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## Do state visits affect cross-border mergers and acquisitions?☆

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## ABSTRACT

This paper studies the relation between state visits and cross-border merger and acquisition (M&A) activity. Based on 1161 state visits and 11,531 cross-border acquisitions, we find that corporations from visiting countries are more likely to acquire corporations in countries hosting the visit. Domestic acquisitions in the host country or M&As with non-visiting countries are not elevated. Evidence from instrumental variable analysis points towards a causal effect of state visits on M&A activity. Further analysis shows that the elevated M&A activity originating from visiting countries can be attributed to business networking and a reduction in investment uncertainty and cultural barriers.

## 1. Introduction

Political events can affect international business choices, such as investments. For example, [Nigh \(1985\)](#), [Habib and Zurawicki \(2002\)](#) and [Knill et al. \(2012\)](#) show that foreign direct investment is affected by bilateral political relations and political events such as civil wars, general strikes and civil resistance. We study the relation between cross-border investment and a type of political event that might appear less influential but that happens relatively frequently, namely political state visits.

Political visits by heads of state are recognised as the highest form of diplomatic exchange and contact between two countries ([Nitsch 2007](#)). These visits are deemed an important instrument of economic diplomacy that can reduce economic barriers and increase trade between the countries involved. Indeed, [Nitsch \(2007\)](#) documents a significant increase in bilateral trade following political state visits. There is anecdotal evidence that political state visits also stimulate cross-border investments. For example, the state visit of Chinese President Xi Jinping to the UK in 2015 reportedly resulted in a variety of bilateral investments, with an estimated total value of £30 billion.<sup>1</sup> Cross-border mergers and acquisitions represent one type of investment, and it is an open question whether state visits have important effects on cross-border M&As, which often require lengthy negotiations and are costly to undo. Such effects would represent substantial capital reallocations, as the global cross-border M&A market reached an estimated aggregate volume of

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<sup>1</sup> See <https://www.gov.uk/government/news/uk-welcomes-president-xi-jinping-for-china-state-visit>.

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\$887 billion in 2016, compared to \$39 billion in 1987 (UNCTAD 2017).

This paper seeks to empirically examine the association between political state visits and cross-border M&A activity using a large sample of political state visits. Because uncertainty, trust and cultural barriers are essential parts of the decision to be involved in cross-border acquisitions, state visits can have meaningful effects on the occurrence of future cross-border M&As. The primary hypothesis is that political visits by heads of state are associated with an increase in M&A deals between the visiting and host countries in the post-visit period.

We hand-collect data about visits made by the heads of state of 19 visiting countries to 49 host countries for the period 1990 to 2016. We identify 1161 official political state visits. To study the relation with cross-border M&As, we further collect information on 11,531 cross-border M&As. Our analysis controls for a range of country-specific factors, such as those related to economic growth, and includes country-pair and year fixed effects.

The main finding of this paper is that the volume of inbound cross-border deals in host countries originating from visiting countries increases significantly in the year of the state visit and the subsequent three years. At the aggregate level, the number of cross-border acquisitions increases by 3.5% in the visit year and by 2.9%, 5.1%, and 3.5% in the following three years, respectively. Interestingly, we do not find elevated M&A activity between the two countries before the state visit. Corporate takeover activity is only enhanced after heads of state visit foreign countries and not before.

Further analysis shows that the effects are isolated to corporations from visiting countries. If state visits coincide with particular economic circumstances of the host or visiting country, such as an improved economic outlook, then we would expect overall M&A activity in the host or visiting country to be elevated. We find that this is not the case. For example, our results indicate that the volume of domestic deals in the year of the visit and the following three years does not differ from other years either in the host or visiting country. Similarly, we find that there is no difference in the volume of inward (outward) cross-border deals in host (visiting) countries from countries other than the visiting (host) country. These findings suggest that the observed increase in deals cannot easily be attributed to other forces that make the host country attractive to (foreign) deals.<sup>2</sup>

Importantly, the volume of inbound cross-border deals in host countries originating from visiting countries also increases significantly for visits that are not accompanied by new economic deals. We further find an influence of leadership changes after a state visit. More specifically, we document that the relation between a state visit and M&A activity is significantly reduced when the head of state visiting the host country is replaced shortly after the visit.

To provide more insight into whether the effect of state visits on cross-border M&A activity is causal, we employ instrumental variable analysis. We follow Rose (2007) and Nitsch (2007) and use as the instrument the overall number of visiting tourists. The preference of tourists is shown to be a valid predictor for the occurrence of a political state visit. While a larger travel flow between countries can influence bilateral investment, the total number of visiting tourists aggregated across all countries around the world is not expected to directly influence M&A deals between a specific country-pair. The results of the instrumental variable analysis point towards a causal effect from state visits to M&As.

We study multiple mechanisms that could make mergers and acquisitions more attractive after a state visit. First, corporate actors regularly directly participate in state visits. On such visits the heads of state of both the visiting and host countries are typically accompanied by many of their countries' corporate leaders. For example, on his visiting to India in 2015, US President Obama was accompanied by a delegation of over 100 top executives of major US corporations.<sup>3</sup> South Korean president Moon Jae-in was accompanied by 52 local business delegates (70% of the people on the trip were business delegates) on his state visit to the United States in 2017. Business and social networks between countries can help overcome barriers such as a lack of information about trading opportunities (Li et al. 2018a). To test whether business delegations matter, we collect information on whether the head of state is accompanied by a business delegation and split our sample into three sub-samples: a group of visits with a business delegation, a group of visits without a business delegation, and private visits by the head of state, in which business hardly plays any role. We find that the effect of political state visits on M&A activity is strongest if a visit is accompanied by a business delegation, and non-existent if the visit is private.

An additional, non-mutually exclusive reason for why state visits matter is a reduction in uncertainty resulting from cultural distance (Li et al. 2018a; Neumayer 2008). Following Ahern et al. (2015), we construct proxies of cultural distance based on trust, hierarchy and individualism, with data from the World Values Survey. Our findings indicate that the effect of political state visits on M&A activity is greater when cultural differences represent a larger barrier. These findings are consistent with political state visits reducing barriers resulting from cultural distance.

Finally, we study a 'trade following flag' argument that corporate actors closely observe political relations and update their expectations about future interstate cooperation (Pollins 1989). Political visits can foster M&A activity by reducing concerns around doing business in a foreign country with which the visiting country has low economic ties. We rely on two measures. First, we use data on whether the visiting and host countries have signed a Custom Union (CU) and/or a Service Agreement (SA), as a proxy of the level of economic ties between the two countries. Second, we use King and Lowe (2003)'s political events data to construct an indicator of bilateral political tension between the visiting and host country. The results indicate that state visits have stronger effects when countries do not have a CU or SA in common, and when countries are subject to higher bilateral political tension, which suggests that state visits can mitigate policy uncertainty.

<sup>2</sup> If omitted variables drive our results, then we might also expect an effect of announced state visits that were eventually cancelled. We investigate this possibility and find that the number of cross-border deals does not increase when planned state visits are cancelled.

<sup>3</sup> <https://gulfnews.com/world/asia/india/huge-business-delegation-to-accompany-president-obama-on-india-trip-1.1446135>

Overall, our results highlight a new determinant of cross-border M&As. Cross-border M&As represent 38% of global M&A activity<sup>4</sup> and substantial capital reallocations. Instead of examining 'stale' country-level determinants of M&A, this paper offers new insight into the dynamics of M&A activity and the role that heads of state can play in affecting this activity. Compared to most types of bilateral trade, mergers and acquisitions are complex investment decisions, subject to both legal and financial complexities. As such, they can take considerable time to be completed, typically from about six months up to a few years (Boone and Mulherin 2007). Our results highlight that state visits not only affect trade but also large decisions that rely on potentially longer-term trust and commitment.

The remainder of the paper is organized as follows. The next section discusses how our paper contributes to and builds on existing literature. In Section 3, we discuss our data and present descriptive statistics. Section 4 presents the main findings, discusses robustness tests and examines causality. In Section 5, we investigate the potential channels through which political visits affect M&A activity. Section 6 concludes the paper.

## 2. Related literature and hypothesis

This paper contributes to two broad strands of the literature. The first contribution is to the wider literature on the determinants of cross-border acquisitions, and the second contribution is to the literature on the impact of bilateral political relations on international trade.

Cross-border M&As can be motivated by expected synergies (Chakrabarti et al. 2009; Verbeke et al., 2018), for example because of complementary assets in different countries (Anderson and Gatignon 1986; Inkpen 2005) and the potential for a reduction in cost (Doukas 1995; Markides and Iltner 1994). Prior work shows that macro-economic factors affect cross-border merger activities, such as GDP per capita and GDP growth (Di Giovanni 2005; Erel et al. 2012). The likelihood of cross-border M&A activity is further related to investor protection (Bris and Cabolis 2008; John et al. 2010; La Porta et al. 1998; Rossi and Volpin 2004), institutional quality (Bekaert et al. 2007; Papaioannou 2009; Weitzel and Berns 2006), political uncertainty (Bonaime et al. 2018; Cao et al. 2017; Wan and Wong 2009) and cultural similarity of the host and home countries (Ahern et al. 2015; Lim et al. 2016; Morosini et al. 1998; Siganos and Tabner 2019). We study whether state visits are events that could be classified as being a determinant of cross-border M&As. Such a determinant would be more dynamic than the typical 'stale' country-level determinants of M&A.

The question of whether state visits, as the most important type of diplomatic exchange, are associated with M&A investments relates to earlier studies on the effects of diplomatic exchange between countries. Li et al. (2018a) point out that diplomatic relations between countries are positively related with the choice of foreign investment location. Firms can benefit from the stronger diplomatic connections through improved access to information and reduced political uncertainty. Using data on embassies and consulates of 22 exporting countries and 200 import destinations, Rose (2007) finds that the size of diplomatic service provided by an export country has a significant positive impact on the trade in an import country. More specifically, the opening of an additional embassy or consulate is associated with a 6% to 10% increase in exports. Guiso et al. (2009) use survey data from the period 1970 to 2005 and argue that the level of bilateral trust plays an important role in determining bilateral economic activities, including trade, foreign direct investment and portfolio investment flows.

Like our paper, Nitsch (2007) focuses on state visits and investigates the trade effects of short visits by heads of state and other politicians from France, Germany and the United States between 1948 and 2003. He shows that import and export increase in the year of a political visit. This effect declines in the years after the visit and vanishes in the third year. Cross-border M&As are distinct from international trade, as they typically take longer to set up and represent an irreversible investment in a foreign country. Nonetheless, we hypothesize that state visits also affect M&A activity because state visits could reduce barriers related to information asymmetry, investment uncertainty and cultural differences. Specifically, we predict an increase in the volume of cross-border M&A activity from the visiting country to the host country after state visits. M&A activity is well-documented in data sources, which allows us to directly observe firms' decisions to invest in the foreign country visited by the head of state.

## 3. Data and variables

This section discusses state visit data, data on mergers and acquisitions, and the construction of a range of control variables.

### 3.1. State visit data

We hand-collect data on state visits made by heads of governments of the G20 countries, which includes Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom and the United States.<sup>5</sup> The G20 economies are the largest economies in the world, representing around 90% of the gross world product, 75% of the world trade and almost two thirds of the world's population (Cooper and Thakur 2013). We define the visiting country as the country that the visiting head of state represents, and the host country as the country in which the state visit takes place. The sample of host countries matches the sample of 47 countries in the international study of La Porta et al. (1998), plus China and Russia.

Data on political visits are collected from a number of sources, but mainly from archives and documents of the office of presidents

<sup>4</sup> 'Global & Regional M&A Report', 2018

<sup>5</sup> The 20th country of the G20 is the "European Union".

and prime ministers. For example, data on foreign travel by US presidents come from the Office of the Historian of the US Department of State (<http://www.state.gov/r/pa/ho/trvl>). State visits made by Japanese prime ministers are collected from the Diplomatic Bluebook, which is an annual report on Japan's Foreign Policy and Activities, published by the Ministry of Foreign Affairs of Japan (<https://www.mofa.go.jp/policy/other/bluebook/index.html>). State visits made by Australian prime ministers are recorded by the media centre of the Prime Minister of Australia (<https://www.pm.gov.au/media>). Additional data sources include Wikipedia, where we source data on political visits made by the heads of China, Italy, France, India, Russia, Brazil, the United Kingdom, the United States and Turkey, and the Xinhua Multimedia Database, where we find detailed information on political visits for 14 countries. The Xinhua Multimedia Database is the most comprehensive multimedia dataset for news gathering and distribution in China, with news and financial information in 12 languages. We search the digital archives of each newspaper and message documented in the Xinhua Multimedia Database from January 1985 onwards to obtain articles that contain the term "visit" or "international trip/visit" together with the country name and name of the head of state. For countries with parliamentary systems, which are Australia, the UK, Canada, Germany, Japan and India, we consider the visits made by the chancellor or prime minister. For the remaining 14 countries, we consider visits made by the president.

There are different types of political visits, depending on their purpose. A state and/or an official visit is a formal visit by a head of state to a foreign country, at the invitation of the head of state of that foreign country, with the latter also acting as the official host for the duration of the visit.<sup>6</sup> A working visit is made when there is a need for two country leaders to work through specific matters arising, which may or may not concern the economy. A private visit involves a chief of state, head of government, foreign minister or any other government official, without the invitation of the head of the host country. Working and private visits are less formal than state and official visits. Finally, a summit meeting is a trip made by the head of state to attend ceremonies or multilateral conferences.

This paper focuses on state and official visits. The main classification strategy to identify, for example, an official/state visit versus a working visit is based on reading news reports. We obtain a total of 2767 political visits and classify 1161 visits as state and official visits, which we from now on simply denote as state visits, given their similarity. Table 1 presents the number of state visits paid by 19 visiting countries to 49 host countries over the period 1990–2016.

### 3.2. Mergers and acquisitions data

The sample of cross-border M&A announcements consists of deals announced between 1 January 1990 and 31 December 2016 in the Thomson Financial Merger and Acquisition Database, also known as the SDC database. We require that the acquirer is located in one of the 19 visiting countries and the target is located in one of the 49 host countries. Following the study of Rossi and Volpin (2004), to include a deal in the sample, the bidder must own less than 10% of the target's shares prior to the announcement and must seek to acquire more than 50% of the target's shares after the acquisition. We filter out those M&A deals with values below \$1 million. We further exclude all privatizations, leveraged buyouts, self-tender offers, reverse takeovers, bankruptcy acquisitions, going private transactions, and exchange offers. After matching with visit data, the final sample consists of 11,531 cross-border M&A deals.

Table 2 presents the number of completed deals for each pair of visiting country (top row) and host country (first column) between 1990 and 2016. The US, UK and Canada have the largest volume of cross-border deals: 3914 cross-border deals are executed by US bidding firms, 2787 cross-border deals by UK bidding firms and 1839 cross-border deals by Canadian bidding firms. The US and the UK are also the two largest recipients of foreign inbound acquisitions. Countries like Australia and France are also very active in the cross-border acquisition market and account for a significant fraction of the sample.

### 3.3. Other variables

Our analysis controls for determinants of cross-border M&A activity identified by prior studies. We obtain GDP per capita and annual GDP growth rate from the World Development Indicator (WDI). Following Erel et al. (2012), we also include the average real exchange rate return difference between the two countries' currencies over the sample period. Because regulatory and legal differences between countries potentially affect cross-border acquisitions (Rossi and Volpin 2004), we include the anti-self-dealing index and common law dummy from Djankov et al. (2008) and La Porta et al., 1998. Following La Porta et al. (1998) and Cumming et al. (2020), we also include two types of securities law enforcement variables: public enforcement and private enforcement. In addition, since a similar culture potentially makes takeovers more likely, we obtain information on a country's language and religion from the World Factbook and Stulz and Williamson (2003). Moreover, we control for a measure of bilateral trade flows, namely the maximum of bilateral imports and exports between countries. Following Cao et al. (2017), we employ election information as a proxy for a country's political uncertainty. The election information data is obtained from the World Bank Database of Political Institutions (DPI). For countries without general elections, the variable is set to zero. We further employ the Guillen Capron SHR Index as a measure of the protection of minority shareholder rights, and we include the great circle distance between the capital cities of countries to capture geographic proximity. Following Bekaert et al. (2007) and Erel et al. (2012), we construct an index of a country's institutional quality based on the sum of subcomponents of the International Country Risk Guide (ICRG): corruption, law and order, and bureaucratic quality. We also use the Investment Profile index from the ICRG to measure the business environment, a variable also used in Erel et al. (2012). All variable definitions appear in the Appendix.

<sup>6</sup> According to the official US State Department guidelines, there is little difference between a state visit and an official visit (<https://www.rferl.org/a/1086035.html>).

**Table 1**

Number of state and official visits between visiting and host countries.

	ARG	AUS	BRA	CAN	CHN	DEU	FRA	GBR	IDN	IND	ITA	JPN	KOR	MEX	SAU	RUS	TUR	USA	ZAF
ARG			2	3	4	3	1	1			3	1	1	2	1	1		3	2
AUS	1			1	3	2	2	1	1				2	1	3	1	1	3	
AUT				2	1	2	2		1		1				1	3	3		
BEL	1		1		1	1	1	1				1	2	1	3	2	2		
BRA	4			2	6	3	3	1		1	2	2	3	3	1	2	2	3	3
CAN					3	2	2	2					3	2	3	2		3	
CHE	1			1	1	1	1	1					1	2	1	1		1	
CHL	3		3	3	3	1	1				1	1	1	1	1	1	1	2	2
CHN	6	2	4	9		14	7	6	5	3	5	9	7	3	8	13	2	3	5
COL	1			2							1			1				1	
DEU	3	1	1	2	4		2	1	2	4		3	3	4	2	8	4	3	2
DNK					1	1		1					1			1	1	1	2
ECU			1		1														
EGY	3		1	1	3	1	3		1	1	1	3	1		1	1	3	3	1
ESP	3		1		2	3	2		1		1	1		2	5	3	3		
FIN					1	1		1								1	1		1
FRA	2		1	3	5					3	1	2	2	2	2	5	4	3	3
GBR	1	1		1	3	2	4		2	2		3	4	2	4	3	2	3	4
GRC					2		3						1		1	3	2	3	1
IDN	1	1	1	2	5	2		2		1		3	2		5	2		2	1
IND			2	1	3	4	6	6	2		1	5	4	1	2	8		3	5
IRL								1		1								1	1
ISR	1			1	1	1	4				1	1				1	1	2	
ITA	3		1		2	1		1		1		1		2	4	3	2	2	1
JOR				1	3	2						1				3	1		
JPN	2			4	2	6	4	3	3	3			3	6	6	4	2	5	2
KEN			1		2	1				1			1					1	1
KOR	1	1	2	2	4	2	2		1	2		4		2	4	2	1	6	1
LKA					1					2		1							
MEX	4		1	2	4	2	3	1	1		2	2			1		1	5	
MYS	1	1	1	1	3		1	1	1	1		4	1		7	1	3	1	3
NGA			1		2		2				1	1					1	1	2
NLD	1			1	1	1	1					1			1	1	2		1
NOR					1								1			2		1	2
NZL	1				3	1			1				2		3		1		
PAK				1	4		1			1		3			1		4		2
PER	1		1		2		2				1	2						1	
PHL	1			1	2	1	1		1			3	3					2	1
PRT			2		3		1	1	1	1		1		2		1	1		1
RUS	2		2	5	9	4	5	1	3	4	6	2	4	1	2		2	3	5
SGP	1			1	4	3		1		2		4	1	2	6		2	4	2
SWE	1				1	1					1					1	2		3
THA	1			2	3		1	1	1	2		3	1		5			3	
TUR	2		1		2	5	2	1		1	1	1			2	4		3	
URY	2			1	2		2				1			2				1	1
USA	2	1		1	6	7	4	8		3	5	3	4	4	1	3			2
VEN	2		1		3				1					1				2	
ZAF	1		2		4	2	3	2		1		1				2	2		
ZWE					2														1

This table reports the distribution of the total number of state and official visits between the visiting country (top row) and the host country (first column) between 1990 and 2016.

**Table 2**

Number of acquisition deals across country-pairs.

	ARG	AUS	BRA	CAN	CHN	DEU	FRA	GBR	IDN	IND	ITA	JPN	KOR	MEX	SAU	RUS	TUR	USA	ZAF
ARG			24	20		3	5	17			10	2	1	6		1		50	
AUS				87	26	15	11	211	5				6	2	4			258	
AUT					1		2				3					2			
BEL			1		1		17	57				4	1	1					
BRA	9			24	4	10	22	31		4	15	9		7	1			88	
CAN					23	13	30	142		10			5	3	2	6		947	
CHE				14	4		7	47										83	
CHL	3		2	17	1	1	3				3	1		4				28	1
CHN	1	18	1	21		6	11	36	1	5	5	19	31		3			119	1
COL	3			20										8				12	
DEU		31		36	12		34	274		8		15	3			1	3	287	2
DNK					4	10		46										35	
ECU			1																
EGY					1	1	2											6	
ESP	1		3		5	24	55				32	11		2		1			
FIN					1	2		13											
FRA	1			37	5						12	34	13	2		1		275	2
GBR		141		139	10	93	88		2	43		48	5	1	3	7		1018	50
GRC							1									2		3	
IDN		15		4	2	1		8		10		6	7					4	
IND				6	1	8	10	21			6	17	5	1				57	3
IRL								145		3								79	
ISR				14	6	4	5					1					2	143	
ITA			2		13	17		103		8		9				4	1	87	3
JOR								1										2	
JPN				3	12	3	3	15					10					52	
KEN										2									2
KOR		3		4	4	3	5			1		20						56	2
LKA										1									
MEX	2		2	41		1	2	11				1						63	
MYS		10			5			9	1	3		10	2		1	1		8	1
NGA							1												3
NLD				22	4	15	16					7				1	1		4
NOR					3													49	
NZL					4	1													
PAK					1														
PER			2															14	
PHL				1			1					3	1					7	
PRT			1		1		6	21		2		1							
RUS				5		2	2	20		1	5		2				1	19	1
SGP				2	9	4		25		13		22	4		5			35	2
SWE						13						4							1
THA					1		1	5	1	2		11	2					13	
TUR			1		1	5	3	16		2	7	6				4		10	
URY	5				1		1							1				2	
USA	8	254	11	1322	62	145	174	1454		114	48	216	50	26	5	15			29
VEN	1		1															5	
ZAF					4	3	2	59		5		3							
ZWE																			4
Total	34	472	52	1839	232	403	520	2787	10	253	168	459	137	62	24	46	8	3914	111

This table reports the distribution of the total number of acquisition deals between the visiting country (top row) and the host country (first column) between 1990 and 2016.

## 4. Do political state visits affect cross-border acquisitions?

### 4.1. Main results

We first analyse whether cross-border activity changes from before the state visit to after the visit. Table 3 presents a univariate analysis of how political state visits relate to the volume of cross-border acquisitions. Panel A of Table 3 shows that the mean and median number of cross-border acquisitions in the year of a state visit is higher than the mean and median number of cross-border acquisitions in the year before such a state visit. The observation that the number of cross-border acquisitions increases in the period after state visits can also be made based on Panel B and C of Table 3, which present the mean and median number of deals in the two and three years before and after state visits. For example, there are typically 30 M&A deals in the two years before a state visit, whereas this number increases to 41 deals in the two subsequent years.

Of course, these univariate results do not take into account other factors that may affect cross-border acquisitions, such as economic development, trade openness and legal institutions. We more formally test whether the volume of cross-border acquisitions changes after state visits by applying regression analysis. More specifically, we estimate the following regression specification:

$$Y_{ijt} = \beta_0 + \beta_1(\text{Visit Year}) + \beta_2(\text{Post1\_Visit}) + \beta_3(\text{Post2\_Visit}) + \beta_4(\text{Post3\_Visit}) + \beta_5 X_{ijt} + u_t + u_{ij} + \varepsilon_{ijt} \quad (1)$$

where  $Y_{ijt}$  is the natural logarithm of one plus the number of cross-border M&A deals in host country  $j$  from visiting country  $i$  in year  $t$  (where  $i \neq j$ ). Visit Year is a dummy variable that equals one if year  $t$  is the year of the visit from head of state  $i$  to country  $j$ , and zero otherwise. Post1\_Visit is a dummy variable equal to one if year  $t$  is the first year after the associated political visit, and Post2\_Visit and Post3\_Visit are dummy variables representing the second and third year, respectively, after the associated political visit.  $X$  denotes the control variables, which are outlined above, together with year fixed effects  $u_t$  and paired country fixed effects  $u_{ij}$ . Standard errors are clustered at the country-pair and year level.

Table 4 presents the results of the regression estimation. The regression model in Column 1 does not include control variables. The results in this column indicate that the number of cross-border acquisitions increases by 3.5% in the year of a state visit, and by 2.9%, 5.1%, and 3.5% in the following three years, respectively. As an extension, Column 2 also includes years before the state visit and years beyond the three-year period after a visit. The dummy variables representing the three years prior to a political visit do not have statistically significant associations with M&A activity between the involved countries, which shows that the increased activity in foreign acquisitions starts after the political visit takes place and is not a continuation of momentum building up before the visit. Nitsch (2007) concludes that the effect of political visits on trade reduces gradually and disappears three years after the visit. The results in Column 2 suggest that the relation with M&A activity lasts for three years after the visit, and M&A activity reaches its highest point in

**Table 3**  
Univariate analysis.

Panel A		Visit year		Difference	
One year before visit		Mean	Median		
Mean	Median				
(1)	(2)	(3)	(4)	(1)–(3)	(2)–(4)
69.38	17	75.66	29	–6.27	–12
(0.045)	(0.000)	(0.032)	(0.000)	(0.006)	(0.045)
Panel B		Visit year and one year after visit		Difference	
Two-year period before visit		Mean	Median		
Mean	Median				
(1)	(2)	(3)	(4)	(1)–(3)	(2)–(4)
115.78	30	125.47	41	–9.68	–11
(0.041)	(0.000)	(0.023)	(0.000)	(0.130)	(0.045)
Panel C		Visit year and two years after visit		Difference	
Three-year period before visit		Mean	Median		
Mean	Median				
(1)	(2)	(3)	(4)	(1)–(3)	(2)–(4)
153.84	44	168.05	53	–14.21	–9
(0.044)	(0.000)	(0.026)	(0.000)	(0.099)	(0.014)

This table presents a univariate comparison between the number of cross-border deals before and after state visits. Panel A reports cross-border deals announced in the year of a state visit and one year before a state visit. Panel B reports cross-border deals announced in the year and one year after a state visit, versus in the two years before a state visit. Panel C reports cross-border deals announced in the year and two years after a state visit, versus in the three years before a state visit.  $p$ -values are shown in parentheses. The  $t$ -test and Wilcoxon signed-rank test are used for assessing differences in means and medians, respectively.

**Table 4**  
Political state visits and M&A activity.

	(1)	(2)	(3)	(4)
Pre3_Visit		0.007 (0.624)	-0.009 (0.565)	-0.009 (0.623)
Pre2_Visit		0.006 (0.710)	0.005 (0.746)	-0.005 (0.800)
Pre1_Visit		-0.009 (0.563)	0.006 (0.701)	0.000 (0.992)
Visit Year	0.035** (0.024)	0.035** (0.025)	0.034** (0.027)	0.037* (0.057)
Post1_Visit	0.029* (0.065)	0.029* (0.071)	0.028* (0.078)	0.022* (0.070)
Post2_Visit	0.051*** (0.001)	0.050*** (0.002)	0.050*** (0.002)	0.052*** (0.007)
Post3_Visit	0.035** (0.030)	0.034** (0.036)	0.033** (0.042)	0.024 (0.229)
Post4_Visit		-0.004 (0.791)	-0.006 (0.731)	-0.012 (0.548)
Post5_Visit		-0.013 (0.453)	-0.014 (0.406)	-0.041 (0.154)
(GDP Growth) <sub>i,j</sub>			0.000 (0.665)	0.001 (0.515)
(Log GDP per capita) <sub>i,j</sub>			0.036*** (0.001)	-0.027 (0.129)
Average (Currency R12) <sub>i,j</sub>			0.001 (0.541)	0.001 (0.554)
(Legal) <sub>i,j</sub>			1.273** (0.019)	0.015 (0.978)
(Common Law) <sub>i,j</sub>			-1.052*** (0.005)	2.013* (0.055)
Geographic Proximity			0.000 (0.168)	0.000* (0.074)
Max (Import, Export)			0.003 (0.197)	-0.004 (0.263)
(Business Environment) <sub>i,j</sub>			0.006*** (0.007)	0.008*** (0.002)
(Quality of Institution) <sub>i,j</sub>			0.001 (0.692)	0.006** (0.034)
(Shareholder Protection) <sub>i,j</sub>			-0.020*** (0.004)	-0.029*** (0.002)
(Trade/GDP) <sub>i,j</sub>			0.001** (0.040)	0.001*** (0.009)
Same language			1.096*** (0.000)	6.712* (0.054)
Same religion			-0.219 (0.574)	2.783* (0.065)
Same region			-0.448** (0.040)	-0.357 (0.396)
Pre-election Year (Acquirer country)			-0.009 (0.416)	-0.015 (0.199)
Pre-election Year (Target country)			-0.014 (0.180)	-0.017 (0.155)
(Public Enforcement) <sub>i,j</sub>				-4.030 (0.146)
(Private Enforcement) <sub>i,j</sub>				-1.481*** (0.005)
Year fixed effect	Yes	Yes	Yes	Yes
Country-pair fixed effect	Yes	Yes	Yes	Yes
N	8856	8856	8802	6958
Adj. R-square	0.709	0.709	0.709	0.735

This table presents estimates of regressing M&A activity per country-pair on state visits and control variables. The dependent variable is the natural logarithm of one plus the number of cross-border acquisitions in year  $t$  from visiting country  $i$  to host country  $j$ . Visit Year is a dummy variable that equals one if the observation year is the year of the state visit made by the head of country  $i$  to country  $j$ , and zero otherwise. Post1\_Visit, Post2\_Visit, Post3\_Visit, Post4\_Visit, and Post5\_Visit are dummy variables that equal one if the observation year is the first, second, third, fourth and fifth year after political visits paid by the head of country  $i$  to country  $j$ , respectively, and zero otherwise. Pre1\_Visit, Pre2\_Visit and Pre3\_Visit are dummy variables that equal one if the observation year is the first, second and third year before political visits paid by the head of country  $i$  to country  $j$ , respectively, and zero otherwise. Other variable definitions are set forth in the Appendix. The sample period is from 1990 to 2016. Year fixed effects and country-pair fixed effects are included. Standard errors are clustered at the country-pair and year level.  $p$  values are reported in parentheses. \*, \*\* and \*\*\* denote statistical significance at the 10%, 5% and 1% level, respectively.



the second year following the visit. The slightly later and prolonged relation likely results from the procedure of takeovers, which is time-consuming due to extensive preparation, negotiation, announcement and time to completion (Boone and Mulherin 2007).

Column 3 includes control variables, such as those related to GDP growth, GDP per capita, legal origin, institutional quality, trade openness and several other determinants of cross-border acquisitions documented in prior studies. We find that the main relations are robust to the inclusion of these control variables. The relations between M&A activity and the control variables show that cross-border acquisitions are positively associated for countries with a larger gap in their business environment and between countries with the same official language. Cross-border acquisitions are negatively associated with the gap in shareholder protection between countries. In column 4, we additionally control for differences in public and private enforcement. As these variables are not available for all countries in our sample, the sample size reduces from 8802 to 6958 observations. Our main conclusion that M&A activity increases after a state visit is again robust to these additional control variables. We have further examined whether our results are robust to controlling for a variable that measures the percentage of deals with a common financial advisor per country-pair-year, which can be constructed with information from SDC. We again find that our results are robust.<sup>7</sup>

#### 4.2. Economic conditions in host and visiting countries

The increase in the volume of cross-border acquisitions could be driven by underlying economic conditions in the host country. For example, Dunning (1998) and Uddin and Boateng (2011) investigate the impact of macroeconomic variables on cross-border deals and find that real GDP, exchange rates, stock price indexes, interest rates and money supply variables in the target country have statistically significant effects. Erel et al. (2012) find that market-to-book ratios, bilateral trade, log GDP per capita and GDP growth in the target country are correlated with cross-border deals. Although we control for country-pair and year fixed effects as well as macroeconomic variables and trade variables in the regression specifications, we extend our examination of the role of economic conditions in the host country in this subsection. First, we examine the volume of domestic acquisitions in the host country around visit years. If domestic economic fundamentals drive the volume of cross-border acquisitions from visiting countries, domestic M&A activity might be expected to behave in a similar fashion. In Table 5, we follow the same approach as in Table 4, but replace the dependent variable with the natural logarithm of one plus the number of domestic deals in the host country. The results in Column 1 of Table 5 indicate that the volume of domestic deals does not change during the visit year or the years following a state visit as compared to non-visit years.

Although the volume of domestic deals does not appear to be different during and after political visits, the host country might still be an attractive destination for foreign M&A investment in general. Accordingly, we examine cross-border acquisitions from all foreign countries to the host country of a state visit. In this test, we exclude foreign deals from the visiting country. Column 2 of Table 5 reports the results. The dependent variable is the natural logarithm of one plus the number of cross-border deals from non-visiting countries to the host country. We find no elevation of M&A activity resulting from other countries than the visiting country, which reduces the likelihood that economic conditions of the target country drive the observed relation between state visits and M&A activity.

In a similar fashion, we test the volume of domestic and outbound cross-border acquisitions from visiting countries around visit years. If economic conditions in the visiting country drive the elevated volume of cross-border acquisitions to host countries, then domestic acquisitions in the visiting country and outbound M&A activity from the visiting country to non-host countries are likely to be elevated as well. Columns 3 and 4 of Table 5 report the results. The dependent variable is the natural logarithm of one plus the number of domestic deals (Column 3) and outbound cross-border deals from visiting countries to non-host countries (Column 4). We find no significant relations for the visit year variables, which suggests that general economic conditions in the visiting country are unlikely to drive the observed relation between state visits and M&A activity.

#### 4.3. Additional tests

Before we start examining causality in more detail, we conduct additional tests to examine our results more closely. First, we examine whether the results depend on whether the state visit is accompanied by a new trade or business deal between the two countries. If the relation between state visits and M&A activity is exclusive to visits that are accompanied by new deals between countries, then the increase in M&A activity is more likely to be due to these deals rather than the actual state visits. We manually collect data on new economic deals signed during state visits by reading associated press articles on each visit. A visit is classified as ‘with economic deals signed’ if any information related to new bilateral economic or business deals is found in the associated news articles. A visit is classified as ‘without economic deals signed’ if no relevant information on new bilateral economic or business deals is found in the associated news articles. We identify 96 visits with economic deals and 703 visits without economic deals. We then examine the relations within the sub-samples and perform a Chow test on the difference in coefficients between the two sub-samples. The results are in Panel A of Table 6. Visit Year (0–3) is a dummy variable equal to one for the year of visit and the following three years, and zero otherwise. Cross-border deals increase on average by 5.8% after state visits with new economic deals signed, and cross-border deals increase on average by 3.3% after state visits without new economic deals signed. Both these increases are statistically significant. Economically, the effect is stronger for the visits with economic deals, which suggests that these deals could also increase M&A activity, but statistically the coefficients between the two sub-samples are not significantly different. The observation that cross-border deals between the visiting and host country increase after visits unaccompanied by new economic deals suggests an importance

<sup>7</sup> The other results in this paper are also robust to including the additional control variables described in this paragraph. All untabulated results are available upon request.

**Table 5**

Domestic acquisitions, acquisitions from non-visiting countries and acquisitions to non-host countries.

	(1)	(2)	(3)	(4)
Pre3_Visit	-0.039 (0.146)	-0.002 (0.918)	-0.046 (0.270)	0.024 (0.342)
Pre2_Visit	0.02 (0.446)	0.004 (0.829)	-0.017 (0.687)	-0.002 (0.946)
Pre1_Visit	0.007 (0.805)	0.014 (0.459)	0.006 (0.874)	-0.020 (0.453)
Visit Year	0.019 (0.467)	0.008 (0.663)	-0.007 (0.826)	-0.024 (0.318)
Post1_Visit	0.000 (0.991)	-0.002 (0.917)	-0.016 (0.716)	0.047 (0.120)
Post2_Visit	0.007 (0.805)	0.024 (0.181)	0.002 (0.952)	0.028 (0.158)
Post3_Visit	-0.008 (0.774)	0.011 (0.558)	-0.015 (0.660)	0.020 (0.543)
Post4_Visit	0.012 (0.642)	-0.035* (0.071)	-0.029 (0.482)	-0.023 (0.533)
Post5_Visit	0.045* (0.062)	-0.004 (0.830)	0.025 (0.482)	-0.026 (0.353)
GDP growth	0.019*** (0.000)	0.015*** (0.000)	-0.004 (0.879)	0.042*** (0.007)
(Log GDP per capital)	1.390*** (0.000)	0.799*** (0.000)	-0.000*** (0.004)	-0.000*** (0.033)
Business Environment	0.042*** (0.000)	-0.015*** (0.002)	0.001 (0.957)	0.002 (0.779)
Quality of Institution	-0.042*** (0.000)	0.037*** (0.000)	0.042 (0.507)	0.045 (0.436)
Shareholder Protection	0.051*** (0.000)	-0.044*** (0.000)	0.087 (0.246)	0.045 (0.399)
Trade/GDP	0.010*** (0.000)	0.002*** (0.002)	0.119 (0.386)	0.013 (0.872)
Pre-election Year (Host country)	0.087*** (0.000)	-0.041*** (0.002)	0.146** (0.041)	0.075 (0.358)
Country fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
N	8258	8258	8702	8693
Adj. R-square	0.882	0.879	0.856	0.865

This table examines domestic deals, acquisitions by non-visiting countries and acquisitions to non-host countries. In Column 1, the dependent variable is the natural logarithm of one plus the number of domestic acquisitions in the host country. In Column 2, the dependent variable is the natural logarithm of one plus the number of inbound cross-border deals from non-visiting countries to the host country. In Column 3, the dependent variable is the natural logarithm of one plus the number of domestic acquisitions in the visiting country. In Column 4, the dependent variable is the natural logarithm of one plus the number of outbound cross-border deals from the visiting country (excluding deals to host countries). The visit year dummy variables are identical to those in Table 4. Other variable definitions are set forth in the Appendix. The sample period is from 1990 to 2016. Year fixed effects and host country fixed effects are included. Standard errors are clustered at the country-pair level and year level, and *p* values are reported in parentheses. \*, \*\* and \*\*\* denote statistical significance at the 10%, 5% and 1% level, respectively.

of the actual visit. We will return to the sub-sample of state visits without accompanying economic deals in our two-stage analysis in Section 4.4.

In a second additional test, we examine the relation between state visits and cross-border acquisitions by exploiting leadership turnover. More specifically, we test whether the effect of state visits on cross-border acquisitions is mitigated when the leader (who visited the host country) is replaced after the visit, which could undo any visit-related decrease in, e.g., uncertainty. We obtain data on changes to the head of state (i.e., mostly election information) from the World Bank Database of Political Institutions. We construct a leadership turnover dummy variable equal to one when the head of state is replaced within a year after the visit. To capture the effect of leadership turnover on cross-border acquisitions after state visits, we interact the state visit variable with the leadership turnover variable. Panel B of Table 6 shows that the positive effect of political state visits on cross-border acquisitions is mitigated when the leader who visited the host country is replaced after the state visit. This result points to the importance of the head of state at the time of the transaction being involved in the visit, as foreign policies from a new leader could be inconsistent with the former one.

A third additional test again relies on sub-sample analyses. The first sub-sample is restricted to host countries that had never received merger bids from visiting countries before the state visit. Column 1 of Panel C of Table 6 shows the results. We find that state visits in this subsample are related to the initiation of M&A deals. The remaining columns in Panel C differentiate between developed and developing countries, following the classification of Di Giovanni (2005). We find that M&A deals are more likely when the head of state of a developing country visited a developed country, when the head of state of a developed country visited a developing country, and when the head of state of one developed country visited another developed country. As such, the relations that we observe are relevant in different scenarios. For example, reducing uncertainty could play a bigger role when developing countries are involved,

**Table 6**  
Additional tests: economic deals, leadership turnover, and subsample tests.

Panel A					
	State visits with new economic deals signed		State visits without new economic deals signed		Difference
	(1)		(2)		(1)–(2)
Visit year (0–3)	0.058** (0.018)		0.033*** (0.002)		0.025 (0.176)
Control Variables	Yes		Yes		
Year fixed effects	Yes		Yes		
Country-pair fixed effects	Yes		Yes		
N	8802		8802		
Adj. R-square	0.721		0.720		
Panel B					
Leadership Turnover					(1) –0.000 (0.989)
Visit Year (0–3)					0.052*** (0.000)
Visit Year (0–3) * Leadership Turnover					–0.055** (0.012)
Control Variables					Yes
Year fixed effects					Yes
Country-pair fixed effects					Yes
N					8586
Adj. R-square					0.711
Panel C					
	No M&A before visit	Visit from developing country to developed country	Visit from developed country to developing country	Visit from developed country to developed country	Visit from developing country to developing country
	(1)	(2)	(3)	(4)	(5)
Visit Year (0–3)	0.023** (0.034)	0.035** (0.035)	0.038** (0.044)	0.053** (0.031)	0.020 (0.113)
Control Variables	Yes	Yes	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes	Yes	Yes
Country-pair fixed effect	Yes	Yes	Yes	Yes	Yes
N	8802	2194	2442	2268	1898
Adj. R-square	0.708	0.353	0.366	0.795	0.125

This table presents the results of additional tests on the relation between state visits and cross-border M&A. The dependent variable is the natural logarithm of one plus the number of cross-border acquisitions in year  $t$  from visiting country  $i$  to host country  $j$ . Visit Year (0–3) is a dummy variable that is equal to one for the year of visit and the subsequent three years, and zero otherwise. Panel A uses sub-samples of state visits with economic deals (Column 1) and without economic deals (Column 2) signed during the visit by the leader of the visiting country. Column 3 report the difference between the coefficients (statistical significance is based on a Chow test). Panel B includes an interaction term based on leadership turnover. In Panel C, Column 1 uses a sub-sample of state visits where host countries had never received merger bids from visiting countries before the visit. The remaining columns of Panel C make a distinction between state visits from developing countries to developed countries (Column 2), state visits from developed countries to developing countries (Column 3), and state visits from developed countries to developed countries (Column 4) and state visits from developing countries to developing countries (Column 5). The remaining variables are as in Table 6 and outlined in the Appendix. The sample period is from 1990 to 2016. Year fixed effects and country-pair fixed effects are included. Standard errors are clustered at the country-pair level and year level, and  $p$  values are reported in parentheses. \*, \*\* and \*\*\* denote statistical significance at the 10%, 5% and 1% level, respectively.

whereas business networking might be more important for visits between developed countries. The smallest sub-sample consists of visits between developing countries. Although we also observe a positive coefficient in this sub-sample, the effect falls short of statistical significance.

In untabulated additional tests, we examine whether the results are robust to excluding the United States, the United Kingdom and Canada from the analysis, to obtain insights into whether our results are solely driven by the most dominant countries in terms of foreign acquisitions. We find that our conclusions remain similar.<sup>8</sup> We further test whether the results remain robust after excluding relatively inactive countries with regards to cross-border M&As. More specifically, we exclude visiting countries with less than fifty

<sup>8</sup> All untabulated analyses are available upon request.

deals over our research period of 27 years. This requirement leads us to exclude six countries. We find that the results are robust to excluding these relatively inactive countries. Next, we examine whether visits that are repeated within three years strongly affect our findings, as some pairs of countries have multiple repeated visits. Again, we conclude that our findings continue to hold after excluding these visits.

Our dependent variable is the natural logarithm of one plus the number of cross-border deals. Consequently, the lower bound is censored at zero. In untabulated tests, we have confirmed that our results are robust to using Tobit models. In additional untabulated tests, we change the dependent variable. More specifically, we test whether cross-border acquisitions after state visits are less likely to be withdrawn and have a shorter time to completion, following the potential reduction in uncertainty. We find that the volume of withdrawn cross-border acquisitions reduces by around 3% after a state visit. We do not find a statistically significant relation with the time to completion, measured as the number of days from the announcement of the deal to completion. This finding suggests that the effect of state visits is predominantly on the likelihood of an M&A occurring, and less so on the speed with which this materializes. It might be that the additional M&As occurring after a state visit are those ones that would not have happened otherwise due to the above-average complexity. This overrepresentation of complex deals might explain why the average time to completion is not significantly shorter for M&As occurring after a state visit.

#### 4.4. Causality

Political visits are endogenous events. For example, stronger bilateral relations could make it more likely for political state visits to take place. To obtain more insight into causality, we employ two-stage residual inclusion (2SRI) estimations, following [Terza et al. \(2008\)](#) and [Chen et al. \(2013\)](#). A suitable instrumental variable should be related to state visits but should have no direct relation with cross-border M&A activity. Following [Rose \(2007\)](#) and [Nitsch \(2007\)](#), we use attractiveness for tourists as an instrument for the presence of diplomatic missions and political visits. More specifically, we use the (log of the) overall number of tourists visiting to the host country each year as an instrumental variable, as the preference of tourists (i.e., tourists from around the world, not only from the country of the state visit) could influence the choice of visit destinations by heads of state. Data on tourist arrivals are obtained from the Yearbook of Tourism Statistics from the World Tourism Organization and are available from 1995.

In the first stage of our estimation, we use a probit model to regress the visit year dummy variable on the other explanatory variables in our model plus the selected instrumental variable. In the second stage, we employ the residuals resulting from the first stage as an explanatory variable of M&A activity. The instrumental variable regression results for the full sample are reported in Panel A of [Table 7](#). Column 1 presents the result of the first stage. The results show that tourism indeed relates to state visits. The result of the second stage regression, reported in Column 2, shows that the coefficient of the visit year is positive and statistically significant at the 1% level, in line with state visits affecting M&A activity.

The remaining columns in [Table 7](#) present the results for extended time periods. Visit Year (0–1) is a dummy variable equal to one for visit years and the subsequent year, and zero otherwise. Visit Year (0–2) is a dummy variable that is equal to one for the year of visit and the following two years, and zero otherwise. Similarly, Visit Year (0–3) is a dummy variable equal to one for the year of visit and the following three years, and zero otherwise. The results of using these extended time periods are similar to the results in Columns 1 and 2. Overall, our results suggest that state visits increase cross-border M&A activity.

In Panel B of [Table 7](#) we restrict our sample to state visits without accompanying economic deals. It can be seen that both the economic and statistical significance of our findings are similar to those obtained from the full sample.

We further investigate the impact of state visits by examining the effects of cancelled visits on cross-border acquisitions between visiting and host countries. If unobserved variables drive both political visits and cross-border acquisitions, then we might expect a relation between planned visits and M&A activity even if the visits are eventually cancelled. If the actual state visit is the driver, then we would expect that our results would only hold for visits that actually happened. We construct a sample of cancelled visits by searching in online articles. We start by searching for articles that contain the search terms employed earlier, but also including the word 'cancel'. We identify nine cancelled visits that we can match to our sample. Untabulated results indicate that when a visit is cancelled, there is no increase in M&A activity in the year of the planned visit and the subsequent years.

## 5. Potential mechanisms

In this section we investigate the channels through which political visits could influence the decisions of companies to engage in mergers and acquisitions. We test predictions from three related and non-mutually exclusive channels. First, direct contact between the heads and business delegations from both countries can foster networking and reduce information asymmetry between domestic and foreign firms. Second, we examine whether reductions in concerns related to cultural distance play a role in M&A activity after political state visits. Third, we investigate whether political visits enhance M&A activity by eliminating concerns of doing business in foreign countries with high investment uncertainty.

### 5.1. The Network Channel

Networking provides a potentially useful channel for information and resource exchange and opportunity recognition between countries ([Borgatti and Halgin 2011](#); [Podolny 2001](#)). International trade and investment flows are likely to be affected by asymmetric information between domestic and foreign firms and investors ([Brennan and Cao 1997](#); [Froot et al. 2001](#); [Hiitt et al. 1994](#); [Wright and Robbie 1998](#)). [Rauch \(2001\)](#) argues that business and social networks between countries can help overcome barriers to international

**Table 7**  
Causality.

Panel A								
Variables	First stage Probit model	Second stage OLS model	First stage Probit model	Second stage OLS model	First stage Probit model	Second stage OLS model	First stage Probit model	Second stage OLS model
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
TOURISM	0.401*** (0.001)		0.393*** (0.000)		0.293*** (0.000)		0.276*** (0.002)	
Visit Year		0.234*** (0.000)						
Visit Year (0–1)				0.242*** (0.000)				
Visit Year (0–2)						0.309*** (0.000)		
Visit Year (0–3)								0.316*** (0.002)
Control variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-pair fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	4425	4425	4477	4477	4570	4570	4606	4606
Pseudo R-square / adj. R-square	0.092	0.771	0.123	0.769	0.149	0.768	0.171	0.771
Panel B								
Variables	First stage Probit model	Second stage OLS model	First stage Probit model	Second stage OLS model	First stage Probit model	Second stage OLS model	First stage Probit model	Second stage OLS model
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
TOURISM	0.393*** (0.001)		0.387*** (0.000)		0.277*** (0.003)		0.239*** (0.009)	
Visit Year		0.257*** (0.000)						
Visit Year (0–1)				0.264*** (0.000)				
Visit Year (0–2)						0.353*** (0.000)		
Visit Year (0–3)								0.402*** (0.000)
Control variables	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-pair fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	4209	4209	4277	4277	4378	4378	4458	4458
Pseudo R-square / Adj. R-square	0.081	0.773	0.104	0.772	0.126	0.771	0.157	0.771

This table represents the results of two-stage residual inclusion (2SRI) estimations. Panel A reports the results for the full sample and Panel B for the sub-sample of visits without economic deals attached. Column (1), (3), (5) and (7) report the results of the first stage probit model. The dependent variable in the first stage is the year of visit, and in the second stage it is the natural logarithm of one plus the number of cross-border acquisitions in year  $t$  from visiting country  $i$  to host country  $j$ . Visit Year (0–1) is a dummy variable that is equal to one for the year of visit and one year after, and zero otherwise. Visit Year (0–2) is a dummy variable that is equal to one for the year of visit and the subsequent two years, and zero otherwise. Visit Year (0–3) is a dummy variable that is equal to one for the year of visit and the subsequent three years, and zero otherwise. TOURISM is the natural logarithm of one plus the total number of inbound visitors to the host country. Column (2), (4), (6) and (8) report the results of the second stage OLS model with the residuals from the first stage regression included. Other variable definitions are set forth in the Appendix. The sample period is from 1995 to 2016. Year fixed effects and country-pair fixed effects are included.  $p$  values are reported in parentheses. \*, \*\*, and \*\*\* denote statistical significance at the 10%, 5%, and 1% level, respectively.

trade and investment, including barriers such as a lack of information about trading opportunities. Li et al. (2018a) show that the investment decisions of firms depend on good diplomatic relations and political connections to the host country. Political diplomatic channels provide firms more opportunity to access business-related information and reduce the investment risk with the support of both home and host country. Political state visits with business delegations can encourage information sharing in face-to-face communications and thus reduce asymmetric information and build trust between visiting and host countries.

We test whether the networking channel matters by exploiting political visits with business delegations. We collect data on business delegations by manually reading the associated press articles on state and official visits. A visit is classified as ‘with business delegation’ if the head of state is accompanied by at least one representative from the business world. The visit is classified as ‘without business delegation’ if no relevant information on a business delegation is found in the associated news articles. We split our sample into three

sub-samples: a group of state visits with a business delegation, a group of state visits without a business delegation, and private visits, which are substantially less likely to lead to discussions related to business as there is no formal invitation from the visited country. We compare the impact of political state visits on M&A activity across the three sub-samples.

Table 8 reports the results. Both state visits with and without business delegations are positively related to M&A activity. Consistent with the importance of a network channel, the coefficient belonging to visits with a business delegation is more than twice as high as the coefficient belonging to visits without a business delegation. The difference between these two coefficients is statistically significant at the 5% level. Private visits, which are least likely to be related to business, have no significant relation to M&A activity. Overall, we interpret this evidence as in line with the importance of a networking channel.

### 5.2. The cultural Distance Channel

A second channel that might play a role in increased M&A activity is related to cultural distance. Cultural distance is often defined as the degree to which shared norms and values differ from one country to another (Hofstede 2001), which can complicate interactions and reduce trust (Frijns et al. 2016). Siegel et al. (2013) argue that cultural distance between markets can affect international debt flows, cross-border equity issuance, and international trade and investment. Bilateral trade and investment flows are higher between countries whose citizens “trust” each other more (Guiso et al. 2009; Siganos and Tabner 2019). Ahern et al. (2015) focus on M&As and find that the volume of cross-border mergers is lower between countries that are more culturally distant. We hypothesize that state visits can especially improve the likelihood of increased M&A activity for countries that are more culturally distant, i.e., where there is more to win in terms of bridging differences.

To measure cultural distance, we follow Ahern et al. (2015) and construct three proxies relating to hierarchy, individualism and trust. Egalitarian cultures rank the importance and social power of all members relatively equally, whereas hierarchical cultures delineate members into multiple vertical ranks of power. Regarding individualism, individual-level accomplishments are more rewarded in some cultures, whereas collectivist cultures emphasize group goals and tie the aspirations of individuals more to social obligations. Trust is defined as the dependence on one another to fulfil implicit or explicit obligations. The three proxies are constructed using responses to the associated questions from the World Values Survey. The survey is carried out in five waves during 1990–1994, 1995–1998, 1999–2004, 2005–2009 and 2010–2014. We match the merger data to survey years that provide data on the three dimensions of cultural distance that we are interested in.

In Table 9, we interact the effect of political state visit with our measures of cultural distance. In Column 1, we focus on differences in the hierarchical dimension. We find that differences in this cultural dimension significantly increase the effect of state visits on M&A activity. Column 2 focuses on differences in individualism and shows that although these differences reduce the likelihood of a merger, the effect is reduced when state visits occur. This interaction effect is also statistically significant. The interaction effect of a difference in trust, as shown in Column 3, is also positive, but not statistically significant. Overall, the results suggest that the effect of political state visits is larger when cultural differences based on hierarchy and individualism are larger. We interpret these results as evidence that state visits can reduce cultural barriers, but stress that the results have to be interpreted with the appropriate caution, as cultural distance is not easily quantified.

### 5.3. The investment uncertainty channel

M&As are typically large and difficult to reverse investments that tend to increase acquirers’ default risk (Furfine and Rosen 2011; Phan 2014). Policy uncertainty can increase the operating risk of firms, amplifying the risk of large investments such as M&As even further. Consequently, the existence of policy uncertainty and thus investment uncertainty in a country can deter cross-border

**Table 8**  
Network channel.

	Visit with Business delegation	Visit without Business Delegation	Difference	Private visit	Difference
	(1)	(2)	(1)–(2)	(3)	(1)–(3)
Visit Year (0–3)	0.064*** (0.001)	0.028*** (0.006)	0.036** (0.016)	–0.067 (0.211)	0.131* (0.071)
Control Variables	Yes	Yes		Yes	
Year fixed effect	Yes	Yes		Yes	
Country-pair fixed effect	Yes	Yes		Yes	
N	8802	8802		430	
Adj. R-square	0.686	0.686		0.881	

This table makes a distinction between state visits with a business delegation (Column 1), state visits without a business delegation (Column 2), and private visits (Column 3). The dependent variable is the natural logarithm of one plus the number of cross-border acquisitions in year  $t$  from visiting country  $i$  to host country  $j$ . Visit Year (0–3) is a dummy variable that equals one if the observation year is the year of visit and the three subsequent years, and zero otherwise. Difference (1)–(2) uses a Chow test to compare the regression coefficients between the group of visits with a business delegation and the group of visits without a delegation. Difference (1)–(3) compares the regression coefficients between the group of visits with a business delegation and the group of private visits. Other variable definitions are set forth in the Appendix. The sample period is from 1990 to 2016. Year fixed effects and country-pair fixed effects are included. Standard errors are clustered at the country-pair level and year level.  $p$  values are reported in parentheses. \*, \*\* and \*\*\* denote statistical significance at the 10%, 5% and 1% level, respectively.

**Table 9**  
Cultural differences.

	(1)	(2)	(3)
Visit Year (0–3)	0.032 (0.105)	–0.024 (0.321)	0.020 (0.190)
$\Delta$ HIERARCHY	0.154 (0.034)		
Visit Year (0–3)* $\Delta$ HIERARCHY	0.285*** (0.003)		
$\Delta$ INDIVIDUALISM		–0.411*** (0.000)	
Visit Year (0–3)* $\Delta$ INDIVIDUALISM		0.156** (0.048)	
$\Delta$ TRUST			–0.405*** (0.000)
Visit Year (0–3)* $\Delta$ TRUST			0.048 (0.588)
Control Variables	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
Country-pair fixed effects	Yes	Yes	Yes
N	7969	4719	7969
Adj. R-square	0.576	0.532	0.570

This table adds interaction terms between Visit Year (0–3) and dimensions of cultural differences to the specification. The dependent variable is the natural logarithm of one plus the number of cross-border acquisitions in year  $t$  from visiting country  $i$  to host country  $j$ . Visit Year (0–3) is a dummy variable that equals one if the observation year is the year of visit and the three subsequent years, and zero otherwise.  $\Delta$ HIERARCHY is the absolute difference in the hierarchy score between visiting and host countries.  $\Delta$ INDIVIDUALISM is the absolute difference in the individualism score between visiting and host countries.  $\Delta$ TRUST is the absolute difference in the trust score between visiting and host countries. Other variable definitions are set forth in the Appendix. The sample period is from 1990 to 2016. Year fixed effects and country-pair fixed effects are included in all regressions. Standard errors are clustered at the country-pair level and year level.  $p$  values are reported in parentheses. \*, \*\* and \*\*\* denote statistical significance at the 10%, 5% and 1% level, respectively.

investments. These arguments suggest that acquirers are less likely to acquire a target firm in a foreign country which is subject to higher uncertainty. Indeed, [Gulen and Ion \(2015\)](#) show that policy uncertainty has a negative effect on corporate investments.

If political state visits can reduce uncertainty, then we expect to observe a higher impact on foreign takeover activity between visiting and host countries when initial uncertainty is high. Our first proxy for country-pair exposure to uncertainty is regional trade agreements known as Customs union (CU) and Service Agreement (SA). CU and SA provide standards of protection for the countries involved and the investment made. Both regional trade agreements have investment-related clauses, which strengthen fair treatment and protection of foreign investors. [Li et al. \(2018b\)](#) show that there is a significantly positive relation between bilateral cross-border deals and regional trade agreements between countries. We collect information on CU and SA between countries from the Regional Trade Agreements Information System on the WTO website.<sup>9</sup> We then separate the sample using both trade agreement indicators. The prediction is that the potential of state visits to facilitate M&A activity is higher when two countries do not have a signed CU or SA.

Our second investment uncertainty proxy captures bilateral political tension, as in [Davis and Meunier \(2011\)](#). We use [King and Lowe \(2003\)](#)'s political events data, which contain events of conflict and cooperation between countries resulting from computations based on millions of Reuters' news reports. The approach, as explained in the Appendix, scores positive (such as signing a peace treaty) and negative events (such as military action) between two countries. Our political tension indicator variable equals one when the negative scores between countries outweigh the positive scores.

[Table 10](#) presents the results. In Panel A, Columns 1 and 3 show the results for country pairs without CU and SA, respectively, and Columns 2 and 4 show the results for country pairs with CU and SA, respectively. For the sub-samples without trade agreements, the results indicate a positive and statistically significant relation between state visits and M&A activity. Such a relation is not observed for country pairs with trade agreements, where the relation is non-existent or even negative.

Panel B of [Table 10](#) uses the indicator variable based on political tension. We split the sample based on this indicator variable. The results show that the effect of state visits on cross-border acquisitions is stronger (i.e., more positive) when the level of bilateral political tension is higher between the visiting and host country. Overall, the results indicate that political state visits matter more in the absence of regional trade agreements and in case of higher bilateral political tension, which could be interpreted as indirect evidence that political visits reduce investment uncertainty.

## 6. Conclusion

This paper examines the relation between political state visits and the volume of foreign takeovers from the visiting to the host country. Using hand-collected data on political visits made by the heads of state of 19 countries to 49 host countries in the 1990–2016

<sup>9</sup> <http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>

**Table 10**  
Investment uncertainty channel.

Panel A						
	Country-pair without Custom Union	Country-pair with Custom Union	Difference	Country-pair without Service Agreements	Country-pair with Service Agreements	Difference
	(1)	(2)	(1)–(2)	(3)	(4)	(3)–(4)
Visit Year (0–3)	0.049*** (0.000)	–0.074* (0.067)	0.123*** (0.006)	0.049*** (0.000)	–0.008 (0.789)	0.057* (0.074)
Control Variables	Yes	Yes		Yes	Yes	
Year fixed effects	Yes	Yes		Yes	Yes	
Country-pair fixed effects	Yes	Yes		Yes	Yes	
N	7930	872		7398	1404	
Adj. R-square	0.698	0.573		0.660	0.775	

  

Panel B			
	Country-pair with political tension	Country-pair without political tension	Difference
	(1)	(2)	(1)–(2)
Visit Year (0–3)	0.172*** (0.000)	0.091*** (0.000)	0.081* (0.087)
Control variables	Yes	Yes	
Year fixed effects	Yes	Yes	
Country-pair fixed effects	Yes	Yes	
N	339	3006	
Adj. R-square	0.671	0.753	

This table presents results from regressions on the investment uncertainty channel. The dependent variable is the natural logarithm of one plus the number of cross-border acquisitions in year  $t$  from visiting country  $i$  to host country  $j$ . Panel A distinguishes between country pairs with and without existing trade agreements. Column 1 examines a sub-sample of country pairs without a common Custom Union and Column 2 examines a sub-sample of country pairs with a common Custom Union. Column 3 examines a sub-sample of country pairs without a common Service Agreement and Column 4 examines a sub-sample of country pairs with a common Service Agreement. (1)–(2) uses a Chow test to compare regression coefficients between the group of visits in the country pair without a CU and the group of visits in the country pair with a CU. Difference (3)–(4) compares regression coefficients between the group of visits in the country pair without an SA and the group of visits in the country pair with an SA. Panel B distinguishes between country pairs with and without political tension. Column 1 of Panel B examines a sub-sample of country pairs with political tension and Column 2 examines a sub-sample of country pairs without political tension. The political tension dummy variable is constructed using the King-Lowe events data (King and Lowe 2003). Other variable definitions are set forth in the Appendix. The sample period is from 1990 to 2016. Year fixed effects and country-pair fixed effects are included. Standard errors are clustered at the country-pair level and year level.  $p$  values are reported in parentheses. \*, \*\* and \*\*\* denote statistical significance at the 10%, 5% and 1% level, respectively.

period, we find evidence that these visits are associated with an increase in M&A activity. At the aggregate level, the number of cross-border acquisitions increases by 3.5% in the visit year and by 2.9%, 5.1%, and 3.5% in the following three years, respectively.

Our analysis controls for a range of variables and employs fixed effects to more accurately isolate the effects of state visits. We find that the effects are isolated to M&A deals originating from the visiting country but are not isolated to visits that come with new economic deals. Results from an instrumental variable analysis suggest a causal relation between state visits and M&A activity. We further find evidence that the effect of state visits on cross-border acquisitions relates to networking opportunities and reductions in cultural barriers and investment uncertainty.

Overall, the results shed light on the effects of diplomatic networks in bilateral investments across countries. We show that political visits substantially affect capital reallocations through increased acquisition activity. As such, state visits represent a new determinant of cross-border M&A activity. In some sense, the effect on M&A activity assigns an even more important role to state visits than potentially deduced from the earlier observed effect on trade, as acquisitions require longer-term trust and commitment.

## Appendix

Description of variables and data sources	
Variables	Descriptions and data source
Political visit variables	
Pre1_Visit	Dummy variable that equals one when year $t$ is the year prior to the year of state visit from country $i$ to country $j$ , and zero otherwise.
Pre2_Visit	Dummy variable that equals one when year $t$ is the second year prior to the year of state visit from country $i$ to country $j$ , and zero otherwise.
Pre3_Visit	Dummy variable that equals one when year $t$ is the third year prior to the year of state visit from country $i$ to country $j$ , and zero otherwise.

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Description of variables and data sources	
Variables	Descriptions and data source
Visit year	Dummy variable that equals one when year t is the year of state visit from country i to country j, and zero otherwise.
Post1_Visit	Dummy variable that equals one when year t is the year just after the year of state visit from country i to country j, and zero otherwise.
Post2_Visit	Dummy variable that equals one when year t is the second year after the year of state visit from country i to country j, and zero otherwise.
Post3_Visit	Dummy variable that equals one when year t is the third year after the year of state visit from country i to country j, and zero otherwise.
Post4_Visit	Dummy variable that equals one when year t is the fourth year after the year of state visit from country i to country j, and zero otherwise.
Post5_Visit	Dummy variable that equals one when year t is the fifth year after the year of state visit from country i to country j, and zero otherwise.
Visit Year (0–1)	Dummy variable that is equal to one for the year of visit and one year after, and zero otherwise.
Visit Year (0–2)	Dummy variable that is equal to one for the year of visit and the subsequent two years, and zero otherwise.
Visit Year (0–3)	Dummy variable that is equal to one for the year of visit and the subsequent three years, and zero otherwise.
Country-level variables	
Ln (Number of domestic acquisitions)	Natural logarithm of one plus the total number of domestic deals in year t (Xit) in which the acquirer and target are both from country j (SDC)
Ln (Number of inflow acquisitions)	Natural logarithm of one plus the total number of domestic deals in year t (Xit) in which the target is from country j and the acquirer is from any other country except country i (SDC)
GDP growth	Growth rate of gross domestic product in US dollars (WDI)
Ln (GDP per capita)	Natural logarithm of gross domestic product per capita in US dollars (WDI)
Business environment	Investment Profile Index from the International Country Risk Guide (ICRG)
Quality of institutions	Sum of ICRG Political Risk (ICRGP) subcomponents—corruption, law and order, and bureaucratic quality—between acquirer nation i and target nation j (ICRG)
Shareholder protection	Sum of the ten key legal provisions identified by legal scholars as most relevant to the protection of minority shareholder rights (Guillen Capron SHR Index)
Common Law	Equals one if the origin of the company law in the country is the English common law, and zero otherwise (La Porta et al. 1998)
Public enforcement	The index of public enforcement equals the arithmetic mean of (1) supervisor characteristics index; (2) rule-making power index; (3) investigative powers index; (4) orders index; and (5) criminal index (La Porta et al., 2006)
Private enforcement	The index of private enforcement equals the arithmetic mean of: (1) Disclosure Requirements Index; and (2) Burden of proof index (La Porta et al., 2006)
Trade-to-GDP	Sum of imports and exports divided by GDP (WDI)
Pre-election Year (Acquirer country)	Dummy variable that equals one when year t is the year prior to the year of election in the acquirer country (DPI), and zero otherwise. For countries without general elections, such as China and Saudi Arabia, the variable is always equal to zero.
Pre-election Year (Target country)	Dummy variable that equals one when year t is the year prior to the year of election in the target country (DPI), and zero otherwise. For countries without general elections, such as China and Saudi Arabia, the variable is always equal to zero.
Country-pair-level variables	
Ln (Number of cross-border acquisitions (country-pair))	Natural logarithm of one plus the total number of cross-border deals in year t (Xit) in which the acquirer is from country i (SDC) and the target is from country j (where $i \neq j$ ) (SDC)
Currency (R12) $i,j$	The (average) difference between the annual real bilateral US dollar exchange rate return of the acquirer country i and target country j. We use national exchange rates from WM/Reuters. WM/Reuters quotes are based on 4:00 P.M. London time (Greenwich Mean Time). We obtain national exchange rates for the UK Pound Sterling and manually convert these currency quotes to get the quotes for the US dollar. These indexes are then deflated using the 1990 constant dollar consumer price index (CPI) in each country to calculate real exchange rate returns (in US dollars) (Datastream)
(Legal) $i,j$	The difference between acquirer i and target j countries of domicile in the Anti-Self Dealing Index, a survey-based measure of legal protection of minority shareholders against expropriation by corporate insiders Djankov et al. (2008)
(Common Law) $i,j$	Difference in the common law dummy between acquirer nation i and target nation j
(Public enforcement) $i,j$	Difference in the public enforcement index between acquirer nation i and target nation j.
(Private enforcement) $i,j$	Difference in the private enforcement index between acquirer nation i and target nation j.
Geographic Proximity	The negative of the great circle distance between the capitals of countries i and j. We obtain latitude and longitude of capital cities of each country. We then apply the standard formula: $3963.0 * \arccos [\sin(\text{lat}1) * \sin(\text{lat}2) + \cos(\text{lat}1) * \cos(\text{lat}2) * \cos(\text{lon}2 - \text{lon}1)]$ , where lon and lat are the longitudes and latitudes of the acquirer country ("1" suffix) and the target country ("2" suffix) locations, respectively ( <a href="http://www.mapsofworld.com/utilities/world-latitude-longitude.htm">http://www.mapsofworld.com/utilities/world-latitude-longitude.htm</a> )
Max (Import, Export)	The maximum of bilateral import and export between a country pair. Bilateral import (export) is calculated as the value of imports (exports) by the target country from (to) the acquirer country as a percentage of total imports (exports) by the target country, based on the Harmonized System definition (UN commodity trade database)
(GDP growth) $i,j$	Difference in GDP growth between acquirer country i and target country j (WDI)
(Ln (GDP per capita)) $i,j$	Difference in Ln (GDP per capita) between acquirer country i and target country j (WDI)
(Business environment) $i,j$	Difference in investment profile between acquirer country i and target country j (WDI)
(Quality of institutions) $i,j$	Difference in quality of institutions between acquirer country i and target country j (WDI)
(Shareholder protection) $i,j$	Difference in shareholder protection between acquirer country i and target country j (WDI)
(Trade/GDP) $i,j$	Difference in Trade-to-GDP between acquirer country i and target country j (WDI)

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Description of variables and data sources	
Variables	Descriptions and data source
Same region	Dummy variable that equals one when the target and acquirer countries are from the same region, and zero otherwise (World Factbook)
Same language	Dummy variable that equals one when the target and acquirer countries share the same official language, and zero otherwise (World Factbook)
Same religion	Dummy variable that equals one when the target and acquirer countries' primary religion (Protestant, Catholic, Muslim, Buddhist or other) are the same, and zero otherwise (Stulz and Williamson 2003)
Leadership Turnover	Dummy variable that equals one for a replacement of the visiting head of state within a year of the state visit, and zero otherwise (DPI)
TOURISM	The natural logarithm of one plus the total number of inbound visitors to the host country (World Tourism Organization)
ΔHIERARCHY	The absolute difference in the hierarchy score between visiting and host countries (World Values Survey)
ΔINDIVIDUALISM	The absolute difference in the individualism score between visiting and host countries (World Values Survey)
ΔTRUST	The absolute difference in the trust score between visiting and host countries (World Values Survey)
Custom Union	Dummy variable equal to one if country i and country j belong to a common customs union, and zero otherwise (World Trade Organization)
Service Agreement	Dummy variable equal to one if i and j belong to a common service agreement, and zero otherwise (World Trade Organization)
Political Tension	A measure of the level of conflict and cooperation between country-pairs as constructed in King and Lowe (2003). The King-Lowe approach scores both positive and negative events between two countries by using the Goldstein Scale technique. All events are valued on a -10 to +10 conflict-cooperation continuum, in which -10 indicates the highest level of conflict, such as a military attack, and +10 reflects the most cooperative event, such as a peace-treaty signing. The King-Lowe events data are available for 1990 to 2004 ( <a href="http://GKing.Harvard.edu">http://GKing.Harvard.edu</a> ). Our political tension dummy variable equals one if the difference in scores between negative events and positive events for a country-pair exceeds zero.

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