างชาติในการควบรวบกิจการในประเทศนี้ เหมือนกับในกรณีภาพรวม ในส่วนของประเทศที่มีรายได้ปานกลางระดับสูงกลับพบว่า การมีประสิทธิผลของรัฐบาล การควบคุมคอร์รัปชัน และความเที่ยงธรรมในหลักนิติธรรม เป็นอีกปัจจัยสำคัญที่มีผลต่อการลงทุน ประเทศรายได้ปานกลางระดับต่ำมีผลการศึกษาเหมือนกรณีประเทศรายได้ระดับสูง และมีอีกปัจจัยที่มีผลต่อการเข้าไปลงทุนคือ คุณภาพของมาตรการควบคุมของประเทศผู้รับเงินลงทุน ประเทศที่มีมาตรการควบคุมที่มีคุณภาพสูงกว่าจะสามารถดึงดูดเงินลงทุนในการควบรวมกิจการได้มากกว่า สำหรับข้อเสนอแนะเชิงนโยบาย ประเทศผู้รับเงินลงทุนควรเน้นการพัฒนาคุณภาพของปัจจัยเชิงสถาบัน โดยเฉพาะอย่างยิ่งด้านประสิทธิผลของรัฐบาล นิติธรรม และคุณภาพของมาตรการควบคุม แม้ว่าประเทศที่มีการควบคุมคอร์รัปชันและการมีสิทธิ์มีเสียงของประชาชนในระดับที่ต่ำกว่าจะสามารถดึงดูดการเข้ามาลงทุนโดยการควบรวมกิจการของต่างชาติได้มากกว่า แต่ประเทศผู้รับเงินลงทุนยังคงจำเป็นต้องพัฒนาคุณภาพของปัจจัยเชิงสถาบันเหล่านี้เพื่อที่จะสามารถดึงดูดนักลงทุนจากต่างประเทศในระยะยาว ในมุมของประเทศผู้ลงทุน ควรส่งเสริมการลงทุนโดยการควบรวมกิจการในประเทศที่มีคุณภาพของปัจจัยเชิงสถาบันที่ดีเพื่อทำให้เกิดการพัฒนาทั้งในประเทศผู้ลงทุนและประเทศผู้รับเงินลงทุน

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The objective of this study is to examine the impact of institutional factors on cross-border merger and acquisition (M&A) inflows by using a panel data of 18 selected Asian countries from 2002 to 2016. This study contributes to the existing literatures by using various measures of institutional factors as the determinants of cross-border M&A into selected Asian countries and examining at the disaggregated level according to country's income level. There are two main results from this study. First, two institutional factors, namely control of corruption and voice and accountability, have significant effect on cross-border M&A into selected Asian countries. Higher control of corruption results in lower flows of M&A into these host countries. Host countries with higher level voice and accountability tends to attract lower amount of M&A. This result is different from the expectation. Second, when classifying countries by income level into high-, upper middle-, and lower middle-income levels, the results vary in each group. The result of high-income countries is similar to that in the overall case where control of corruption and voice and accountability are two significant institutional factors of M&A. different result is found in case of upper-middle income countries where better government effectiveness, control of corruption, and rule of law are the attractive factors for cross-border M&A investors. The lower-middle income destinations show the same result as the high-income countries with regulatory quality as an additional significant factor. Countries with better regulatory quality can attract more M&As. For policy recommendation, host countries should focus on improving the institutional factors namely government effectiveness, rule of law, and regulatory quality to attract cross-border M&As. For control of corruption and voice and accountability, even though lower level of these factors attracts more M&A inflows, the host countries still need to improve the quality of these institutional factors in order to attract foreign investors in the long run. And, Home countries should promote a good institutional quality to enhance the development of both the home and host countries.

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1.1 Introduction

During the 1990s, the value of merger and acquisition (M&A) which is an element in the foreign direct investment (FDI) has increased substantially because of a boom in global financial instruments and an improvement in globalization. Due to economic liberalization, many companies decide to invest abroad in order to gain advantage of higher competitiveness, industrial upgrading, and diffusion knowledge which could help improving the productivity and increasing the company's performance. One of the strategies is gaining these advantages through corporate transactions between countries such as cross-border M&A. It is an activity that takes place between two different companies where the transaction of the acquirer and the acquired company comes from different countries (Shim and Okamuro, 2011).

Cross-border M&A provides both tangible and intangible assets to host economies. This concept is perceived as way to enhance economic growth in host countries (North, 1990). According to the neoclassical growth theory. This theory explains that cross-border M&A would generate economic growth because of capital inflow to the host economies (Doytch & Cakan, 2011). Thus, many economies issue specific policies to attract and facilitate the cross-border M&A inflows.

From the host countries' perspective, they try to attract investment from abroad because they want to gain advantages form technological linkage, to absorb new ideas and to access broader markets. There are various determinants that affect country's ability to attract foreign investors including financial resource (domestic credit), market size (gross domestic product), trade barrier (trade openness), and the macroeconomic environment (inflation, GDP, exchange rate).

In addition, recent literatures have highlighted the essential role played by institutional factors in generating a more attractive investment environment. Fakher (2014) shows that the institutional factors have influenced on the investment decision as activities of the host government may affect the economic outcome of the economy. Thus, cross-border M&A also needs regulatory approvals as well as political support in such a way of facilitating factors.

The link between institutional factors and cross-border M&A has received considerable attention recently because the policies and actions of the host countries' governments may affect their economic outcomes via cross-border M&A channel. According to Kaufmann et al. (2004), the set of institutional factors is constructed and composes of six indicators namely governance, voice and account ability, government effectiveness, political stability, rule of law, regulatory quality, and control of corruption. These indicators represent different aspects of the institution in the country and they are what the foreign companies consider when they make decision on investing abroad.

There are two reasons why foreign investors need to pay attention to the importance of the quality of institution factors. First, a better quality of institution factors can attract more foreign investment and consequently, result in a positive impact on productivity. The improvement in productivity mostly depends on the research and development (R&D) process. The companies need to gain an intangible resource and innovation-based knowledge that they could not find at home through cross-border M&A. Thus, a stable and sound government's policy can encourage the development of productivity. North (1990) explains that transaction costs are the essential factor in which the foreign enterprises have to consider when they want to invest in the host country. This cost has a negative relationship to the investment level since it limits the firm's performance on the controlling of operation against risk (Cuervo-Cazurra & Genc, 2008). The host countries have to concentrate on creating the right business environment in order to create more trust for investors. Thus, foreign investors are likely to invest in a country where the institutional environments are well developed.

Some literatures mention that, in general, the host countries need to improve their institutions' quality in order to attract more cross-border M&A. However, the results of the better institutional factors on M&A inflows may vary across countries and regions (Hur et al., 2011). World Bank (2019) states that the perspective of institutional factors may vary, depending on the economic development and gross income of the country. It is therefore essential to take the level of national income into account. The institutional indexes shown that most of the high-income countries have high score on all institutional factors while those with low-income level tend to have low institutional index values. It could be said that income level is one of the determinants defining the quality of country's institution.

Over the past decade, globalization has played a significant role in improving international trade and finance. This is because more and more companies eager to invest outside their home to access to a new global economic system. Asia, in particular, has benefited enormously from inward cross-border M&A. Since the 1990s, volume of cross-border M&A deal in Asia has almost doubled. According to a recent UNCTAD conference on trade and agreement, Asia is the world's top recipient of foreign investment. The 'World Investment Report 2018' notes that the value M&A seller in 2017 equal to US$475.8 billion or 33.3% of the global flows. Most of the acquired companies come from western multinational corporations that have been attracted to this region for a long period of time. Asia is an attractive region because it has abundance of natural resources, low wage rate, and most of the countries welcome cross-border investment via having supportive policies. For example, Thailand has granted promotional privileges to foreign investors according to the Investment Promotion Act B.E. 2520 from the Board of Investments (BOI).

Thus, this study aims to examine the effect of host countries' institutional factors on the cross-border M&A inflow in 20 selected Asian countries. The countries in this study are India, Sri Lanka, Kuwait, Saudi Arabia, Turkey, United Arab Emirates, Qatar, Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam, Laos, Cambodia, Hong Kong, China, Macao, and Korea. This study contributes to the existing literatures by examining the impact of institutional factors on cross-border M&A inflows in Asia region with the recent data. Moreover, this study examines the effect of institutional factors on the cross-border M&A inflow at the sub-group level by classifying the selected Asian countries into three groups based on the country's income level: high income, upper-middle income, and lower-middle income groups.

1.2 Objective

- To examine the effect of institutional factors on cross border M&A inflow in 20 selected Asian countries.
- To suggest the policy recommendation to attract the cross-border M&A into these Asian countries.

1.3 Scope of the Study

Time: 2002 to 2016 (15 years)

Country: Selected Asian countries (18 countries): India, Sri Lanka, Kuwait, Saudi Arabia, Turkey, United Arab Emirates, Qatar, Brunei Darussalam, Indonesia, Malaysia, Philippines, Thailand, Vietnam, Laos, Cambodia, China, Macao, and Korea.

1.4 Expected Benefit

- Understand the institutional factors affecting the increased cross-border M&A in 18 selected Asia countries.
- Provide the policy recommendation which supporting the flows of cross-border M&A and then assure sustainable progress of economic development.

Chapter 2

Background

2.1 The Rise of Cross-Border Merger and Acquisition in Asia

2.1.1 Overview of Cross-Border Merger and Acquisition

When companies decide to expand their businesses to host economies, they can do through two approaches: a Greenfield investment and M&A. They can choose between investing in resource and capital in the host country or merging with international companies for market expansion. However, both approaches are included in Foreign Direct Investment (FDI). Companies use merger and acquisition (M&A) to increases company's performance through strategic development process (Di Giovanni, 2005). M&A is also a strategy which can encourage the growth of global financial system.

Most organizations realize that they can use M&A as a way to revise their strategy because it results in a more rapid change from the outer part. M&A is a condition where two or more companies collaborate and become single firms (Shim & Okamuro, 2011). Merger is a combination of interested acquirer and target companies into a new enterprise, this demands the engagement of shareholder between two companies. For acquisition, it is a process in which the acquirer buys some parts of the assets or securities of their target company. This is because the acquired company needs to modify its management.

There are two types of cross-border M&A: outward and inward cross-border M&As. An outward cross-border M&A is an activity that domestic companies purchase other foreign companies while an inward cross-border M&A is an inward of foreign capital movement from selling target dealers to the acquirer company. To gain profit and expand their businesses abroad, the company needs to have a strong competitive advantage over local rivals. Similarly, Makaew (2010) argues that purchasing a relatively low cost on an asset from a local company with low performance is not the way of cross border merger and acquisition. So, combining the businesses via cross-border investment is expected to enhance performance efficiency since each company leverages off of the company's strengths.

2.1.2 The reasons of Cross-Border Merger and Acquisition

Generally, cross-border M&A is a reforming of industrial capitals and resources which generates the delivery of beneficial results across transactions. Companies with cross-border M&A can have higher competitiveness from more knowledge, resources, technology and innovation, and improved market position. There are many reasons for the emergence of cross-border M&A. Firstly, cross-border M&A may contribute a capital accumulation in the long run. Regarding to company's development strategy, it does not only focus on investment on tangible assets but also on intangible asset such as technical process and skill management. Secondly, M&A may restructure company and provide benefit to employment in the long term. Lastly, technology improving via transferring technology-based knowledge across countries is a positive effect of M&A. This in turn provides better productions process or even innovations.

Tichy (2001) explains that there are four reasons why the companies decide to undertake the process of cross-border M&A: (a) to gain an opportunity to upgrading the company to achieve higher performance. (b) to distribute risk, (c) to strengthen market power, and (d) to react to adjust on business model. Then, cross-border M&A could lead to economies of scale and enhance a company's efficiency. It also generates more benefits to the market and then results in higher economic growth in host country.

Cross-border M&A is expected to directly affect economic growth since it complements home investments and is a significant supplement for capital movement. Previous literature mentions that foreign investment has a positive impact on economic growth since it is a channel for knowledge spillovers (Mehic & Silajdzic, 2015). Thus, many countries realize cross-border M&A as the engine of economic development. Foreign capital may eliminate gap between the demand of capital and national saving and contribute to good governance in a country.

2.1.3 Type of Merger and Acquisition

There are four main types of M&A namely Horizontal M&A, Vertical M&A, Conglomerate M&A, and Concentric M&A. They are classified according to the economic function, objective of the company transaction, and the relationship between both organizations (Martin, 2015).

(a) Horizontal Merger and Acquisition

This situation occurs when one company merges with another company where both provide similar goods or service to clients. In other word, these companies come from the same industry and naturally be competitors. The advantage of this M&A is to decrease competition in the sector and the two companies can raise their profit, revenue, and market share. Horizontal M&A also attempts to increase the economies of scale which helps lowering the costs which increasing production volume. The companies merge to escalate their scope without launching new products.

(b) Vertical Merger and Acquisition

It happens when two companies come from the same industry's value chain but from different stage of production. Companies merge to secure their supply of essential commodities and to develop an efficient logistic procedure when sending goods to final customer.

(c) Conglomerate Merger and Acquisition

This happens in two scenarios. First, both companies join in different industries. Second, a more powerful company joins with another in order to cover its scope of production line and to eliminate risk.

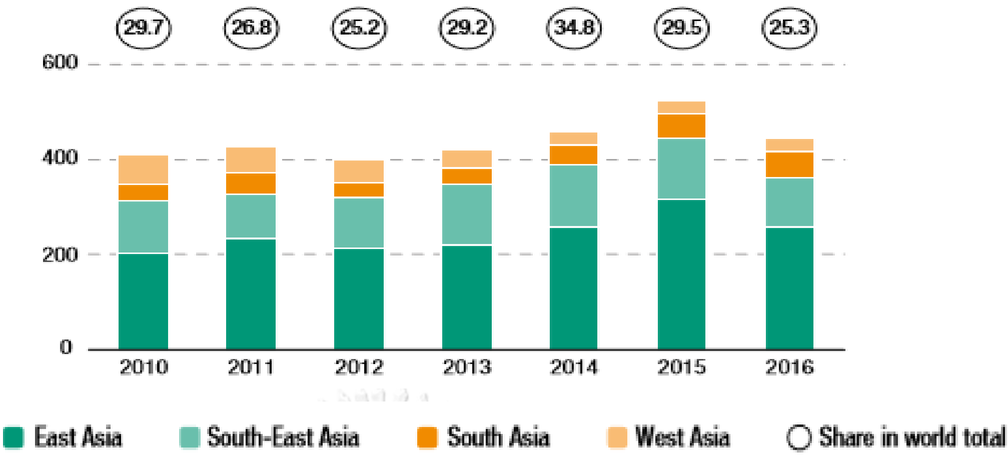
(d) Concentric Merger and Acquisition

It happens when companies that do not provide the same goods but serve the same target market merge. They provide relating goods with different technical production processes. Besides, concentric M&A gives an opportunity for companies to decrease their risk while allowing them to enter in the new resource.

2.1.4 Trend and Pattern of Merger and Acquisition in Asia

Based on UNCTAD's 2017 world investment reports, it shows that the amount of cross-border M&A inflows to Asia countries in year 2016 equal to 15 percent or $ 443 billion (UNCTAD, 2017).

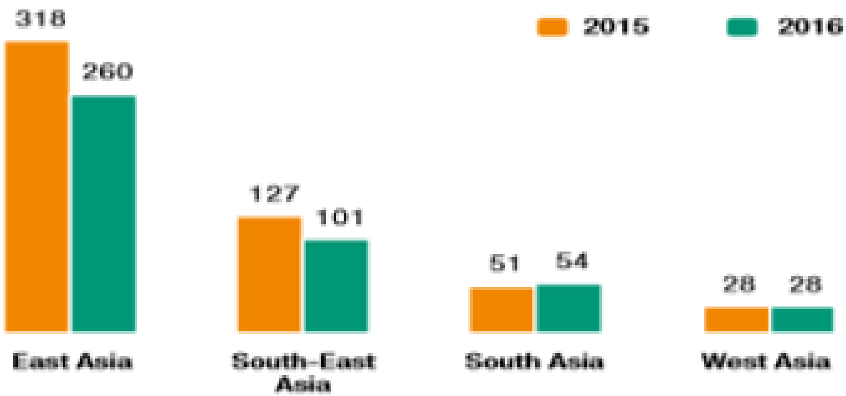
Figure 1: Cross border M&A into sub region Asian countries.



Source: World Investment Report UNCTAD 2017

China is the world's second-largest investors in year 2016, the percentage of M&A outflow around 45 percent, which is equal to $184 billion. On the other hand, the value of investment flow in Asia countries tends to decrease. However, outward cross-border M&A increased by 8 percent to $364 billion in 2016 and most of the share comes from Chinese companies.

Figure 2: FDI inflows, 2010-2016 (billions of dollar and percent)



Source: World Investment Report UNCTAD 2017

Figure 3: FDI inflow to Asia region in 2015 and 2016 (billions of dollar)

Sector/industry	Sales		Purchases	
	2015	2016	2015	2016
Total	**49 919**	**41 861**	**122 609**	**143 235**
Primary	**6 597**	**-1 969**	**13 032**	**12 362**
Mining, quarrying and petroleum	5 005	-1 833	7 847	12 174
Manufacturing	**2 408**	**17 013**	**3 177**	**24 131**
Food, beverages and tobacco	2 408	4 769	2 551	2 947
Chemicals and chemical products	943	1 280	2 492	3 055
Computer, electronic, optical products and electrical equipment	1 314	4 034	5 791	7 192
Machinery and equipment	-3 150	3 397	530	6 321
Services	**40 914**	**26 816**	**106 400**	**106 742**
Electricity, gas, water and waste management	2 766	3 465	1 695	8 075
Transportation and storage	3 743	5 770	4 930	17 974
Information and communication	-6 985	5 579	-8 166	1 117
Financial and insurance activities	20 084	4 378	75 704	50 104

Region/economy	Sales		Purchases	
	2015	2016	2015	2016
World	**49 919**	**41 861**	**122 609**	**143 235**
Developed economies	**10 642**	**3 812**	**80 470**	**79 387**
European Union	-3 272	-2 530	36 350	11 296
United States	1 666	4 423	28 529	43 700
Japan	10 029	2 904	1 254	4 683
Developing economies	**39 027**	**37 121**	**38 696**	**57 999**
Africa	2 374	186	-1 367	12 510
Asia	36 707	36 393	36 707	36 393
China	14 910	21 769	8 842	10 157
Hong Kong, China	9 911	458	12 452	8 962
Singapore	2 980	3 114	1 676	998
Latin America and the Caribbean	69	543	918	9 096
Transition economies	**-1 305**	**150**	**3 442**	**5 849**

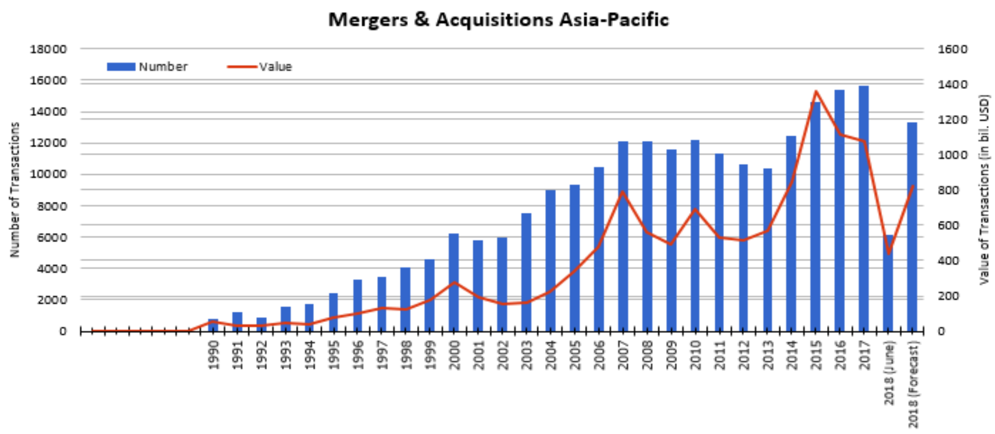
Source: World Investment Report UNCTAD 2017

In East Asian countries, M&A inflow mostly dropped because of the decrease in investment to Hong Kong, from $174 billion in year 2015 to $108 billion in 2016 that makes foreign investment flows to this region drop around 18 percent to $260 billion. However, in 2015, a massive M&A flowed into Asia.

In case of China, M&A flow to China dropped by 1 percent to $134 billion in 2016. On the other hand, the M&A flow of nonfinancial services into East Asia increased by 8 percent in the same period. Then, foreign company attempts to increase the point of value-added in the production line.

In 2016, the foreign capital inwards into South Korea was $11 billion with a record of $4 billion on previous year. This is because of selling domestic's stock from South Korea where the attractive points are financial stability and technology advancement. In addition, they launch the policy of One-Shot Act that influenced foreign investor join in Korea market in 2016 which any businesses could be supported through corporate restructuring.

Figure 4: Number and value of M&A Asia Pacific

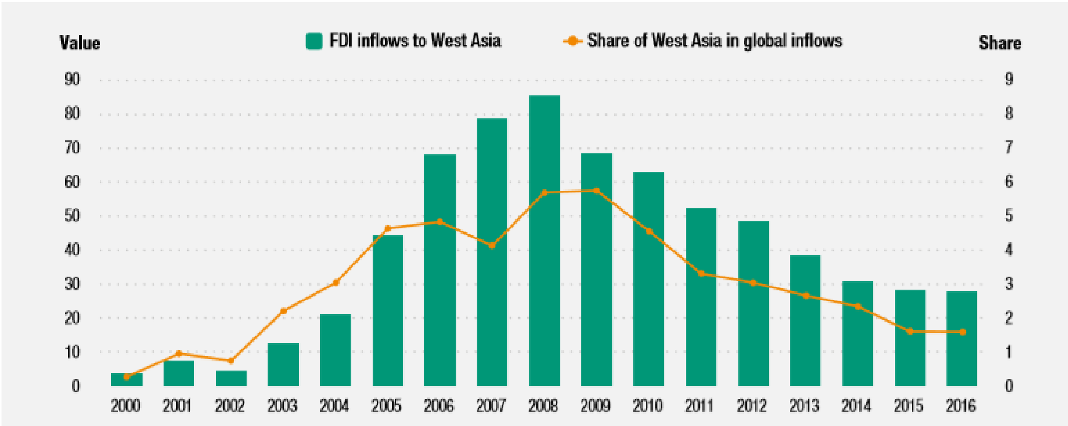


Source: Merger and Acquisition institutions

M&A inflows into South Asia increases by 6 percent to $54 billion in 2016. Flow into India rose up by $44 billion even in previous year shown to be equal to $43 billion. Most of the foreign multinational enterprises come into India in form of M&A and enhance the market expansion in India. Trade liberalization and corporate tax support the investment environment and attract foreign investment into the country.

The situations of low oil price, political instability, and regional conflict in West Asia affected the amount of M&A inflow in this region. The total inflow in this region decreased by 2 percent to $28 billion in 2016. Turkey decreased by 31 percent which equal to $12 billion. Many industries in this region depend heavily on oil production, thus M&A inflow was affected by weak oil price. Turkey's economy faced problems of fluctuated oil prices and political instability in 2016. The value of M&A in Saudi Arabia dropped by 8 percent as well in 2016 came from the result of low oil price.

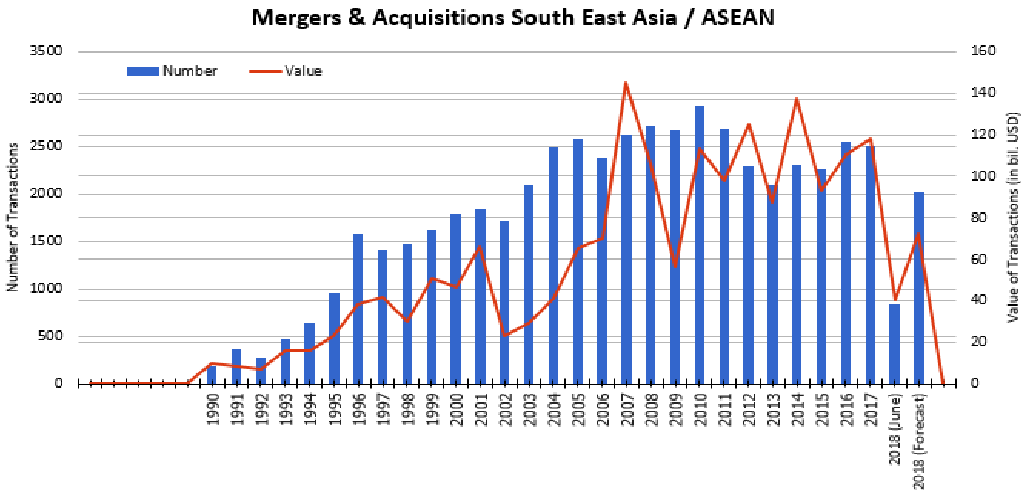
Figure 5: West Asia: FDI inflow and share in global inflow, 2000-2016



Source: World Investment Report UNCTAD 2017

M&A flow to Asian countries decreased by 20 percent or equal to $101 billion, based on previous amount in 2015. For Singapore, a center for foreign multinational enterprises, M&A dropped by 13 percent to $62 billion in 2016. But the M&A flows into the Philippine, the third-largest investment destination in Asian, increased by 60 percent in 2016 to US$8 because of the expansion of telecommunication industry.

Figure 6: Number and value of M&A ASEAN

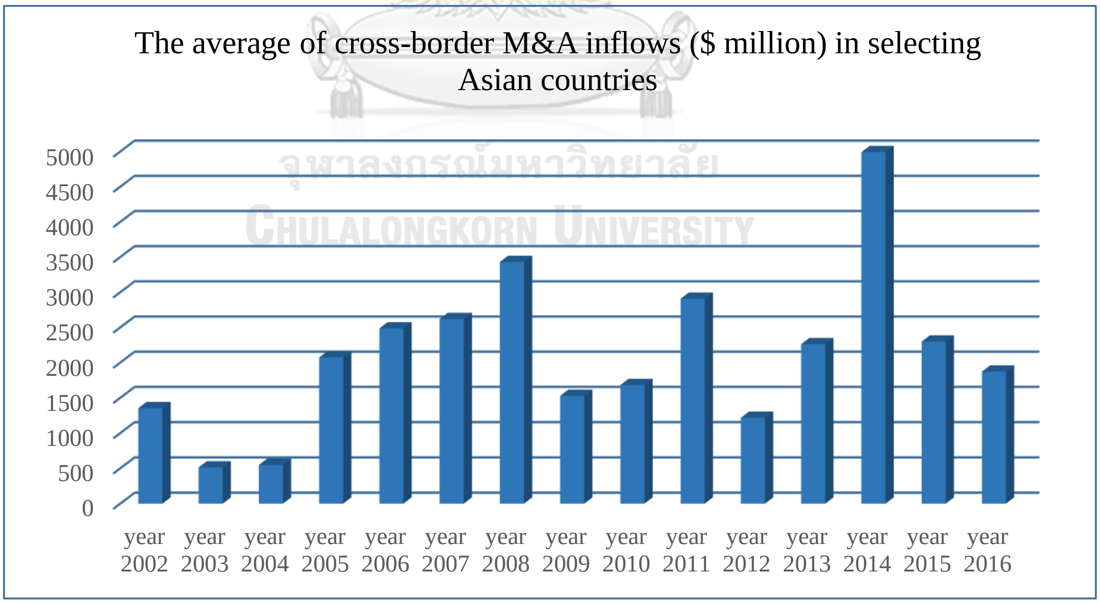


Source: M&A institutions.

Market uncertainties in Malaysia resulted in a 11 percent drop in FDI to $10 billion in 2016. Thailand met with the positive side of foreign investment inflow because of selling on M&A as similarly as the inflow to Vietnam grown up by 7 percent to $13 billion in 2016. However, FDI inflow to Indonesia drops at $3 billion in 2016 Trade liberalization, low production cost, political stability, and economic environment may attract multinational companies to invest in target countries.

Asia is the largest recipient of cross-border M&A in 2017 with the M&A inflows of US$475.8 billion or 33.3% of the global flows. Figure 7 show the net cross-border M&A inflows into 20 selected Asian countries during 2002-2016. For Asia, the realized cross-border M&A has increased continuously from $13,612 billion in 2002 to US$17,698.5 billion in 2016. The boom in cross-border M&A inflows to this region was driven mainly by political and regulatory developments (UNCTAD, 2017).

Figure 7: Net value of Cross-border M&A inflows to selected Asian countries



Source: World Investment Report UNCTAD 2017

2.2 Cross-border Merger and Acquisition and the institutional factors

Recently, foreign investors focus on a broad range of determinants of investment decisions. The political environment and secures on investment which related to a business-friendly on the legal plus regulatory process in host economies are among the key determinants of cross-border M&A. This concept is supported by Lamech and Saeed (2003) which survey the investment decision of international investors in the power sector focusing on the target country conditions. The survey asked the respondents to rate the significant factors that might impact their decision — a legal framework concern on the contracts of a company with the government agencies.

Investors try to base their long-term decision making by way of the reliability or even the enforcement of laws. To invest in host economies successfully, international investors prefer to look at the appropriate rights and obligations that are prescribed, and legal and regulatory have to oblige. However, government unresponsiveness could make the worst project experience for foreign investors as the delays in high authority approvals may generate the cost for them related to award a concession by auction. Foreign investors usually are unwilling to have the inefficiency cost of the administrative process thus, the host country's government needs to realize this issue. The process of government intervention and independence of regulatory is another critical aspect that affects investment choice.

Many multinational enterprises have increasingly sought to reinforce, as well as exploit, their global competitive advantage. Cross-border M&A has become an attractive choice for investors that use M&A to provide the outcome of opportunities and competitive pressure incurred by globalization. Eventually, a reflection of the improvement in the production process within companies, this study is interesting in Asia because of recent changes. The financial crisis affected many countries after year 2000s, many countries within Asian region try to look carefully on operating New Public Management (NPM). It means that they recognize the significant of institutional factors in supporting growth and broadening inclusiveness with a critical reference to them.

Kaufmann et al. (2018) explain the approach and difference between formal and informal institutions. He argues that institutions do not only influence formal platforms such as government, legal system, property rights, and business regulation, but also relate to the sociocultural system in society. Of course, formal institutions are measured by the issue of data collective even country's social value usually hard to define. Formal institutions concern proper formal enforcement in the form of government, a legal system, property rights, or business regulations.

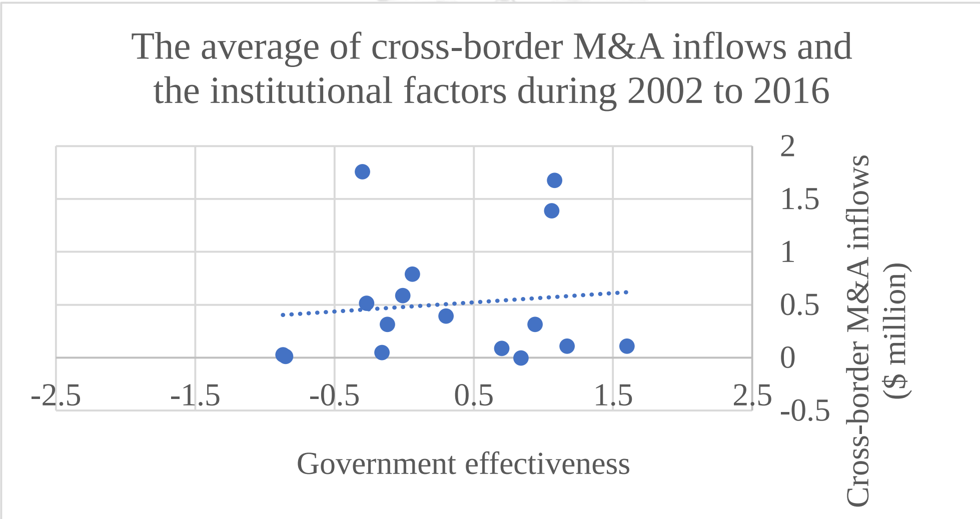
However, the country is not constrained solely by one part of the institution. Cultural, morals, norms, traditions also affect human behavior. The most popular pattern of the formal institution and widely used today is Worldwide Governance Indicators (WGIs) managed by the World Bank. This consists of six composite indicators: voice and accountability, political stability, control of corruption, rule of law, and regulatory quality.

Figure on below describes the relationship between six variables of institutional factors and the averages of inward cross-border M&A in selected countries from 2002 to 2016. The rage of institutional scores is from - 2.5 to + 2.5 score. Normally, a country with a positive signal on institutional factors has high level of capital inflows.

Difference in government reforms and policies across countries can potentially result in different value of cross-border M&A in Asia countries. The reason that many countries have high score on institutional factor within good political environment is that the same considerations might not apply to foreign investment decision in sometime. Local companies have seen the opportunity to grow its business by acquiring foreign capital via cross-border investment. But, for perception of foreign investors also generally have a vary alterative before merge with other entity and may lack of explore the institutional factors as a priority dilemma. In general, acquiring company normally observe on such a financial portfolio under a company that they would like to merge with rather than institutional factors under host economy.

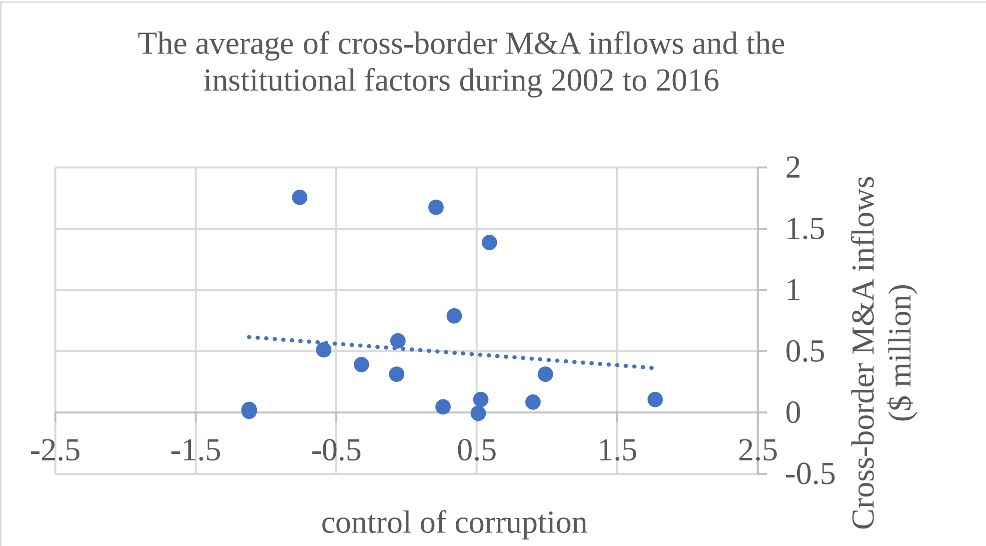
However, those factors seem to be a small issue that most of foreign enterprises do not strongly focus on too much but in fact it must be an important for every business so far. Asia region consists of developing countries with low score on institutional factors. Host countries should rearrange their factors by developing their certain political perspectives in order to attracting acquiring company. This is because host government action will simply impact either the profitability or company strategy. The institutional factors may be viewed as a fundamental requirement for economic performance (Bruinshoofd, 2016). And most of the selected countries in Asia region significantly launch incentive policy to persuade multinational that will enhance private sector development.

Figure 8: The average of cross-border M&A inflows and the institutional factors during 2002 to 2016: Government effectiveness



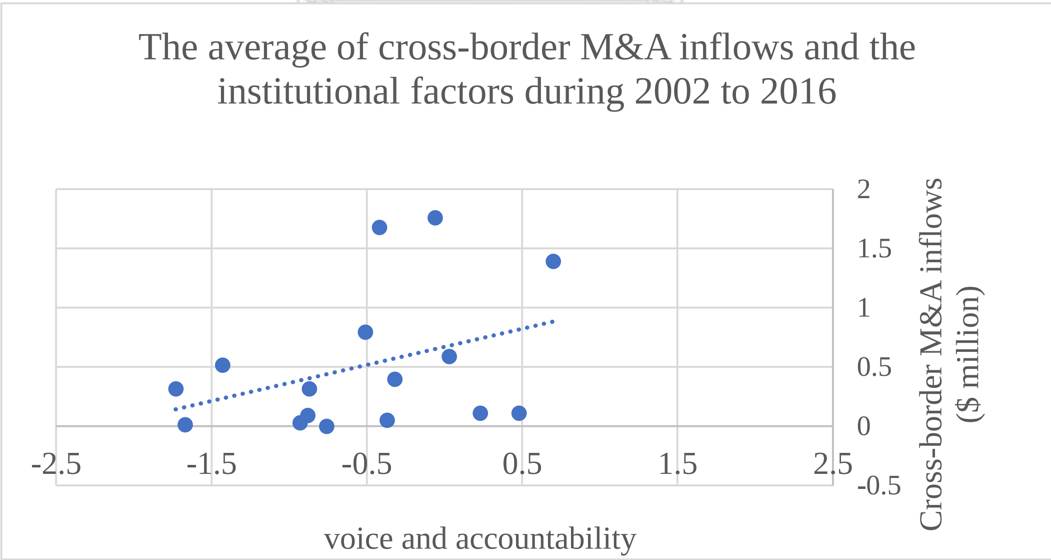
Source: World Bank indicators and UNCTADstat database

Figure 9: The average of cross-border M&A inflows and the institutional factors during 2002 to 2016: *Control of Corruption*



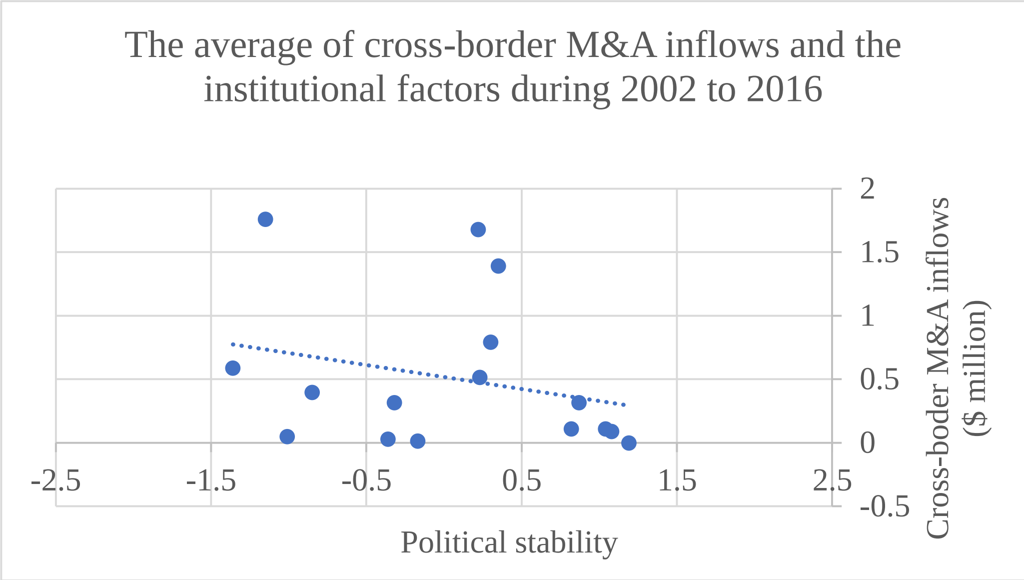
Source: World Bank indicators and UNCTADstat database

Figure 10: The average of cross-border M&A inflows and the institutional factors during 2002 to 2016: *Voice and accountability*



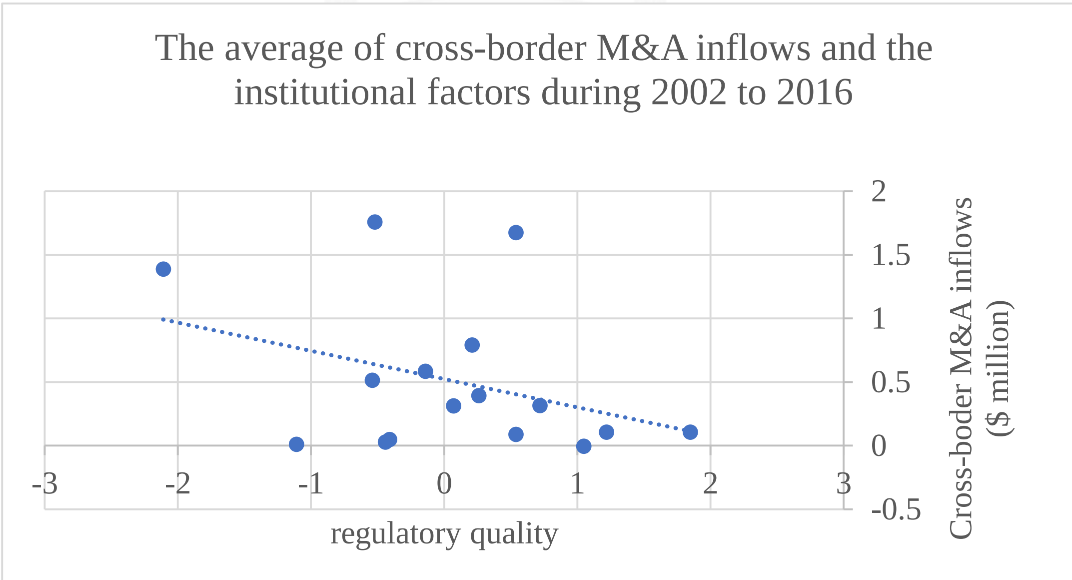
Source: World Bank indicators and UNCTADstat database

Figure 11: The average of cross-border M&A inflows and the institutional factors during 2002 to 2016: *Political Stability*



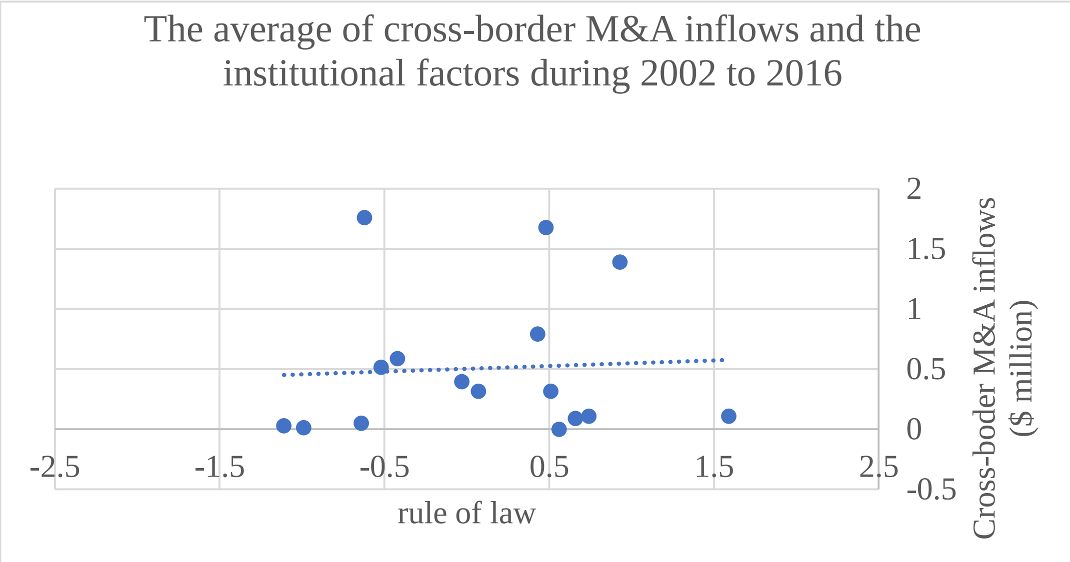
Source: World Bank indicators and UNCTADstat database

Figure 12: The average of cross-border M&A inflows and the institutional factors during 2002 to 2016: *Regulatory quality*



Source: World Bank indicators and UNCTADstat database

Figure 13: The average of cross-border M&A inflows and the institutional factors during 2002 to 2016: *Rule of laws*



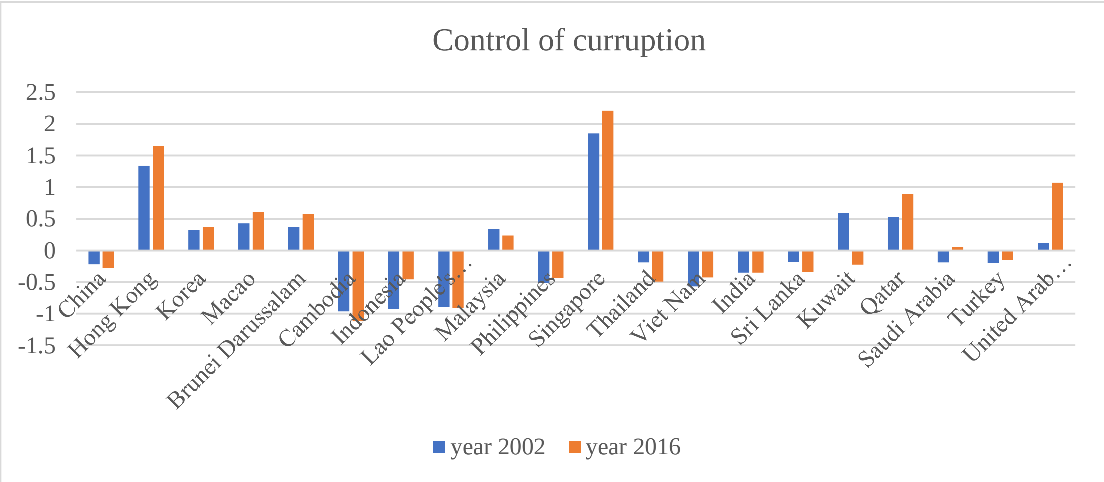
Source: World Bank indicators and UNCTADstat database

2.2.1 The institutional factor's scores

The average of institutional factor's scores calculated from WGIs database through the World Bank Indicators explains institutional quality of countries in the Asia region during the year 2002 and 2016. Each institutional factor is undertaken to yield a value-centered at zero and range from -2.5 to 2.5, where the larger the number is, the higher the quality of institution. The relationships between institutional factors and cross-border M&A flows are mixed.

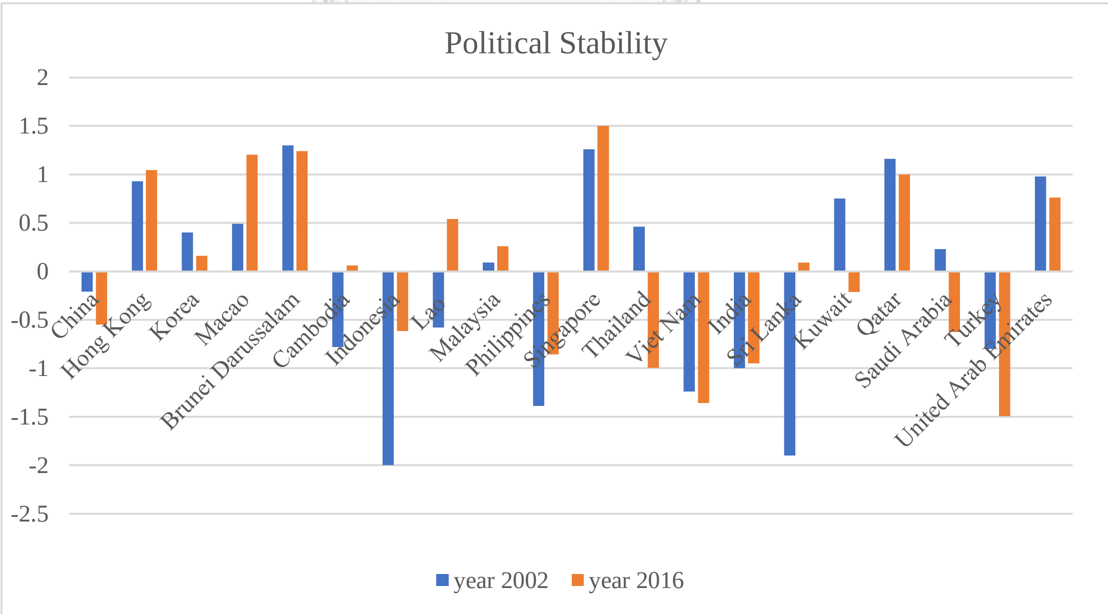
Among selected Asian countries, institutional factor's score as government effectiveness enhanced in 14 countries and dropped in 3 countries; in control of corruption improved in 8 countries and decreased in 11 countries; in voice and account ability increased in 5 countries and lost in 15 countries; in political stability enhanced in 11 countries and dropped in 9 countries; in rule of law enhanced in 10 countries and lost in 10 countries; in regulatory quality enhanced in 9 countries and dropped 10 in countries. However, some countries will either improve or slip their value of institutional factors.

Figure 14: The institutional factor's scores: Control of Corruption



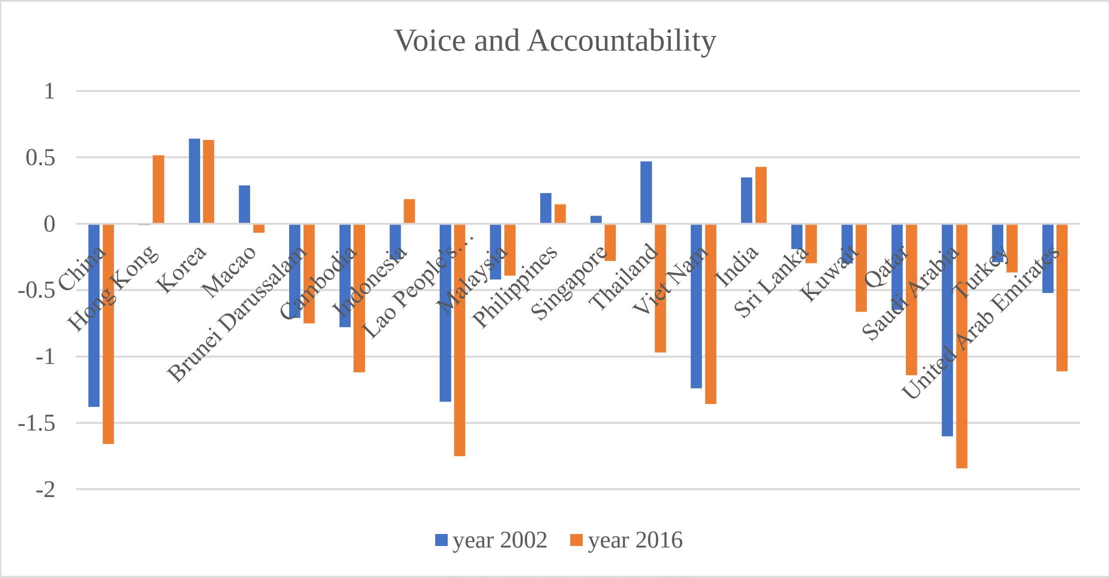
Source: World Development Indicator

Figure 15: The institutional factor's scores: Political Stability



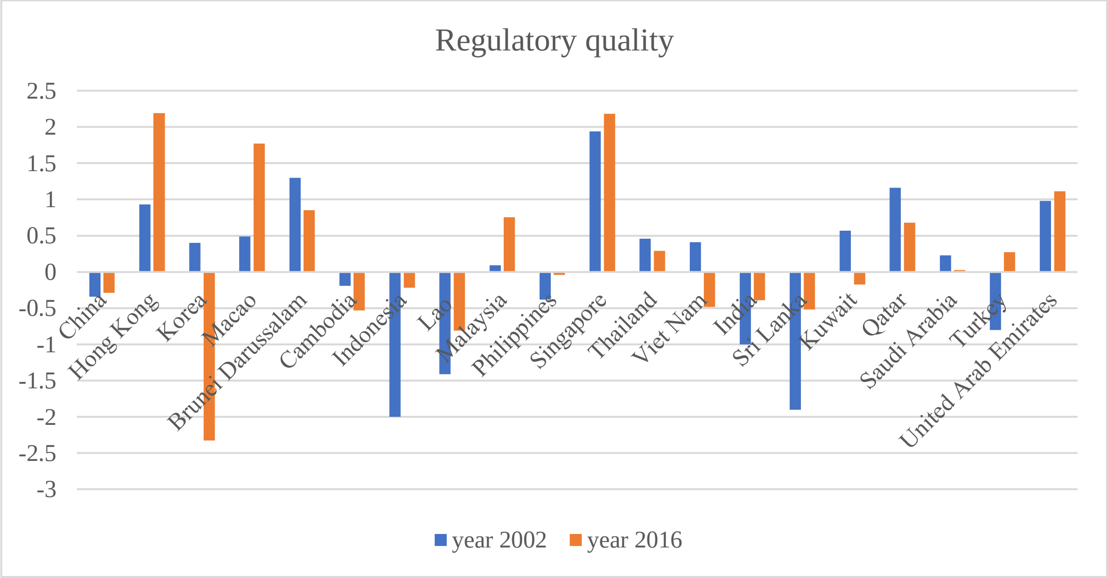
Source: World Development Indicator

Figure 16: The institutional factor's scores: Voice and Accountability



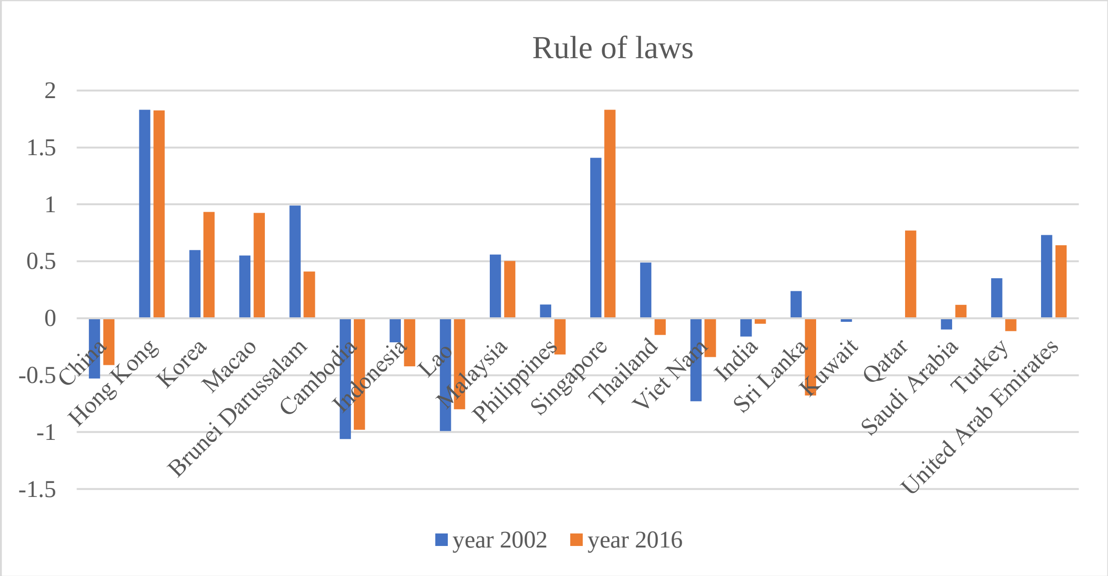
Source: World Development Indicator

Figure 17: The institutional factor's scores: Regulatory quality



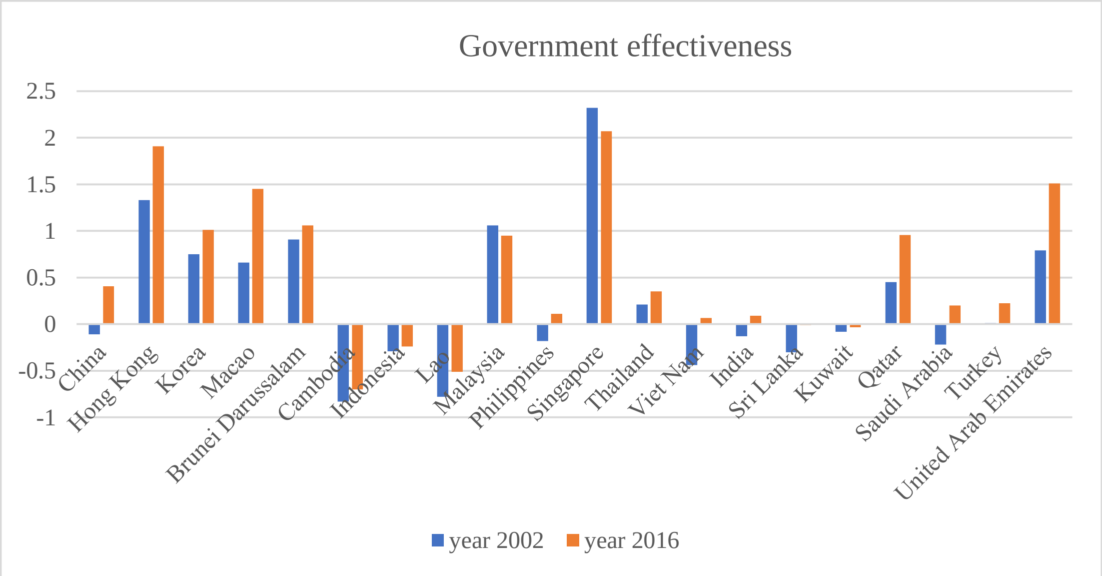
Source: World Development Indicator

Figure 18: The institutional factor's scores: Rule of laws



Source: World Development Indicator

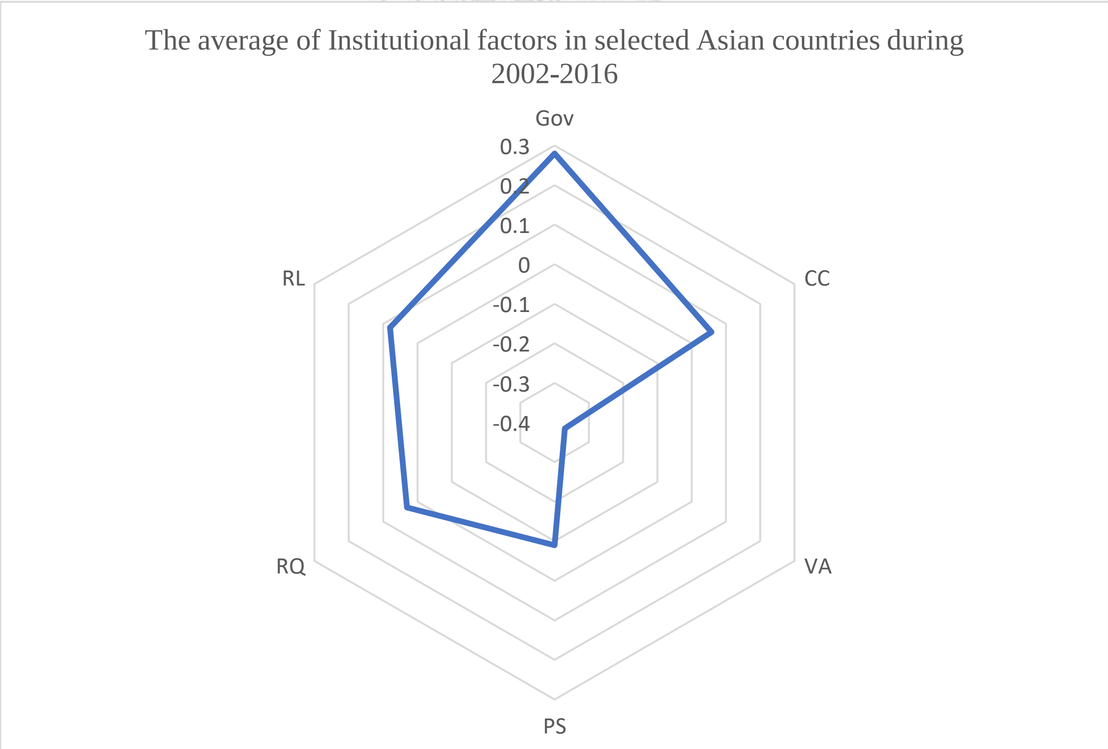
Figure 19: The institutional factor's scores: Government effectiveness



Source: World Development Indicator

Figure 20 shows the average score of institutional factors during the year 2002 to 2016. In Asia's mean score on all six variables usually set at a low position. As the top score come from government effectiveness equal to 0.49, which means that Asia plays a significant role in performing adequately on the credibility of the government's commitment to such policies. The second rank is the regulatory quality at 0.21. However, the rule of laws and control of corruptions have the same average score is 0.19. The political outcomes of Asia have more recently made fear and uncertainty on investment climate as it shows a few scores on political stability at 0.06. Most of the countries in the sample are developing countries that generally have a lack of bureaucracy's efficiency, complex procedures, and also high transaction costs that are affected by international competitiveness on investment. The average score of voice and accountability is -0.58.

Figure 20: The average of Institutional factors in selected Asian countries



Source: World Development Indicator

2.3 Income classification

For this part, selected Asian countries are classified by their level of country development, which measured through income level - gross national income (GNI). This study follows World Bank development indicators database which currently divides countries into four income groups which are high, upper-middle, lower-middle, and low income. High income group is a country with income higher than $12,615 GNI per capita while a country with income between $4,086 and $12,615 is an upper-middle income country. If a country has GNI per capita between $1,036 and $4,085, it is a lower-middle income country. A county with income lower than $1.035 GNI per capita is grouped into low-income country (WorldBank, 2019). The 18 selected countries in the Asia region are classified into three categories as follow:

(1) High-income countries: Kuwait, Saudi Arabia, United Arab Emirates, Qatar, Brunei Darussalam, China, Macao, and Korea.

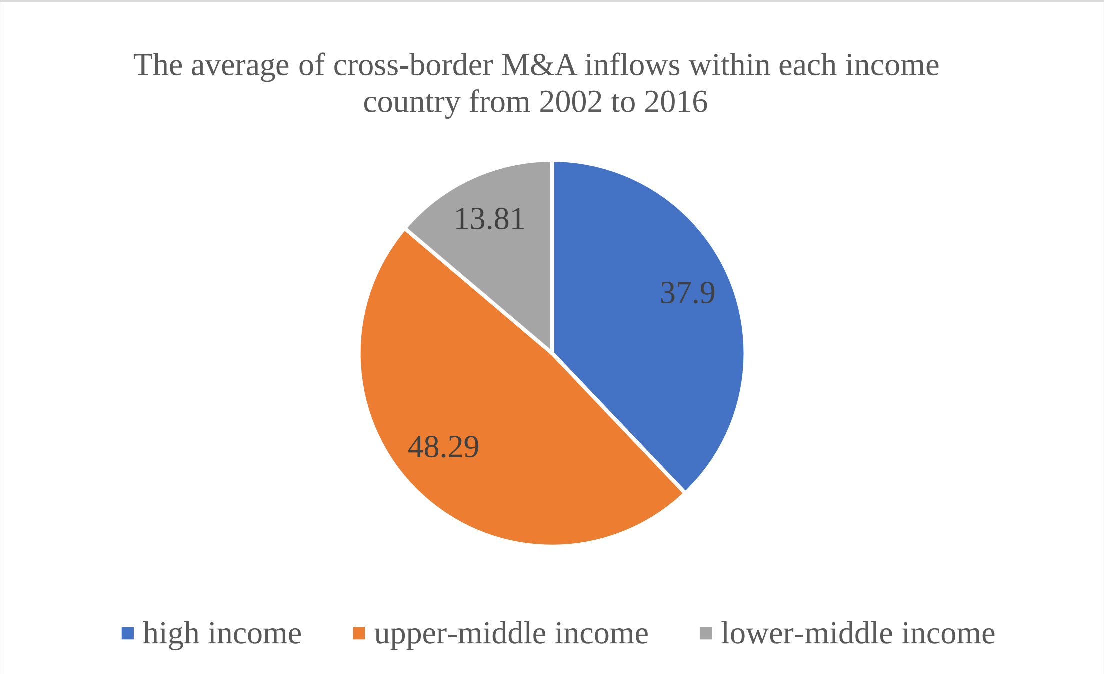
(2) Upper-middle income countries: Turkey, Malaysia, Thailand, China.

(3) Lower-middle income countries: India, Sri Lanka, Indonesia, Philippines, Vietnam, Laos, Cambodia.

There is no country in the low-income group from this 18 selected Asian countries.

Figure 21 shows the average of inward cross-border M&A by each income level group from 20 selected Asia countries during the year 2014 to 2016. It shows that the value of cross-border M&A inflows may depend on income level of the economies. The average amount of cross-border M&A inflows in 18 selected economies is $61,983.6 million. Almost 50 percent of the cross-border M&A or $29,935.9 million, flows into upper-middle income economies. High income economies receive the M&A inflow of $23,482.6 million which equal to 37.9 percent. Lower-middle income economies receive only 13.81 percent or $8,565.2 million.

Figure 21: The average of cross-border M&A inflows within each income country

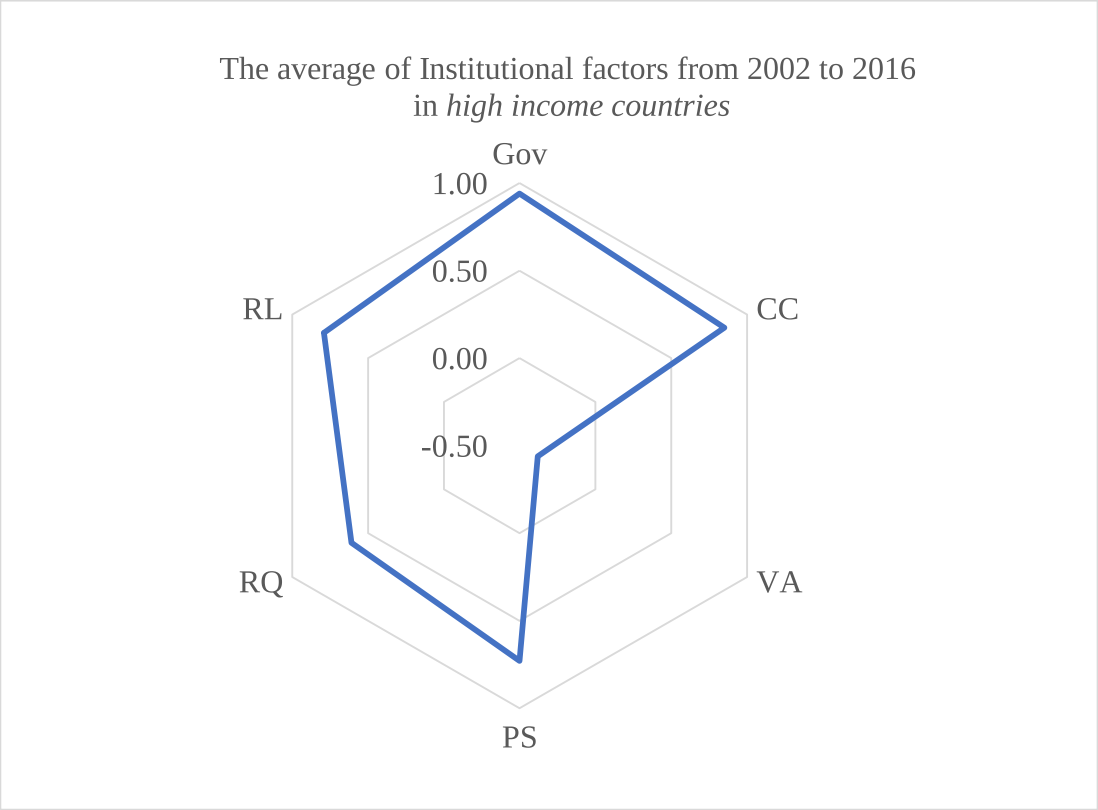


Source: UNCTADstat database

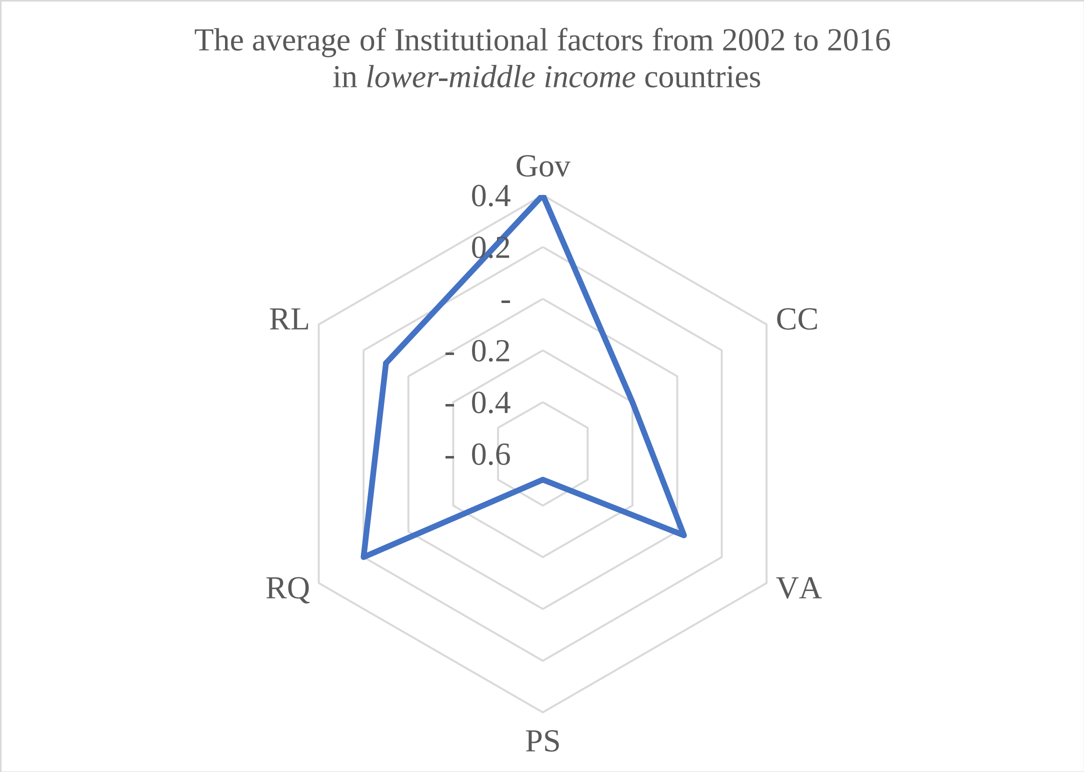
Considering the institutional factors by country's income level, Figure 22 shows that most of the high-income countries have high scores on institutional factors while lower-Middle income economy mostly provides a lower rate of institutional. Apart from this, it could be said that income classification is one determinant to define the quality of institutions within a country. According to the average score of six variables of the institutional factors including voice and accountability, political stability, control of corruption, rule of law, and regulatory quality during year 2002 to 2016, the figure below show that high income economies present a good performance on each institutional factor while upper-middle income and lower-middle income have weak performance respectively.

However, the author looks at each institutional factors one by one it shows that a country with high-income level has a score on government effectiveness, rule of laws, control of corruption are higher than political stability and absence of violence and voice and accountability as the average score of three factors almost closely to 1.00 but for other institutional factors are equal to 0.69 and -0.50, respectively. Moreover, the value of institutional factors within high income countries is higher than upper-middle income countries as it can see from the average total score of institutional factors. These scores equal to 0.61, while the average total score beside upper middle income is -0.14. And for lower-middle income countries, the average of all institutional factors remains at -0.43.

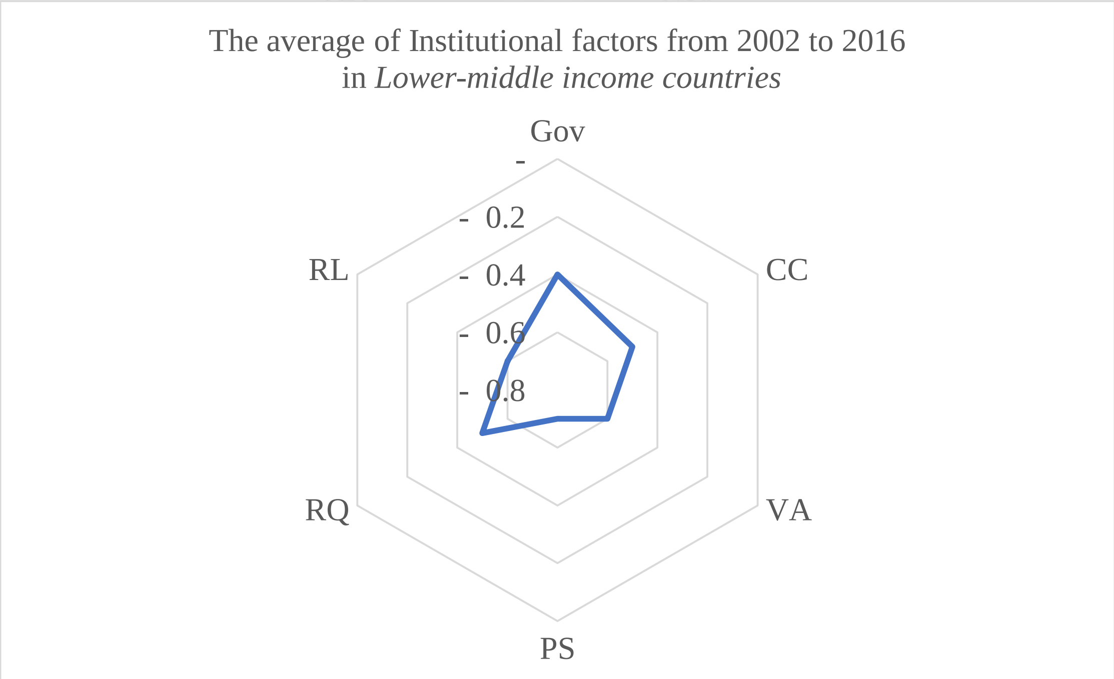
Figure 22: The average of Institutional factors in *high, upper-middle, and lower-middle* income countries



Source: World Bank indicators



Source: World Bank indicators



Source: World Bank indicators

Chapter 3
Literature review

This chapter explains the theoretical framework relating to the merger and acquisition (M&A) and its host country's determinants. The previous literatures on determinants of cross-border M&A flows and the role of institutional factors are also presented.

3.1 Theoretical Framework

This section explains the concept of cross-border M&A, host country's determinants of M&A inflows, and theories relating to motives of M&A. (Shim & Okamuro, 2011) describes the cross-border merger and acquisition as "the relationship between an acquirer company and a target company that headquarter is stated in other home countries". Hampton (1979) mentions that merger is a combination of two or more companies into a new single legitimate entity. M&A is one of the best options that many companies can operate under environmental uncertainty (Hillman et al., 2009). Unlike joint venture, M&A performs a full constraint absorption and enables companies to accomplish others by compelling their needed capitals and improving power (Casciaro & Piskorski, 2005).

Companies decide to do cross-border M&A for various reasons. First, the cross-border M&A is a channel that many companies use to access and invest in a foreign market. Entry mode can be separated into two categories: (i) non-equity-based entry modes such as import-export, licensing, and (ii) equities-based entry modes such as M&A, Greenfield investment, and a joint venture. The companies may decide to use Greenfield investments if they cannot find the suitable target companies in the foreign countries. The unfavorable of this process is that companies need to build their new operations in the non-home country from the ground up and informal network with suppliers, local government, and distributors. Thus, most of the businesses select M&A operations because they can rapidly enter the local market, gain knowledge, and technology and also have the ability to control.

3.1.1 Strategic Motive of Foreign Direct Investment

There are three motives why firms decide to invest abroad namely market-seeking, resource-seeking, efficiency-seeking, and strategic-asset seeking. The details of cross-border M&A inflows' determinants are as follow:

(a) Market seeking approach

The companies prefer to access new markets in order to gain more profits. Some companies decide to invest abroad to be close to their clients in that local markets. This encourages businesses to relocate their production to maintain their competitiveness. Another reason is that the business's owner desires to adapt its goods and service to local tastes. By applying foreign direct investment form, investing firms may face the challenges because they are not familiar with consumers, suppliers, and business conditions in the target countries.

(b) Resource seeking approach

Firms can gain benefits from accessing to relatively cheaper resources from the host country, comparing to those in the home country. Those resources include raw material, supplier, and labor. Many business concerns on the factor of production function related to cost as primarily alternative and area that can provide in foreign market.

(c) Strategic asset seeking approach

When companies invest in foreign countries, they do not only pay attention to benefits from accessing to those markets but also try to be more competitive in the unfamiliar economies. Many companies apply FDI via cross-border M&A because they prefer to receive the strategic asset in both tangible and intangible, which may not available in their country. This is significant for their long-term growth.

3.1.2 Efficiency Gain Theory

The company's efficiency is received through the process of cross-border M&A. Efficiency theory explains that cross-border M&A happens when the acquirer and target's company have different strengths and weaknesses on efficiency level. Through the cross-border M&A, the efficiency of the acquirer's company can be passed on to another company which has lower efficiency level. As a result, each company can obtain either social gain or private gain. Then, the company with lower performance can increase their capability and secure their resource from doing cross-border M&A. Thus, it helps companies to re-manage their inefficient resources and capital. Companies is said to gain economic of scale when their average cost reduce but total value of output was improved. It will happen when higher of production as the same time lower the marginal cost. Then, economic of scale provide positively outcome when coordination of merging company's' investment because this activity allows them to eliminate on double fixed cost. The idea of efficiency also considered to the concept of synergy, which may be involved in term of combining the good parts of each firm. The synergy approach take place where the value of market of combined those two or more companies greater than the sum of each part. Takechi (2006) Synergy gains arise out of operational and financial economic of scale.

3.1.3 The Eclectic Paradigm

John H. Dunning, who established the electric paradigm of international production in the Nobel Symposium in 1976 presents about foreign direct investment framework. More than half of concerns on cross border merger and acquisition. The pattern of international production is a method that including three complements, which are ownership, location, and internalization that important for the company's decision to expand business in a foreign market. In 1960, Hymer describes that "for an organization to responsible and own foreign assets they have to dominate some part of marketing advantage, sufficient rather the disadvantages point in competing with the indigenous company in the country of production. So, the eclectic theory will answer the question of why companies need to produce in foreign locations rather than using exporting or licensing agreements with local companies. Ownership is useful for the value of an asset (tangible and intangible) owned or even raw material handling in the production process — for example, marketing, management, and technology, and so on. Developed enterprises mostly apply financial capital and advanced proprietary technology as a competitive edge, especially in target developing countries.

Next, locational advantages are described the privilege increasing, particularly from the target country's comparative advantage that occurred in investing abroad. Company stimulates to expand business at the foreign country to obtain resource with low cost rather than its homeland. There are various choices such the size of the host country market, available resource, relative inflation rate level, government perspective.

Market internalization advantage associated with companies manages the systematic procedure to organize their internal resources. Hence, the eclectic theory highlights several factors used in determining M&A, including market size, inflation levels, and government incentives.

3.1.4 Location Theory

In general, location theory explains the reason that most companies invest in foreign countries. The location theory tells about M&A in the aspect of the location-specific determinant differentials. In the comparative advantage, the available capital assets that useful in productivity procedure are significant factors in this theory. Then, the location theory's explanation for cross-border M&A may be considered by the following determinant. Marketing factors are the main factors that encourage foreign companies to invest in other countries that companies gain a lot of advantage though setting a production platform closely to market. Most of the companies may run their business smoothly even investing abroad because they can exploit on target’s economic capital, economic freedom to proceed their business or eliminate some cost such transportation cost. M&A is stimulated by the existence of trade openness that subsidiaries of foreign investors usually establish their business in another country that has low trade restrictions.

3.1.5 Aliber’s Currency Area Theory

Aliber (1978) explains the theory of direct investment, which concerned the currency dimension. He supported that MNC from the active currency area will invest in the weakness currency area at other markets. M&A potentially tells the difference in the exchange rate and market favorable. So, Aliber’s theory concludes that devaluation on the target economy’s currency significantly impacts on the flow of foreign investors.

3.1.6 Institutional theory

Kaufman et al. (2010) shows that there are six aspects of the institutional quality namely voice and accountability, government effectiveness, political stability, rule of law, regulatory quality and control of corruption. All together generate trust and credibility, eliminate illegal activity related business, and influence on the perception of foreign companies and decision choices.

(1) Government effectiveness

Government effectiveness indicates government capacity in managing public goods and services as well as drawing and implementing sound policy. It consists of the degree of its independence from political institution pressure and the credibility of the government's commitment to such policies. Host countries encourage and use the pattern of government effectiveness regarding persuade foreign companies because better government effectiveness in the target country can reduce the cost of entry mode. Moreover, the home country where less government effectiveness with unclear regulation is more likely to join with host countries. It is expected to have a good view of government effectiveness and the environment.

(2) Control Corruption

Control of corruption explains about the method of public power was being taken to fulfill individual needs, which including corruption systems. In the host country, increasing the volume of corrupting tends to make cost on transaction value during the time that foreign companies invest in host countries. If the government in host countries try to control corruption, FDI will occur, respectively. Because international companies can eliminate the cost of loans while obtain better advocating from host countries in terms of financial.

(3) Voice and Accountability

Voice and accountability concerns on whether authorities and people inside country are able to acknowledge and join in government's activity or country's political in term of election and policymaking and also associate with free entrance and expression with media. Moreover, voice and accountability relate to democratic decision making that offers equality on elected government and bright on a political platform. It may decrease the situation on government intervention or even strengthen citizen rights protection with support on the standard of information flows.

(4) Political stability

Political stability indicates the level of confidence in the political institution; most of the multinational companies avoid FDI when facing with high political risk. However, low political stability will occur during the economic recession or disrupt infrastructure inside the country. Political instability may build obstruct of company activity which can increase cost operation. From the part of the host country, it is straightforward that political stability encourages the inflow of FDI.

(5) Rule of law

Rule of law talks about the quality of law which indicates society's gained fulfill in covering on fairness. The consistency of the court process in target countries can increase the number of cross-border M&A according to investors' confidence in the keeping of contract enforcement and other economic developments. All criminal situations may be dropped in the way that countries have the effect of law procedures to control their citizens. Then, most of the foreign investors feel better safe when doing business in host countries where rule of law is raised.

(6) Regulatory Quality

Regulatory quality indicates that the performance of high authorities in the country regarding formulating and implementing sound policy and regulation that support public and private business development. Government draw policy to persuade foreign investor it can encourage for a market price on demand/supply and support banking system for offering loan to foreign investors. Moreover, regulatory system is one of the best indicators within the quality of institutions that the host country should have a positive side. It can grow a perception of foreign investor's confidence in doing business abroad.

3.2 Empirical Evidences

3.2.1 Literature on the Determinant of Merger and Acquisition

Neto et al. (2010) study the macroeconomic determinant of cross-border M&A and Greenfield investments. This paper use panel data of 53 countries from 1996 to 2006 to analyze the comparative between FDI and M&A for both inflow and outflow. It found that a group of encompassing variables as a standard entry mode for M&A inflows. The variables, market size, trade openness, governance factors, and human capital, have significant effects on M&A and Greenfield investment.

Douglas and Juthathip (2011) examine the relationship between bilateral cross-border M&A and financial factors in Asian countries from 2000 to 2009 by using a Hackman selection model and panel data analysis. The variables include GDP, distance, domestic credit, stock market, labor costs, exchange rates, and patent. The result showed that the banking sector plays a significant role in impulse M&A inflows. But the analysis also shows that equity financing is another important factor. Financial development in the case of stock and bond market in acquirer countries will be more critical during a time that target companies located in developed countries. Then, implementing policy to support foreign companies and independent rating for the private bond market can be stimulating on the competitive advantage and encourage new investors to join in the M&A activity.

Erel et al. (2011) examine the determinant of cross-border M&A that can affect the propensity of one company from one country to another company in a different country. This paper analyzed a sample of 56,978 cross-border mergers from 1990 to 2007, using panel data analysis. In addition, in term of variable this paper use average 12-month stock return, average real exchange rate return difference between the two countries' currencies, average difference in market-to-book ratio, Disclosure Quality, distance, The value of bilateral imports, GDP, annual real growth rate of GDP, and take dummy variable in case of same Religion and language. They find that the importance of geography, the quality of their disclosure of accounting information, and trade increase M&A operation between companies. Then, companies in countries with an increase in stock market value or even the appreciation of the currency that tend to represent as investors. On the other hand, companies from weaker-performing economies might be a target.

M. Vorachen (2016) studies about the bilateral and unilateral determinants of cross border M&A, which consists of 193 countries around the world. The independent variables are separated into two parts: bilateral variable including distance, common language, common border, common currency, and trade agreement; and unilateral variables including GDP per capita, domestic credit, restrictions Openness, institutional quality, and exchange rates. This paper applies the model of Heckman sample selection to calculate the gravity model on the relationship between cross-border M&A and all variables. This research points out that the financial variable is a significant determinant for both acquirer countries and host countries. Next, trade openness restriction is another significant factor in determining the cross-border M&A inflows to host economic with a negative relationship. The contribution of this paper is that they examine human skill-intensive and capital intensive. As a result, more cross-border M&A done in physical-capital intensive industries than in human-capital intensive industries. However, the relationship of cross border M&A and each variable will be negative or positive relation depending on whether firms being as acquirer or target.

Kausika (2016) examines the determinant of cross-border M&A in 4 countries including Denmark, Finland, Norway, Sweden from the period of 2003 to 2012. He uses Least square method regression while including Currency, Market return, anti-self dealing index corporate tax Geographic distance, Religion takes dummy, GNP per capita, bilateral imports being variables. They find that currency and investor protection have positive impact to cross border M&A inflows. It explains that countries whose currency has weak value and with poor investor protection standards will be a target. The market return provides a negative relationship to M&A inflow that can suggest that host countries typically are good performing countries.

3.2.2 Literature on the relationship between Cross-border Merger and Acquisition and Institutional factors

Cross-border M&A inflows come in host countries or not depend on the macroeconomic environment of target countries. In the previous literature support us that the role of governance factors in establishing an appropriate macroeconomic climate to influence M&A inflows. So, much empirical research shows that institutional quality has a significant effect on cross-border M&A inflows to target countries. Foreign investors prefer to take over the businesses in host countries where there are a significant economic climate and low or no political uncertainty. Based on eclectic paradigm theory, inward cross-border M&A may rely on economic determinant, including macroeconomic factors and, especially, the quality of institutions.

Rossi and Volpin (2004) explain the role of governance factors as the primary determinant of cross border M&A inflows. In this paper, applying accounting standards and shareholder protections as the proxies for institutional quality factors and showing that the amount of cross-border M&A will be increased that governance factors are stronger. Moreover, this paper also separates the volume of M&A into domestic and cross border M&A (foreign companies). Researchers show that the flow of cross-border M&A is higher than local because of the institution quality of host countries.

Hur et al. (2011) observe on cross-border M&A inflows to developed and developed countries over the last two periods around the year 1995 to 2002, which end up with 172 countries around the world. They estimate the model by applying pooled ordinary least square (OLS) and panel data analysis with the random-effect model, in case of control variables such as GDP, openness, journal, and market capital. The institutional factors are including Voice and Accountability, Political Stability, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption. Voice and Accountability. This paper shows two main results. First, the quality of institutions with cross-border M&A in developed and developing countries have a different effect. They take developed countries as a dummy variable that has not put into regression. It also interacts with all quality of institutions factors which is institutions x developed meaning that both developed and developing countries have different impacts of performing on institution factors on M&A. Next, the performing of institutional factors within a developed country is rather than developing countries.

Fakher (2014) examines the relationship between the institutional factors, trade, and foreign investment in Egypt during the period 1995 until 2010. There are four explanatory variables in the models including GDP per capita, inflation rate, and industrial wage. For institutional factors, this paper uses two which are governance factors and economic freedom. Researchers found that institutional factors provide a significantly positive impact on trade, even the effect of the quality of institutions has a smaller effect on business than FDI. The main point is that the instrumental of market freedom have limited power to boost up FDI and raise the trade. While compared with institutional factors so it can interpret that these determinants play the main impact on trade and FDI. So, increasing the institution of quality can help Egypt and other developing countries to support their trade and FDI inflows.

Peres et al. (2018) examined the impact of institutional factors on FDI inflows by dividing into two groups of countries as developing and developed countries. They measured the institutional factors from the sum of control of corruption and rule of law. They use GDP per capita growth, population, infrastructure, financial crisis being as a year dummy variable. This paper showed that the quality of institutions provides a positive effect to encourage the inflow of foreign investment, particularly in developed countries. But in developing countries, the quality of institutions provides insignificant because of a lack of institutional performance. The result explains that standard deviation change in one unit of governance factors can affect FDI by 0.225. Then, the importance of institutional factors can be a potential point for attracting foreign investment inflows.

Kurul and Yalta (2017) study on the relationship between institution factors and FDI flows in 113 developing countries over the period 2002-2012 by using a panel methodology. This paper analyzes the association between governance factors FDI inflows. These factors may be separated in six broad groups which are Voice and Accountability, Political Stability, Government Effectiveness, Regulatory Quality, Rule of Law, Control of Corruption, and absence of violence. They found that government effectiveness, control of corruption, and voice and accountability have a significant impact on FDI inflows into developing countries. It concludes that a country that has a better political system while declining corruption leads to enhance in foreign investment and boost upon capital inflow inside developing countries.

Chapter 4
Research Methodology

4.1 Conceptual Framework

This section presents conceptual framework of this study. The determinants of cross-border M&A are classified into three groups which are the institutional factors, macroeconomic factors, and financial development factors.

4.1.1 Determinant of Cross border M&A

Host market entry choices are inherently risky and challenging and have a straight effect on the international marketing strategy and performance of the home acquirers. The significant decisions have associated with the host market decision stem from the various impact of intuitional and market environmental determinants on foreign investors as market selection decisions. There are three main aspects to consider in this framework, which are institutional, macroeconomic, and financial development determinants. The previous empirical works of literature have been convinced our hypothesis on the positive association between the institutional and cross-border M&A inflows as follows. Cross-border M&A is being a significant point in facilitating an efficient reallocation of capital movement to host economic.

Figure 23: Conceptual Framework

Home country

↓ Cross-border M&A inflows

Host country
Determinant of Cross-border M&A
1. Institutional factors *Government effectiveness, Control of corruption, regulatory quality, Political stability, Voice and Account ability, Rule of law* **2. Macroeconomic factors** *Market size, Inflation rate, Trade openness, Exchange rate* **3. Financial development factor** *Domestic credit to private sector*

Income classification		
High income	Upper-middle income	Lower-middle income

Based on: *Institution theory, The eclectic theory, Strategic motive, Aliber's currency area theory, location theory*

Source: Author

The presence of politic frictions, such as government intervention, high transaction cost, and strict regulation could lead to low host country's credibility in the eye of potential investors. Therefore, this paper expects that a country with better institutional factors can attract more inward cross-border M&A through following institutional theory. The traditional determinant of foreign decision is typically an economic environment based on the theoretical literature as follows. Both location theory and eclectic theory focus on four factors in macroeconomic factor which are Market size, Inflation rate, Trade openness, and financial development.

It also governs the government-policies elements because the factors of the political environment of host countries has an impact on cross-border M&A owing to generating favorable investment climate. Marketing factors are the emphasis point that stimulates home acquirers to invest abroad so that they were running the business smoothly due to acquisition. Exchange rate is explained by a theory of direct investment based on currency areas. So, this hypothesis expects that the host countries with soft currency is an interesting place for financing from home acquirers.

4.1.1.1 Political institution determinant

Based on Dunning (2001) who established the electric paradigm to explain FDI activities, said that the pattern of international production is a method that including ownership, location, and internalization. It is essential for a firm's decision to expand business in a foreign market. He argued that institutional factors are becoming highly popular determinants of FDI. As the priorities of the multinational organization are transferring from market and resource seeking approach into an efficiency approach. Moreover, some parts of the location choice for multinational companies may be illustrated by economic efficiency. Because M&A enterprises require a suitable environment on governance quality that can affect their company's performance (Kostova & Roth, 2002).

Institutions quality are the activity in society that gives stability, decreases uncertainty situation in the economy. This activity concerns the interaction between each community while adapting to the environment by implementing a strategic choice (Oliver, 1997). In general, institutions can be divided into two group which are formal institutions which are laws and regulations providing a framework to society, and informal institutions which are norms and culture.

The characteristics of institutional factors such as government effectiveness, economic freedom, and regulatory framework are factors describing economic growth. Marwick (1999) explains that the relationship between governance factors and level of income is positive, which means good institutional factors can increase income growth. However, the link between institutional factors and M&A inflow may be explained by Kaufmann (2003). There are three criteria of all institutional factors that can influence the role of M&A inflows. Firstly, good institutional factors in the host country lead to rising the element used in the production process. At the same time, it can generate the proportion of investment whether local or foreign investors. Next, transaction costs such as corruption-related costs will be reduced if high authorities within a country can manage their action not for their perception. Lastly, increasing the level of trust in host economic transactions.

- Voice and accountability

Voice and accountability are one element under the institutional factors and democracy that compel within the country, public sector, or civil society work towards focused goals and results. Busse and Groizard (2007) show that the emphasis on democratic rights can affect the inflow on M&A to developing countries. They explain that companies require to invest in a country where apply democratic solution because of a transparent political system. So that many organizations are likely shifting to another destination which has a better political dimension such as providing voice and accountability to people. According to Fakher (2014), this pillar can be described as the basis of public services and is usually used to define the process of institutions where people in a country determine the accountability of the political circumstance.

- Control of corruption

The prevalence of control of corruption can impact cross-border M&A inflows as international investors ought to think about the effect of bribery or other corruption actions on their investments. Daude et al. (2007) study the relevance of institution choice as the critical factor of FDI inflows find that corruption hurts FDI. The authors add that not all institutional factors can attract foreign investment. But the rigid regulation and lack of obligation on government control tend to be a significant point of FDI movement. Alemu (2012) examine the impact of corruption on FDI inflow from 16 Asian countries in 1995-2009 and show 9.1% of FDI inflow to Asian is dropped by 1% of increasing in corruption. Even some of the host countries featured through a high degree of corruption but probably gained more on FDI inflow if countries control and handle on the spread of corruption.

Liu et al. (1997) study on the relationship on corruption with international investors in the case of bilateral FDI from 1990 to 1999. This paper suggests that the number of foreign investors will fail down according to corruption inside host countries that they face the problem on the high cost of the loan. Then, when control of corruption is going to be a positive side, the flow of FDI can grow up at the same time.

- Political stability

In general, foreign investors try to look carefully on various factors before their investment decision in other destination, and one of those indicators mostly bear upon the decision of them can be the political stability of Schneider and Frey (1985) explain that the inflows of FDI in developed countries reduce during a time that political instability and violence occur because it could also obstruct business operation. Brada et al. (2006) study the impact of institutional factors on FDI inflow into Balkan countries in 1991-2001 show that the movement of FDI inflow in host countries related to war effects. This paper adds that MNEs avoid investing in the target destination when they observe that political instability is higher than their perception.

Other previous research argued that unstable on the political environment, modify on regular about country’s constitution sometime allows an emphasis impact on inward FDI and economic growth (Schneider & Frey, 1985; Tuman & Emmert, 2004) Because instability on political make public official and foreigners gain a short term focus as a personal benefit (Rahman, 2010).

- Government effectiveness

According to Lederman et al. (2005), Government effectiveness stated that the capacity and performance of the high authorities of a country to formulate and implement effective policies. Then, government effectiveness occurs, the state ought to be enabled to capture perceptions of the quality of public service, exercise effective bureaucracy, and the credibility of government's commitment such a policy (Oster, 2009). Lebedev et al. (2015) finds that cross-border M&A in host countries may be grown up by a robust corporate governance standard. Many empirical studies agree that the government effectiveness factor is a significant estimator of economic development by observing the degree of foreign investment.

Montinola and Jackman (2002) said that the nature of high authorities such as government is one of the critical choices of investors to undertake their investment not only on the nature of existing policies. However, it is not only an effect on the flow of foreign investment but makes a sufficient circumstance between local and multinational companies in developing nations (Murphy et al., 1991).

- Rule of law

International investors typically focus on the way of protection of property rights when investing in other destinations as it would influence cross-border M&A inflows through impacting foreigners' perceptions on the security of their investment from uncertainty situations. Moreover, some theory such as economic theory said that the safety of the private property right indicates a significant part in forming persuasive for international investors that could be enhanced more economic growth and widespread prosperity.

Kinoshita and Campos (2002) study about the inflow of FDI for 25 countries from 1990 to 1998. They argue that an influential and fairness in the legal system of host countries may increase the number of foreign investors join in those countries. Shivute (2008) explained the rule of law as "a fundamental value that presents a feature that a government may be legally administered within the suitable laws." He also stated that the authority of the government launches their power that can only be provided to the citizen within a country by way of applying the rule of laws and encouragement and practicing to being a charitable institution.

- Regulatory quality

The efficiency of government regulations may affect cross-border M&A inflows by influencing the transaction cost on the production process as well as the future operational and in terms of administrative procedures correlated with the dealers. The quality of the superiority of the regulatory method within countries relies on the extent to which the regulation system is drawn and the degree to which citizens perceive it (Lee & Tan, 2006).

Three elements explain the reasons for the importance of regulatory quality that can enhance the foreign capital inflows. Firstly, efficiency on institutions quality that runs within an excellent regulatory framework enables to develop of production regarding persuading foreign investment. Next, a country that has weak regulations may lead to a lack of quality of institutions correlated with corruption system and also low management. Therefore, lastly, the uncertainty of foreign investment provides a significantly negative effect on the economy. According to Kostevc et al. (2007), the best institutional indicators for attracting FDI inflows seem to be the regulatory quality based on private property rights as well as the potential of supportive laws on investment within a host country.

4.1.1.2 Macroeconomic determinant

Many macroeconomic determinants and their impact on cross border M&A inflow into host countries have been studied in previous papers. First, GDP per capita is the value of all products and services that produce in-country. It is a significant determinant to measure the country’s economic output. GDP per capita could be identified on the country’s economic welling. Market seeking approach is related to market size. Then, there are several pieces of evidence support that the host country’s market size has a positive effect on M&A. Andersen et al. (2014) explains that there have two main approaches for the impact of market size that related to locational theory.

First, the expectation of sales has an essential effect on M&A decision. Next, the size of the host market related to economic performance and strategic motivation. So, the market size of target countries can be generated to point out the demand and scale effect behind the market. Callen (2008) explains that GDP per capita provides information about the size of a country's economy to show on economic performance. So, investors will observe on GDP because it shows on the economics of host countries is doing well.

Asiedu (2002) explore the factor that affects FDI in developing countries that impact sub-Saharan countries within Africa differently. He found that a positive relationship between GDP per capita and FDI inflow which the author argues that a higher on GDP can bring foreign investors into host countries. Then, If the target countries' GDP per capita rapidly increase than home countries' GDP, so the host economy is expected to be relatively more attractive than home.

Second, the exchange rate may be one of the determinants for cross border M&A inflows. An increase in these variable effects on the appreciation of the target economy's currency. Appreciation or depreciation of host countries then has significant for foreign investment. The exchange rate is expected to impact cross-border M&A hence foreign currencies to be transferred to that of the host country and affect the value of assets. Then, the devaluation of host country currency significantly impacts the flow of foreign investors.

Host currency depreciation makes an investment in abroad with low cost for international companies and can gain the benefit to them also. Also, the devaluation of host currency leads to increased cross-border M&A inflows that foreign companies can be interested in receiving the benefit as low labor costs. Javorcik and Wei (2002) explained that real currency depreciation or an increase in the exchange rate in host countries tend to hire more labor and provide a positive effect on M&A inflows.

Jongwanich et al. (2013) examines the relationship between cross border M&A and financial development in emerging Asian countries from 2000 to 2009. It shows a positive correlation between cross border M&A inflow and exchange rate because if currency depreciation is more likely to be a destination for investment.

Similarly, Wilson and Vencatachellum (2016) studied the determinant of cross border M&A in targeting Africa from 1990-2011. The result of the positive sign of exchange rate determinant means that domestic assets relatively low cost and then it boosts cross-border M&A inside the host country. Furthermore, Kamaly (2007) finds that the exchange rate leads to an increase in cross border M&A in developing countries.

Third, the definition of inflation is the construct as s sustained or continuous increase in the price of goods and services but a constant drop in the value of money. The rate of inflation is another factor in influencing foreign investors' takeover in host economies. A high inflation rate explains economic instability related to inappropriate in implementing government policy. Khan (2014) adds that the high standard of inflation is associated with the lower FDI inflows because it decreases the perception of citizen's confidence or even industrial for making decision.

Furthermore, Siddiqui et al. (2014) studied the effect on the interest rate for influencing FDI inflow evidence from five ASEAN, including the inflation rate. They argued that increasing FDI inflow due to the low price of inflation. Then it can attract foreign capital. However, Onyeiwu and Shrestha (2004) found inflation rate provides a positively significant relationship to FDI inflow to Africa.

Trade openness is the level of liberalization of trade in host countries that is emphasis factors that build up foreign capitals. The World Bank calculated this variable as the sum of exports plus imports of products divided by GDP. Trade openness provide positively relation to cross-border M&A through signaling the capability and willingness of the target country in order to generate trade as export and import. The theoretical underpinnings of this relationship may be followed to research by Xaypanya et al. (2015) who studied the determinants of FDI inflow in ASEAN from 2000 to 2011.

The impact of some determinants on FDI inflows has been tested in the study among which trade openness was one. The result showed that countries that need to encourage more FDI to raise trade volume. The relationship between FDI and trade openness has a positive effect if FDI being export-oriented but it occurs in the opposite if FDI represents as a tariff. Laird and Yeats (1986) based on UNCTAD explains the link between FDI and international trade agreement that related with the strategic motive of FDI. Most companies will invest in foreign countries when international production cost is more significant than offset by saving coming from tariff duties. Onyeiwu and Shrestha (2004) examined the determinant of foreign direct investment in Africa over the period 1975 to 1999 which identified by the openness of the economy is one of the key FDI determinants.

4.1.1.3 Financial determinant

The data of domestic credit to the private sector (% of Gross Domestic Product (GDP) apply in the model as a proxy for financial development within countries. The banking sector is the locomotive of the financial industry in the host country and taken as a representative of financial development in many empirical studies. Domestic credit to the private sector is defined as the financial resource that gives to the private sector by other depository corporations (except central bank). It consists of loans, account receivables, trade credits, and nonequity securities, which occur a claim for repayment in the organization’s activity. Most foreign investors will takeover in other destination mostly observe on an effective and efficient of banking system in host countries (Bevan et al., 2004).

A study by Vorachen (2016) revealed that there is a positive relationship between domestic credit and FDI inflow in host countries. However, Adam et al. (2009) found the existence of a long-run relationship between banking sector development and FDI in Ghana. Lastly, Korgaonkar (2012) suggested that foreign investors are not invested in host countries that have a weak financial system which depending on the banking sector variable. Then, the development of financial sectors within the target economy is a crucial point for FDI to have a positive effect on economic growth.

4.2 Model and Hypothesis

This study examines whether increasing the quality of institutions of selected Asian as host countries tend to raise cross-border M&A inflows. It also tests whether the difference of income level in Asia to institutions matter for this relationship.

Hypothesis 1: Increases in quality of host countries' institution (selected Asian countries) positively impacts the cross-border M&A.

Hypothesis 2: The impact on quality institutions for each sub-income level (high-income, upper-middle income, lower-middle income economies) within Asia have different attractive on cross border M&A. Country's income level receives the effect on the institutional, as high income country is expected to gain better quality of institution factors to increase cross-border M&A.

4.2.1 Econometric model

This model explains the relationship between the quality of institution including six variables and cross border M&A inflow to selected Asian countries as hypothesis 1. This model is used to test for hypothesis 2 when all selected Asian countries are classified by income level using gross national income (GNI) from World development indicators (World Bank, 1989).

$$\mathbf{\ln (1+MA_{i,t})= \beta_0+ \beta_1 \ln(Ms_{i,t})+ \beta_1 \ln(EX_{i,t})+ \beta_3 Cred_{i,t}+ \beta_4 Infla_{i,t}+ \beta_5 Open_{i,t} +\beta_6 Ins_{i,(t-1)} +\varepsilon_{it}}$$

where variables are:

$\ln (1+MA_{i,t})$= Log of the inflow of cross border merger and acquisition into selected Asian country (host countries) at time t

$\ln(Ms_{i,t})$= Log of Market size in host country i at time t

$\ln(EX_{i,t})$= Log of Exchange rate in host country i at time

$Cred_{i,t}$ = Domestic credit to private sector in host country i at time t

$Infla_{i,t}$ = Inflation rate in host country i at time t

$Open_{i,t}$ = Trade openess in host country i at time t

$Ins_{i,t}$= Institutional factors in host country i at time t

4.2.2 Estimation methods

The study applies both fixed effects (FE) and random effects (RE) methods to eliminate the problem of unobserved heterogeneity. All models are tested using the Hausman test to choose between FE and RE. The result accepts the null hypothesis, thus favoring fixed effects estimation. Our dependent variable (cross-border merger and acquisition) and control variable (market size and exchange rate) are logged to explain the coefficient as elasticity. Moreover, the method of taking logs allows the author to scale down the variation in the sample and create better outcomes such a statistically significant. The institutional factors are constructed in terms of the index, and they are not taking a log.

A common problem when trying to analyze the impact of the institutional factors on a country's economic outcome is that a country does not exogenously endow with the quality of institutions encourage the quality of institutions (Buchanan et al., 2012). These can interpret that cross-border M&A is not only impacted by the country's institutions because hence foreign investors would like to join their business in another destination, they commonly demand a country that offers a great economic environment and political facility.

Then, it is reasonable to assume an establishment the reverse causality bias. For example, some investors may perceive the institutional framework within the country as weak due to a focus on the amount of cross-border M&A inflows. Apart from this, it will create reverse causality bias, so it is not only the quality of institutions that influence a country's economic performance; however, the macroeconomic factors may impact the perceived institutions. The author decides to apply one period lagged values of institution variables in order to deal with the simultaneity bias (endogeneity).

Given the fact that more than half of the cross-border M&A inflow has a value equal to zero. A problem occurs when using the log of the dependent variable (cross-border M&A). The dataset of cross-border M&A includes about one over three of all observation that those numbers are zero, which could be dropped by way of taking a log. Thus, this paper follows Daude et al. (2007) who use fundamental transformation to manage with zero problem observation through log (1+FDI), instead of the log of FDI.

4.3 Data

4.3.1 Cross border M&A

M&A database is collected from UNCTAD's value of cross border M&A by region/economy of the seller, so the author use this value because it gives information on flows of capital into a country. Hyun and Kim (2010) has used this database previously to examine the effect of factors on cross border M&A in European economies. The dependent variable is cross border M&A inflows to 18 selected Asian countries being the host country from 2002 to 2016.

4.3.2 The institutional factors

To assess the quality of institutions as a determinant of cross border M&A inflow, this study uses the governance indicators database developed by Kaufman et al. (2010). The worldwide Governance Indicators (WGI) is a dataset summarizing the perception on the governance institution which considered through citizen, public and private enterprise, and surveys an action of industrial. This information mainly gains from collecting a survey from various institutes within the country, non-government organization, and private sector companies.

They provide six indicators scaled between -2.5 (weak) to +2.5 (strong governance performance). The six elements comprising the institutional factors positively impact the countries' capability to gain more M&A inflow as follow: Voice and Accountability, Political Stability, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption.

4.3.3 Control variables

In this study, the author uses several variables such as GDP per capita, exchange rate, domestic credit, trade openness, and an inflation rate that all variables from the source of world development indicators (WDI). As the proxy for market size, the author uses GDP per capita to measure the country's economic output. For exchange rate as appreciation and depreciation on the currency in term of exchange rate have significant for investors.

Next, the author uses the ratio of the volume of the trade such as export and import regarding proxy for trade openness with a percentage of GDP. The data of domestic credit to the private sector (% of Gross Domestic Product: GDP) apply in the model as a proxy for financial development within selected Asian countries. Five variables use yearly information to the running model.

4.4 Summarized the expected relationship in the estimation model

Dependent variable: Cross-border M&A inflows.

Independent variable: Institutional factors, market size, exchange rate, domestic credit to private sector, Inflation rate, and trade openness.

Table 1: Summarized the expected relationship in the estimation model

Independent variables	Description of variables	Expected Sign	Explanations for the signs	Reference
Voice and Accountability	A country's citizens can participate in selecting their government, as well as freedom of association	+	The public can access to information about the performance of host government in a country	Busse and Groizard (2007)
Political Stability	The likelihood of political instability and/or politically motivated violence	+	A country should maintain a level of political stability that will boost confidence among investors	Brada et al. (2006) Zarzoso (2003)
Government Effectiveness	The quality of public service and the credibility of	+	Foreign investors normally prefer a location that offer	Lederma et al. (2005) Blaydes and

	the government's commitment to such policies		stable government	Kayser (2011)
Regulatory Quality	The ability of the government to formulate and implement sound policies to promote private sector development	+	Host government within a country provide a supportive policy to pursued cross-border M&A	Lee and Tan (2006) Kostevc et al. (2007)
Rule of Law	The quality of contract enforcement, property right, the rule of society	+	Stable public institutions encourage foreign investors to make long-term sustainable investment	Nauro and Yuko (2002) Shivaute (2008)
Control of corruption	the public power is exercised for private gain, including both petty and grand forms corruption	+	Control of corruption is significant to eliminate the misuse of public power to fulfill its private needs	Chistian and Ernesto (2004) Wei (2002)
Market size	proxy by real GDP per capita (constant 2010 US dollar)	+	Large market size in host countries can lead to the increase in cross border M&A inflow.	Tim (2008), Azam and Lukman (2010), Asiedu (2002)

Exchange rate	The nominal exchange rate based on US dollar transfers to local currency	-	Depreciation on host country currency which indicates assets are relatively cheaper could encourage foreign investment	Douglas and jongwanich (2011), Vencatachellum and Wilson (2013), Kamaly (2007)
Inflation	Proxy by the consumer price index (CPI)	-	Inflation rate in host country impacts the cost of capital and particularly the profitability of cross border M&A. Then, foreign firms expect to invest at country where low levels on inflation have.	Khan (2014), Ahmed and Vesarach (2014)
Domestic Credit	The domestic credit to private sector	+	A domestic credit has positive foreign companies regarding to a larger domestic financial within host countries can give the necessary capital for cross border M&A.	Vorachen (2016) Korgaonkar (2012)
Trade openness	the sum of exports plus imports of goods	+	Less restriction on trade openness in host country will lead to	Xaypanya, et al. (2015), Onyeiwu and

	and service		raise up cross border M&A inflow	Shrestha (2004), Sichei and Kinyonda (2012)

4.5 Data Sources

This study focuses on the impact of the institutional factors on cross- border M&A inflow into selected Asian countries from 2002 to 2016. Independent variables are governance indicators, market size, exchange rate, domestic credit to the private sector, and inflation rate. Cross-border M&A inflows are measured by the value of cross border M&A from world to country and based on the source of the United Nations Conference on Trade and Development (UNCTAD). The quality of institution which including two indicators: Government Effectiveness and Control of Corruption measured by point of scale between -2.5 (weak) to +2.5 (strong governance performance) and based on the source of world development indicator (WDI).

Market size is proxy by real GDP per capita (constant 2010 US dollar) for selected Asian countries. However, it means that the sum of gross value added by all resident producer within-country plus product taxes and minus any subsidies not consisted of the value of the products. The exchange rate informs on the purchasing power of a currency relative to another currency at the current time based on the source of the world trade organization (WTO). Inflation is measured as the consumer price index (CPI) effects on the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services from the source of the World Bank.

To measure financial development in host counties. I use domestic credit to the private sector to describe financial resources offered to the private sector sectors. it consists of loans, purchases of nonequity securities, and trade credits and other accounts receivable based on the source of world development indicator (WDI). Trade openness is measured by the sum of exports plus imports of goods and services as percent of GDP based on the source of world development indicator (WDI).

Table 2: Summarized variable, measurement of variable and data source

Variable	Measurement	Unit of measurement	Data sources
Merger and Acquisition	The value of cross border M&A from world to selected Asian countries.	US $	United Nations Conference on Trade and Development (UNCTAD)
Voice and Accountability	A country's citizens can participate in selecting their government, as well as freedom of association	point of scale between -2.5 (weak) to +2.5 (strong governance performance)	World development indicator (WDI).
Political Stability	The likelihood of political instability and/or politically motivated violence		
Government Effectiveness	The quality of public service and the credibility of the government's commitment to such policies		
Regulatory Quality	The ability of the government to formulate and implement sound policies to promote private sector development	point of scale between -2.5 (weak) to +2.5 (strong governance performance)	World development indicator (WDI).
Rule of Law	The quality of contract enforcement, property right, the rule of society		

Control of corruption	the public power is exercised for private gain, including both petty and grand forms corruption		
Market size	Proxy by real GDP per capita (constant 2010 US dollar) for selected Asian countries.	US $	World development indicator (WDI).
Exchange rate	The nominal exchange rate based on US dollar transfers into selected Asian countries	Local currency	World trade organization (WTO).
Inflation	Proxy by the consumer price index (CPI) in selected Asian countries	Percent	World development indicator (WDI).
Domestic Credit	The domestic credit to private sector in selected Asian countries	Percent of GDP	World development indicator (WDI).
Trade Openness	the sum of exports plus imports of goods and service	Percent of GDP	World development indicator (WDI).

Chapter 5
Result and Discussion

5.1 Regression Result

This section presents the estimated regression result of the determinant of inward cross-border M&A into 20 selected Asia destinations. The model uses the measures of institution quality based on Kaufman et al. (1999) including government effectiveness, control of corruption, regulatory quality, political stability, voice and account ability, and rule of law.

5.1.1 Estimation result for the impact of institutional quality on cross-border M&A in Selected Asian Countries

In this model, result shows that only control of corruption and voice and accountability have significant impact at 10 percent and 5 percent significance level respectively but oppose to our expectation. The magnitude of control of corruption's coefficient suggests that higher control of corruption will lead to lower inward of cross-border M&A. As investors use the benefit of corruption within host country to make it easier for them to run business smoothly when manage their project with high authorities in securing agreement or licenses so that they prefer to invest in those target countries in Asia (Nur et al. 2015).

Voice and accountability are captured as a pillar of democracy and the people have freedom of expression their voice on the performance enables a country and its institutions regarding mention on economic growth and also improve a proportion of foreign capital investment (Cheema, 2007). The estimated result shows that countries with higher level of voice and accountability, people can participate more with their government and have more freedom, tend to attract lower level of cross-border M&A.

High government effectiveness in target countries in Asia encourages more M&A inflows into host countries. This suggests that supportive government policies are important motivators of cross-border M&A. Regulatory quality is the ability of high authorities to formulate or implement a sound policy that promotes private sector development, even the correlation between this institution quality variable and M&A is not relatively significant in Asia. The level of cross-border inflows into a country relies heavily on the host nation's government official's trustworthiness, political and administrative, and good behavior in following on regulation and laws (Nauro and Yuko, 2002; Shivaute, 2008). The results from this study show that the rule of society has a positive impact on cross-border M&A attraction in selected countries in Asia.

For control variables: GDP per capita, inflation, domestic credit, trade openness, and exchange rate, results show that domestic credit, log GDP, and trade openness are always the positive and significant estimators for investment in this region. The result suggests that a 1 percent increase in GDP per capita enhances a 0.881 percent increase in M&A inflows, same as a positive relationship between domestic credit to the private sector and cross-border M&A inflows in Asia. This relationship is followed by a hypothesis previously, as a more massive internal financial in target countries give necessary resources to foreign investors, the coefficient of 0.021 statistics significant at 5 percent.

For the exchange rate, the expected negative relationship between the exchange rate of target countries and cross-border M&A is found in all models. This finding suggests that countries whose currencies have depreciated could represent to be the target for investment. However, the sign of inflation rate has opposite to expectations, finding that macroeconomic instability leads to enhance more cross-border M&A inflows in Asian countries. Trade openness has a positive effect on cross-border M&A inflows which means that a more-open country tend to have more FDI inflow than those in low-open country.

Table 3: Estimation result for the impact of quality of institutions on M&A in Selected Asian Countries

	(1)	(2)	(3)	(4)	(5)	(6)
Infla	0.027	0.018	0.02	0.027	0.02	0.025
	(0.024)	(0.024)	(0.024)	(0.024)	(0.024)	(0.024)
Cred	0.02**	0.021**	0.02**	0.022**	0.021**	0.021**
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
lnEX	-0.336	-0.345	-0.267	-0.434	-0.275	-0.323
	(0.93)	(0.925)	(0.916)	(0.938)	(0.931)	(0.933)
MS	0.881**	1.031***	0.816**	0.893**	0.99**	0.927**
	(0.321)	(0.317)	(0.312)	(0.319)	(0.319)	(0.315)
Open	0.012**	0.014**	0.014**	0.013**	0.012**	0.013**
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Gov	0.495					
	(0.599)					
CC		-0.916*				
		(0.509)				
VA			-1.610**			
			(0.562)			
PS				0.244		
				(0.329)		
RQ					-0.363	
					(0.365)	
RL						0.246
						(0.595)
Obs.	273	273	273	273	273	273
countries	18	18	18	18	18	18
R-square	0.179	0.188	0.204	0.179	0.181	0.178

Note: (A) the dependent variable is log (1+MA) (B) all institutions quality take one-period lagged in FE regression to deal with the endogeneity problem (C) t-statistics are in parentheses ***,**,* statistically significant at the 1 %, 5%, 10% level respectively.

5.1.2 Estimation result for the impact quality of institutions on each cross-country income classification

The author also estimates the impact of the institutional factors on cross-border M&A inflows for countries in each income level. The selected countries are classified by income level via using GNI indicators (World Bank, 1989) into three groups which are high income, upper-middle income, and lower-middle income countries.

5.1.2.1 High income countries

Model of high-income countries shows that lower quality on institutions aspects of corruption and democratic issue can result in a higher M&A investment from home countries. Even though the coefficient of government effectiveness in high income countries is not significant but host government generally plays a major role in contributing the inwards of foreign capital moving into host country. Lederma et al. (2005) stated that the ability to attract foreign investments does not depend on the aspect of policies incentive but also concern on the aspect of government itself.

Similarly, regulatory quality provides a result opposing to our expectation which implies that policy implementation launched by host government may have been have substantial bargaining power over investors. Heavy government intervention is generally issuing that most of business commonly face. The previous study revealed that the major objective of interventionist government is to extract of investors privilege and protection of their local firms apart from competition (Santos and Eisenhardt, 2005). This finding is also consistent with the evidence from Deng and Yang (2015).

However, the coefficient of corruption is significant in this income group. It means payment made to government regarding exploit resource or meaning that it will facilitate them through running their business smoothly while there may occasionally be some short-term gains. However, in comparison with all other income country found that this selected high income countries have better system on the quality of courts and protection in term of property rights, but relatively lack on freedom that citizen hardly to spread their opinion or civil liberties (UNCTAD, 2017).

But this region also does reasonably well on economic performance provides significantly and maintain the anticipated signs for high-income countries. The estimated coefficient of ln GDP per capita as presented about economic potential has a positive and statistically significant at 10 percent influence on cross-border M&A inflows, implying that foreign investors prefer a host location that strong economic performance. These findings are consistent with the previous literature (Asiedu, 2002; Azam and Lukman, 2010).

Table 4: Estimation result for the impact quality of institutions on each cross-country income classification: *high income on cross-border M&A*

	(1)	(2)	(3)	(4)	(5)	(7)
Infla	0.057	0.032	0.064	0.054	0.055	0.05
	(0.061)	(0.061)	(0.058)	(0.06)	(0.06)	(0.062)
Cred	0.018	0.014	0.015	0.017	0.018	0.018
	(0.0128)	(0.0127)	(0.012)	(0.012)	(0.012)	(0.012)
EX	4.436	4.803	2.945	4.361	4.974	4.586
	(3.87)	(3.81)	(3.752)	(3.842)	(3.869)	(3.86)
MS	1.976	2.815**	1.498	2.086*	2.072*	2.186*
	(1.217)	(1.281)	(1.17)	(1.2)	(1.198)	(1.286)
Open	0.01	0.013	0.014*	0.01	0.009	0.01
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Gov	0.119					
	(0.859)					
CC		-1.308*				
		(0.78)				
VA			-2.581**			
			(0.894)			
PS				-0.84		
				(0.935)		
RQ					-0.537	
					(0.548)	
RL						-0.4
						(1.01)
obs.	123	123	123	123	123	123
countries	7	7	7	7	7	7
R-square	0.207	0.176	0.209	0.205	0.18	0.195

Note: (A) the dependent variable is log (1+MA) (B) all institutions quality take one-period lagged in FE regression to deal with the endogeneity problem (C) t-statistics are in parentheses ***,**,* statistically significant at the 1 %, 5%, 10% level respectively.

5.1.2.2 Upper-Middle income countries

For upper-middle income countries, Table 5 shows that companies doing business in upper-middle income countries mostly consider high government effectiveness as a facilitator rather than a constraint. They prefer a host government to protect their international acquisitions and a transparent legal system to control or prevent property rights. The coefficient of government effectiveness and rule of laws is 0.783 and 2.733.

There is an evidence that foreign firms target countries with stable political situations in this subgroup, although none of the other institutional factors shows a statistically significant result except control of corruption and rule of laws. Control of corruption plays a positive and vital role in attracting cross-border M&A inflows. This finding indicates that low on corruption action may boost the flow of foreign capital in this economic region which means investors would be interested in investing in these countries because this factor is a symbiotic relationship between market and company's performance at host countries.

It is commonly precise that company performance is lower in high corruption, as same as economic performance will also drop when is comparing at the same period with a market in which host companies mostly to settle and strongly recognize on control of corruption behaviors. This finding is also consistent with Nur et al. (2015) which suggests that acquirers are more likely to take place in countries with better government effectiveness, rule of law, and low corruption.

For control variables, the study finds that the effect of domestic credit and the market size is positively related to the value of cross-border M&A inflows in host markets while the inflation rate has a negative and significant impact on M&A. An increase of financial resources that give to private sectors will contribute the amount of cross-border M&A values within host countries, as a broader host financial sector can provide the necessary capital for foreign investors.

The sign of inflation rate is as our expectation and this suggests that higher macroeconomic stability in host markets leads to more cross-border M&A inflow by the coefficient of -0.104 at 5 percent significant. For GDP per capita, the expected positive (significant) relationship between the market size of the host country and cross-border M&A is found in all models. This indicates that the host country's market size, financial facility, and inflation rate are important determinants of foreign investors joining the business in this region.

Table 5: Estimation result for the impact quality of institutions on each cross-country income classification: *upper-middle income on M&A*

	(1)	(2)	(3)	(4)	(5)	(6)
Infla	-0.083**	-0.062**	-0.07**	-0.075**	-0.104**	-0.094**
	(0.031)	(0.03)	(0.032)	(0.03)	(0.042)	(0.03)
Cred	0.044**	0.065**	0.049**	0.045**	0.051**	0.054**
	(0.018)	(0.019)	(0.018)	(0.018)	(0.021)	(0.018)
EX	0.183	1.168	0.712	0.6	0.021	0.717
	(1.381)	(1.316)	(1.353)	(1.315)	(1.514)	(1.292)
MS	0.929	1.446**	1.457**	1.477**	1.301**	1.48**
	(0.624)	(0.545)	(0.619)	(0.589)	(0.643)	(0.56)
Open	0.001	0.0001	0.006	0.007	0.002	0.009
	(0.011)	(0.01)	(0.011)	(0.011)	(0.011)	(0.01)
Gov	0.783**					
	(1.644)					
CC		2.925**				
		(1.246)				
VA			1.192			
			(0.914)			
PS				0.835		
				(0.489)		
RQ					-0.904	
					(1.289)	
RL						2.733**
						(1.275)
obs.	52	52	52	52	52	52
countries	4	4	4	4	4	4
R-square	0.261	0.343	0.286	0.303	0.265	0.33

Note: (A) the dependent variable is log (1+MA) (B) all institutions quality take one-period lagged in FE regression to deal with the endogeneity problem (C) t-statistics are in parentheses ***,**,* statistically significant at the 1 %, 5%, 10% level respectively

5.1.2.3 Lower-Middle income countries

For lower-middle income economies, the result of institutional factors implies that as weak institutional quality in lower-middle income countries may attract investors. If companies take over other businesses in the host country because it is poorly managed and high on corrupt action. Thus, these reasons can provide benefits to them because illegal payment is needed to play with public officials in running business procedures. The coefficient of voice and accountability is negative and statistically significant at 5 percent level which opposes our expectation. This indicates that the lack of accountability and democracy in lower-middle income host countries may discourage M&A inflows. This specification followed by Quinn (2001) claimed that economic performance and economic stability have been fairness during the period of military rule rather than controlled by a democratic government. Even though the result has shown that the uncertainty political environment does not affect the flow of foreign capital, but study from Oliver (1997) argued that foreign investors may move into target destination were having a weaker political government to reap business benefits such as tax avoidance and also expediting own action by using bribery.

In the model below, the coefficient of control of corruption is negative and significant at a 1 percent level which indicates that a 10 percent increase in controlling of corruption makes -1.333 percent on cross-border M&A. But regulatory quality attains expected results which proving to be attractive to foreign investors, denoted by coefficient of 0.415 at 5 percent significance level. Thus, the institutional factors within host countries that perform the best for attracting cross-border M&A inflows is the regulatory quality variable.

Furthermore, log GDP per capita and financial credit to private sectors as the proxy of commercial development are statistically significant estimators, similar to that in upper-middle income's sample. The inflation rate is, however, statistically significant but with a positive effect. This means that economic instability in host countries can attract foreign investors to gain the short-term benefit when merging with the local industries so in term of spending an investment at a low price. This result is opposite to those from Khan (2014) and Ahmed and Vesarach, (2014). It indicates that an increase in economic instability for 1 percent will increase the value of M&A inflows for 0.057 percent.

Domestic credits to the private sector are the primary source for financing investment in host countries, so a country which provides more support to business tends to have a better opportunity to enhance M&A. The coefficient of GDP per capita variables is positive and statistically significant which means that an increase of 1 percent in a country's standard of living leads to 0.718 percent increase in M&A.

Table 6: Estimation result for the impact quality of institutions on each cross-country income classification: *lower-middle income on M&A*

	(1)	(2)	(3)	(4)	(5)	(6)
Infla	0.063**	0.052**	0.053**	0.058**	0.057**	0.062 **
	(0.025)	(0.026)	(0.025)	(0.026)	(0.029)	(0.026)
Cred	0.057***	0.06***	0.056***	0.061***	0.059***	0.059***
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
EX	-1.35	-1.328	-1.15	-1.437	-1.534	-1.362
	(0.972)	(0.981)	(0.982)	(1.01)	(0.987)	(1.007)
MS	0.398	0.718**	0.658**	0.695**	0.78**	0.674**
	(0.333)	(0.302)	(0.298)	(0.332)	(0.332)	(0.304)
Open	0.007	0.001	0.006	0.004	0.004	0.004
	(0.009)	(0.009)	(0.009)	(0.01)	(0.009)	(0.01)
Gov	1.939					
	(1.056)					
CC		-1.333*				
		(0.904)				
VA			-1.843**			
			(0.956)			
PS				-0.07		
				(0.217)		
RQ					0.415**	
					(0.509)	
RL						-0.5
						(0.864)
obs.	98	98	98	98	98	98
countries	7	7	7	7	7	7
R-square	0.54	0.534	0.542	0.523	0.526	0.524

Note: (A) the dependent variable is log (1+MA) (B) all institutions quality take one-period lagged in FE regression to deal with the endogeneity problem (C) t-statistics are in parentheses ***,**,* statistically significant at the 1 %, 5%, 10% level respectively.

5.2 Summary of Results

It further argues that the quality of institutions similarity across income countries create a difference applicability and transferability of resource and capital for multinational companies during collaborate business across its units. All selected countries in Asia sample are classified into three groups: high income, upper-middle income, and lower-middle income. It finds that the result of all institutional factors varies depending on the level of country development on table 7. Host country's institutional environment has played a crucial role in creating and sustaining investor's confidence. However, mixed results, comparing to the hypothesis, is found in this analysis. The foreign company is more likely to invest in high income countries with weak rule of law and low power of authorities whereas only control of corruption, voice and accountability, and rule of laws are found to have positive impacts on cross-border M&A host countries in upper-middle income group. These provide evidences to the host countries that acquired corporations certainly invest in a host economic where performing efficient control of corruption.

However, for lower-middle income countries, the negative relationship between institutional factors exists only for control of corruption and voice and accountability factors. Investors in this region do not concern whether countries' politics are stable or not. Apart from this, it means they do not discriminate in favor of the institutionally stronger environment. However, they try to encourage their inward of foreign capital through establishing a healthy investment climate as possible because they recognize that foreign investment has always been a critical part of restricting the economy. The government is committed to launching a fair and attractive business environment for investors.

Thus, our result describes that the institutional factors have a different impact on cross-border M&A inflows in each country mainly rely on economic development proxied by national income. Even though some results are not as this study expected, there are reason why the trade growth in Asia countries which could be seen by foreign investment capital pass through cross-border M&A is increasingly opposite the institutional measurement.

Firstly, trade is significant activity within the economy that necessary to improve the country. Although the political environment in host countries is weak, the inward of foreign capital may continue in some time. The change of institutional factors does not affect much on trade between countries. Second, the high level of institutional factors in a country could be explained in case of the stringency of organizing on trade between countries which provides a result of the decreasing in the value of cross-border M&A later.

Last, the proportion of international trade in host countries mostly has a long-term agreement with large-size companies importantly, and it probably has the administrative intervention through national's government tend to make the direction of institutional factors and the amount of foreign investment are not the same way.

Table 7: Hypotheses results of selected Asia countries and income country's classification

Dependent variable	**Cross-border M&A**			
Determinant	**Confirmed hypotheses target: Asia**	**Confirmed hypotheses target: High income**	**Confirmed hypotheses target: Upper-middle income**	**Confirmed hypotheses target: Lower-middle income**
<u>The institutional factors</u>				
Control of corruption	Negative*	Negative*	Positive**	Negative*
Political Stability	Positive	Negative	Positive	Negative
Voice and Accountability	Negative**	Negative **	Positive**	Negative**
Regulatory quality	Negative	Negative	Negative	Positive**
Rule of laws	Positive	Negative	Positive**	Negative
Government effectiveness	Positive	Positive	Positive**	Positive

***,**,* represent statistically significant at the 1 %, 5%, 10% level respectively

Chapter 6
Conclusion and Policy Implications

6.1 Conclusion

This study examines the impact of the institutional factors on inward foreign capital through cross-border merger and acquisition for a period of 15 years (2002 to 2016) and 18 selected Asian countries. This study examines six institutional factors which are control of corruption, political stability, voice and accountability, regulatory quality, rule of laws, and government effectiveness. The analysis also examines the role of control factors namely market size, inflation rate, domestic credit to private sector, exchange rate, and trade openness. This study also examines whether institutional variables affect cross-border M&A inflows in three groups of countries based on income classification – high income, upper-middle income, and lower-middle income differently. The results of this study are as follow.

First, the result shows that the institutional factors on the host market namely control of corruption and voice and accountability have statistically significant impact on M&A inflows in selected Asia countries even though all institutional variable is expected to have positive relationship with the value of cross-border M&A inflows. However, the effect of control of corruption and voice and accountability on M&A inflow is contrary to expectation, suggesting acquired companies are more likely to take place in Asia countries with lower political stability and weaker institutional environment. Even though the stability of the institutional environment is generally an important point for location advantage, as argued by Dunning's theory of OLI. From the result, this study can argue that a weaker control of corruption in economies can also work as an opportunity for acquired countries. It notes that this issue generates the chance for foreign investors to engage in local political activities and exploit the system to maximize the company's benefit as possible.

Second, the relationship between the institutional factors and economic performance has attracted attention from economists and policymakers in recent decades. IMF (2003) emphasizes that economic factors such as income per capita, population, human capital are not only factors that generate a perception of the difference in a country's economic performance but the quality of the political environment is also responsible for those difference. According to income level, the result of high-income countries is similar to that in the overall case where control of corruption and voice and accountability are two significant institutional factors of M&A. Different result is found in case of upper-middle income countries where better government effectiveness, control of corruption, and rule of law are the attractive factors for cross-border M&A investors. The lower-middle income destinations show the same result as the high-income countries with regulatory quality as an additional significant factor. Countries with better regulatory quality can attract more M&As

However, acquired companies have used acquisition with a target company in Asia generally look for large and open markets as a host market size and trade openness. Host country trade openness is presented to be of significant and positive factor, implying the magnitude for multinational companies' capacity to export or import their capital. Domestic credit to private sectors in this model is a proxy for financial sector development. The result confirms this variable's hypothesis. For the selected Asia countries, the relationship is hypothesized to be positive because the level of financial resources provided by banking sectors to an acquired company, so a country has firmly on financial development tends to create a channel for inward capital movement. Moreover, this can create an opportunity to gain more profit and return to investment.

6.2 Policy Implication

Results from this study show that host country's government plays an essential role in attracting cross-border M&A inflows. Besides, some institutional factors have significant impacts on inward M&A to host countries, but the results vary by income-level subgroup. We know that the quality of institution factors has influence on foreign investors when they decide the appropriate business strategy. They examine the host location's institutional quality where they are capable to receive more profitability and avoid facing government intervention.

Hence, this study suggests that an improvement in quality of governance within host economic, either for Asia region or all income sub-group, can improve the perception of foreign investors by characterized the incremental business profitability. This means that the foreign company can obtain more advantages by moving capital via cross-border M&A.

It is necessary to consider how actions of governments under host countries are determined when they want to improve quality of institution factors. Most of the host countries need foreign capital to ensure both host economic growth and highly compensated jobs creation. Accordingly, from host countries' perspective, it should be noted that a better system of quality of an institution is presented to attract new foreign investors. This study finds that political dilemma is not always lower cross-border M&A which argues that this situation might provide some advantage circumstance for the enterprise in short run. But host countries need to be clear that the characteristic of host countries performance on the political environment or economic perspective are the issues that investors concern when investing abroad. These foreign businesses typically operate their subsidiaries at other location with a more efficiency on institutional factors, thus it is a significant point that the host countries should enhance their potential to receive more inward M&A in long run.

Host countries should focus on themselves and search for good governances, rather than trying to promote and present an unstable institution environment. So, the host government should primarily focus on its incentive policy or even campaign to attract newcomers joining an investment in that country. It is usually straightforward to determine investment promotion policy for industries development by encouraging an innovation or value creation in industries. This is based on regulatory quality approach which mentions that creating a sound strategy could facilitate investment for foreign investors and also protect intellectual property rights.

Even though the answer of corruption would be highly reflected in the low creditworthiness of host countries, it still provides a few advantages for foreign companies as they probably run a business smoothly. The institutions in host countries have to tackle this underlying problem because corruption might create a less competitive environment. And that could affect the economic growth and level of country development in the long run.

From home countries' perspective, they should promote the M&A in destinations with good institutional quality to enhance the development of both the home and host countries. The home country can do this by investing in the host countries which meet the international standard of the investment destination. Indirectly, this measure from home country can help driving M&A destinations toward better institutional quality. The authorities in host country have to improve their institutional environments in order to attract more foreign investment in the long run.

Appendix

A. Statistical analysis

The whole dataset consists of 15 years of annual observations from 2002 to 2016. Descriptive statistics provide the simple summaries about the observations that have been made. The summary of descriptive statistic of the whole dataset presented in table 3.

Table 8: Statistical Analysis Summary

Variable	Obs	Mean	Std.Dev	Min	Max
Cross-border M&A inflows	273	5.38	3.09	0	10.94
Exchange rate	300	3.35	3.38	-1.30	9.99
Market size	300	8.83	1.49	5.76	11.39
Inflation	300	4.54	4.79	-4.9	45
Domestic Credit	300	69.74	44.43	5.67	233.4
Trade Openness	300	124.30	95.12	29.87	448.98
Government Effectiveness	300	0.37	0.79	-1.20	2.32
Control of Corruption	300	0.10	0.87	-1.31	2.43
Voice and Accountability	300	-0.49	0.734	-1.90	0.73
Political Stability	300	-0.23	0.90	-2.52	1.5
Regulatory Quality	300	0.12	0.97	-2.52	2.26
Rule of Law	300	0.14	0.77	-1.28	1.86

Source: Outcome from Stat

This table reports a summary of the descriptive statistics, which illustrates that the average cross-border M&A inflows for Asian selected countries is 5.38 percent with a standard deviation is 3.09. The value of cross-border M&A inflows attained the highest and lowest growth values of 10.94 percent and zero percent. The average of the nominal exchange rate is 3.35 percent, with a standard deviation is 3.38. The average gross domestic per capita regarding the measure market size is 8.83 percent with a standard deviation is 1.49. The average of price stability in economic formerly called inflation rate and financial ability for investment as domestic credit have 4.54 and 69.74 percent. The last control variable is trade openness, which has a mean value equal to 124.30 percent while the highest and lowest values are 448.98 and 29.87, respectively.

The institution factors have six main factors which are voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption. The average value of government effectiveness is 0.37, with a standard deviation is 0.79. The highest and lowest values are 2.32 and -1.20. A mean of control of corruption is 0.10. The average of voice and accountability and political stability equal to -0.49 and -0.23 from 2002 to 2016, whereas received the highest and the lowest of measurement are 0.73 and -1.90 for voice and accountability while political stability got 1.5 and -2.52. The average of regulatory quality is similar to rule of law at 0.12 and 0.14. The highest and lowest value of regulatory quality equal to 2.26 and -2.52 but rule of law obtain 1.86 and -1.28 respectively.

Table 9: Pairwise correlation matrix

	l_MA	Infla	Cred	l_EX	l_MS	Open	Gov	CC	VA	PS	RQ	RL
l_MA	1.0000											
Infla	0.0278	1.0000										
Cred	0.5182	-0.3110	1.0000									
l_EX	-0.0908	0.2186	-0.2391	1.0000								
l_MS	0.0626	-0.2861	0.3592	-0.6864	1.0000							
Open	0.2379	-0.2258	0.6283	-0.1995	0.3976	1.0000						
Gov	0.2932	-0.3153	0.6400	-0.5951	0.6788	0.7077	1.0000					
CC	0.1713	-0.2917	0.5371	-0.6247	0.7964	0.7347	0.9077	1.0000				
VA	0.3284	-0.0106	0.2616	-0.1909	0.0950	0.2644	0.4586	0.3666	1.0000			
PS	-0.1981	-0.3349	0.4047	-0.3580	0.6320	0.5762	0.6558	0.7266	-0.0009	1.0000		
RQ	0.0704	-0.2932	0.3847	-0.6647	0.5676	0.6759	0.7391	0.7726	0.2506	0.5839	1.0000	
RL	0.2368	-0.2980	0.5873	-0.6314	0.7572	0.6784	0.9173	0.9332	0.4803	0.6915	0.7131	1.0000

Source: Outcome from Stat

In addition to the descriptive statistics, the analysis to test linear relationships among the variables is conducted using a pairwise correlation matrix. The result represented in table 5.2 above. This analysis presents that the value of cross-border M&A is positively correlated with most of the determinants except for exchange rate and political stability. The correlation between rule of law and control of corruption is very high at 0.9332, implying that a country that is practicing a better rule of law represented a good tactic in order against corruption action. Interesting, all institutional factors are positively correlated with themselves, even the correlation coefficients between political stability and voice and accountability are negatively at –0.009. For example, the correlation between regulatory quality and government effective is 0.7391, and rule of law and government effectiveness is 0.9173, which interprets that the capacity of government in a host country to effectively formulate and implement policy to support the private sector development, as expected.

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