



Lisbon School
of Economics
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Universidade de Lisboa

MASTER
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MASTER'S FINAL WORK
DISSERTATION

**ASSESSING FACTORS AFFECTING CROSS-BORDER M&A
VERSUS GREENFIELD FDI: A CROSS COUNTRY ANALYSIS**

LAURENCE GEORG BEYER

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SUPERVISION:
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ABSTRACT

Multinational Enterprises can expand their operation to foreign markets using two main investment approaches: cross-border M&A and greenfield FDI. Due to the lack of sizeable empirical literature, the following study investigates and compares the main determinants driving cross-border M&A and greenfield FDI in selected European, Asian, and North American countries. The paper empirically analyzes the extent to which economic, labor force, institutional-political, and monetary-financial variables influence the choice of foreign establishment. The study applies three empirical methods, the ordinary least squares, random effects, and fixed effects, to the panel data of 70 countries. We find a robust and positive relationship between GDP and FDI of both modes in developing countries and a negative association in Asian developed and transitioning countries. Additionally, the labor force participation rate negatively affects cross-border M&A in developing countries. In contrast, the inflation rate provides evidence of a positive effect on greenfield FDI in Asian, European, and North American countries.

KEYWORDS: *FDI, M&A, Greenfield, Cross-Country, Transaction*

JEL CODES: *A10, C13, F21, F37, G34*

RESUMO

As multinacionais podem expandir a sua operação para mercados externos utilizando duas principais abordagens de investimento: IDE por operações de F&A transfronteiriças e IDE pela via de projetos de raiz (greenfield). Atendendo à literatura existente, o presente estudo investiga e compara os principais determinantes que conduzem a F&A transfronteiriças ou a IDE em formato greenfield num conjunto de países europeus, asiáticos e norte-americanos. O estudo analisa empiricamente até que ponto as variáveis económicas, laborais, institucionais-políticas e de política monetária influenciam a escolha do formato de IDE. O estudo aplica três métodos empíricos a dados de painel de 70 países, o do método dos mínimos quadrados, efeitos aleatórios e efeitos fixos. Encontramos uma relação robusta e positiva entre o PIB e o IDE de ambas as formas, nos países em desenvolvimento, e uma associação negativa nos países asiáticos desenvolvidos e em transição. Além disso, a taxa de participação da mão-de-obra afeta negativamente as F&A transfronteiriças nos países em desenvolvimento. Por outro lado, os resultados sugerem que a taxa de inflação apresenta uma associação positiva com o IDE por greenfield nos países asiáticos, europeus e norte-americanos.

PALAVRAS-CHAVE: *IDE, F&A, GREENFIELD, CROSS-COUNTRY, TRANSAÇÃO*

CLASSIFICAÇÃO JEL: *A10, C13, F21, F37, G34*

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GLOSSARY

CIT	Corporate Income Tax
CLI	Country Liquidity Index
CPI¹	Corruption Perception Index
CPI²	Consumer Price Index
EU	European Union
FDI	Foreign direct investment
FPI	Foreign Portfolio Investments
FTS	Fixed Telephone Subscriptions
GDP	Gross Domestic Product
GNI	Gross National Income
HDI	Human Development Index
LFPR	Labor Force Participation Rate
M&A	Mergers & Acquisitions
MNE	Multinational Enterprise
NAM	North America
OECD	Organisation for Economic Co-operation and Development
OLI	Ownership (O), Location (L), and Internalization (I)
OLS	Ordinary Least Squares
UNCTAD	United Nations Conference on Trade and Development
USD	US Dollars
VAT	Value-Added Tax
VoIP	Voice-Over-IP
WDI	World Development Indicators
WLL	Fixed Wireless Local Loop

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1. INTRODUCTION

Increasing transactions and the fact that FDI is one of the most stable components of capital flows in some countries created a surge in academic research about foreign direct investments (FDIs). Since the 90s, FDI has increased substantially and consequently played a significant role in economic growth. The rapid increase is driven by a series of factors, including the liberalization of trade and investment regimes, deregulation of the service sector, privatization of state-owned enterprises, and softening cross-border investment regulations. According to the United Nations Conference on Trade and Development, total global FDI exceeded USD 1.65 trillion, with a strong rebound from USD 929 billion in 2020, surpassing pre-Covid levels (UNCTAD, 2022). While the United States is still the most significant recipient and purchaser of FDI, the role of developing and European countries has been significantly increasing, especially since the late 90s. According to Lv et al. (2022), the number of cross-border mergers & acquisitions implemented by Chinese companies rose from USD 3 billion in 2004 to USD 34.28 billion in 2019. Another explanation is the diversification of foreign market operations as an essential corporate strategy to increase profits in the era of globalization (Nagano, 2013). It is well known that FDI is seen, especially in developing countries, as the primary method to facilitate technology transfer from developed countries and reduce the technological gap. One of the significant barriers developing countries face to accelerating growth is the lack of capital. To fix this void, countries started to engage in direct cross-country investments. Investments can occur on three main approaches: cross-border mergers and acquisitions (M&A), greenfield foreign direct investments, and joint ventures. While M&A and greenfield FDI constitute the majority of foreign investments, joint ventures usually only transfer physical capital, such as real estate or equipment, not intangible assets, including intellectual know-how or certain patents and licenses. Furthermore, joint ventures only account for a small percentage of total FDI. For this reason, the following study focuses solely on cross-border M&A and greenfield FDI.

Cross-border M&A involves acquiring heterogeneous corporate assets between foreign companies, resulting in the counterparty's operational control. Companies purchase targets through an exchange of stocks or capital, in which the acquiring firm

assumes all of the target's assets and liabilities. The acquisition usually triggers a change of control clause that will lead to a complete recapitalization of the target's debt capital.

Greenfield investment involves creating a new subsidiary in a foreign country, providing the highest degree of control (Nocke & Yeaple, 2008). The transaction gets its name from building its operation from the ground up, prepping and plowing a green field. Greenfield FDI involves substantially more risk and higher costs, as the purchasing company greatly depends on the host country's government. Political instability or events resulting in a project's default at a particular time can be financially devastating.

Although studies analyzing the entry determinants of foreign direct investments have been on the rise, sizeable empirical literature examining the similarities and differences between the two modes of FDI – cross-border M&A and greenfield FDI – is generally lacking. Furthermore, existing literature investigating the entry determinants of FDI modes usually only focuses on countries in a specific geographic location or at a certain level of development. None of the literature has been simultaneously analyzing and comparing significant factors arising from different areas as well as their level of development. Recognizing this gap, the paper investigates differences and similarities of drivers affecting cross-border M&A and greenfield FDI in selected European, Asian, and North American countries. By choosing this approach, the paper ensures a comprehensive analysis, not only differentiated by the geographic location of different countries but also by their level of development. While almost all North American and European countries classify as developed countries, Asian countries usually rank as developing or transitioning countries. The report addresses factors that jointly and singly determine cross-border M&A and greenfield FDI, considering the different natures of the two investment modes and the country's locations and development. This work aims to contribute to the existing literature, examining the determinants by type of FDI and, consequently, providing a better understanding of the drivers affecting cross-border M&A and greenfield investments between different regions and levels of development.

Following the introduction is the literature review providing the reader with the most influential and significant papers and books produced in the last centuries. At the end of this chapter, the study continues to describe the data and variables used in the analysis

and forms an estimation method and strategy. The last parts present the empirical results from the regression analysis before the study concludes on the topic.

2. LITERATURE REVIEW

2.1. First Research Approaches of FDI

As a result of the intensified liberalization of investments and rising competition among governments worldwide to attract foreign capital, FDI has received considerable attention (Dencic-Mihajlov et al., 2021; Lv et al., 2022; Stefko et al., 2022). While most extant research focuses on analyzing the choice between aggregate FDI and trade, cross-border M&A and greenfield investments are often neglected or separately investigated (Davies et al., 2018; Moghadam et al., 2019). Additionally, a significant share of scientific research highlights the importance of economic determinants of FDI flows, thus failing to respect the full spectrum of potential factors. One reason is the access to reliable data and the processing of obtained statistics, which was only made possible by reputable organizations such as the OECD or World Bank. This lack of consensus limits our understanding of the role of FDI, its determinants, and our ability to understand the real reason for capital movements.

Following the first theoretical efforts in the 1960s, explaining FDI based on assumptions of perfectly competitive markets, Hymer (1960) initially developed one of the critical theories based on imperfect market conditions. Hymer explained that the extent of international operation determines the movements of foreign direct investments. Kindleberger (1969) later extended the theory by demonstrating that FDI activity emerges from monopolistic power. Buckley & Casson (1976) gave another explanation in their internalization theory. They emphasize the importance of firm-level determinants, moving away from country-specific indicators as critical factors of FDI. Incorporating the assumptions of the internalization theory, Dunning (1979) subsequently developed an elective paradigm. Therein, he points out the specific aspects that may allow firms to become multinational enterprises (MNEs) and engage in foreign investments. That is to say, the particular factors include ownership (O), location (L), and internalization (I), and are therefore called the OLI paradigm. The framework aims to determine the attractiveness of foreign direct investments for MNEs. It assumes that institutions will

avoid transactions in the open market if the service or product can be provided internally and at a lower cost (Dunning, 1979). A competing perspective on what drives foreign investments also emerged. According to Rugman (1980), firm-specific intangible assets, such as technological human capital and managerial skills, enable companies to engage in foreign markets.

Later, the transaction cost theory, the organizational-learning perspective, information economics, the theory of the growth of the firm, the industrial organization literature, and the institutional theory were the first theoretical approaches explicitly dealing with the choice between cross-border M&A and greenfield FDI (Slangen & Hennart, 2007). According to Slangen & Hennart (2007), these perspectives complement each other to a significant extent in that they identify different parent, subsidiary, industry, and country-level determinants of an MNE's mode choice. On that note, it is crucial to highlight the assignment theory developed by Nocke & Yeaple (2008). According to their research, the choice of FDI varies with the firm- and country characteristics. The theory suggests that firms characterized by more considerable differences in costs and lower levels of corporate assets are more likely to favor cross-border M&A in developed countries. Contrariwise, host countries with reverse characteristics predominantly attract capital in the form of greenfield investments. Depending on the country's level of development, the host country's geographical proximity, and the target's cost structure, parent companies may choose between cross-border M&A and greenfield FDI.

2.2. Macroeconomics Factors

2.2.1. Gross Domestic Product (GDP)

It is no surprise that economic factors play an essential role in choosing the mode of foreign establishment since FDI is an economic phenomenon. They are vital for a country's economic development, growth, and modernization. GDP is one of the most widely used indicators of economic performance and the economy's general health. Although studies use different names to refer to GDP, ranging from market size, economic size, or economic wealth, all authors use the gross domestic product. As a measure of a country's production of its goods and services, it is a crucial signal regarding return on investment and economic growth.

Nevertheless, the methodology fluctuates among studies. While some authors apply the level of GDP in units of currency (Riedl, 2010; Sharma & Bandara, 2010), other researchers use GDP per capita (Mateev, 2009; Kersan-Škabić, 2013), the natural logarithm of GDP (Tang, 2012) or GDP growth (Neto et al., 2009; Boateng et al., 2015; Moghadam et al., 2019; Vo, 2018). Still, most find a positive and significant relationship between GDP and FDI flows.

According to Riedl (2010), market-seeking factors, namely GDP, have a positive and significant effect on the location decisions of FDI. More precisely, an increase in GDP by 1% causes an increase in investment of USD 1.17 million or 0.17%. Sharma & Bandara (2010) obtain similar results that the host country's economic size is crucial to Australian FDI capital flows. Davies et al. (2018) conclude that FDI inflows increase with higher origin and destination long-run GDP, with no significant difference between M&A and greenfield FDI. However, whereas short-run increases in origin GDP indeed show positive effects on both FDI modes, the effect is only one-third as large for greenfield investments (Davies et al., 2018).

Moghadam et al. (2019) apply GDP growth per capita to confirm a positive and significant relationship between GDP and greenfield investments. Then again, Nagano (2013) finds a negative correlation between GDP per capita and greenfield FDI. Nevertheless, both authors conclude that investors are more willing to invest capital in cross-border M&A in countries with lower values of GDP per capita. Additionally, Noorbakhsh et al. (2001) and Pearson et al. (2012) emphasize the significant effect of GDP growth on FDI inflows. Noorbakhsh et al. (2001) estimate that a 1% increase in GDP growth leads to an increase in FDI by 0.105% (Noorbakhsh et al., 2001). Neto et al. (2009), Boateng et al. (2015), and Vo (2018) follow the same approach, suggesting that FDI inflows increase with higher GDP growth. Although Neto et al. (2009) discover a positive effect of GDP growth on aggregate FDI, it does not account for cross-border M&A. Once GDP growth gets added to the inward M&A equation, the variable becomes insignificant. In contrast, results by Stefko et al. (2022) indicate a strong correlation between cross-border M&A and GDP growth.

2.2.2. Trade Openness

Besides GDP trade openness is one of the most frequently mentioned FDI determinants in recent literature (Zaman et al., 2018; Vo, 2018; Moghadam et al., 2019; Wiredu et al., 2020; Dencic-Mihajlov et al., 2021). Defined as the ratio between the sum of a country's imports and exports and its GDP, trade openness is a crucial determinant of liberalization and favorable market conditions. Widely used as an indicator of flexibility and accessibility to foreign investors, liberal trade policies enable economic growth and integration of transition countries with the world economy (Wiredu et al., 2020). Therefore, providing progressive trade regimes and adequate infrastructure facilities significantly leverages a country's economic activity as it is a primary source of capital and technology transfer into the economy (Wiredu et al., 2020). The level of human capital, domestic investment, infrastructure, macroeconomic stability and trade policy usually determines the extent of such impact.

Most studies have suggested that the relationship between FDI and export has been crucial in fostering growth within developing countries (Sakyi et al., 2015; Wiredu et al., 2020). Wiredu et al. (2020) use panel data on 4 West African countries from 2004-2018 to confirm a statistically significant relationship between the two variables, highlighting the importance of liberal trade regimes. Sakyi et al. (2015) use data on Ghana from 1970-2011, emphasizing the importance of FDI inflows to finance saving gaps, introducing cutting-edge technology and managerial skills. The authors find a statistically significant relationship between FDI and exports, implying that the two variables complement each other in promoting long-run economic growth in Ghana (Sakyi et al., 2015).

Analyzing the interdependence between FDI and trade openness, Kinoshita & Campos (2003), Boateng et al. (2015), and Zaman et al. (2018) show that high trade openness in host countries causes an increase in FDI inflows. Kinoshita & Campos (2003) argue that foreign direct investments increase with higher degrees of trade openness. Zaman et al. (2018) find that openness plays a vital role in determining short and long-run FDI inflows. Hence, maintaining healthy bilateral trade agreements is a crucial factor in sustainable capital inflows.

Bertrand & Zitouna (2006) and Moghadam et al. (2019) obtained similar results. They emphasize that market openness used as a proxy for a country's willingness to accept

foreign investments has a long-run positive and highly significant effect on M&A. Moreover, a 1% increase in openness leads to an increase of 0.55% in M&A sales (Moghadam et al., 2019). However, the effect on greenfield FDI is negative and insignificant. On the other hand, Dencic-Mihajlov et al. (2021) find that investors are more willing to invest capital using greenfield FDI in countries with lower degrees of trade openness.

Despite largely positive and significant findings of trade openness on FDI inflows, some authors express their concerns about the country's development. According to Norbäck & Persson (2007), underdeveloped equity markets allow foreign entrants to acquire domestic firms or assets at a low cost. Further, he argues that cross-border M&A, in contrast to greenfield FDI, does not affect the number of domestic firms and the productive capacity. This lack of economic contribution leads to lower consumer welfare and the possibility of layoffs (Norbäck & Persson, 2007). Raff (2002) adds that trade liberalization does not always yield economic benefits. Competition for FDI among countries may lead to tax benefits or excessive incentives granted by the host country to attract capital inflows. Even though the EU and the OECD have developed standards that restrict the use of tax incentives for FDI, preferential trade agreements usually only restrict the use of trade policy instruments but do not limit the use of other economic instruments like corporate tax rates or investment subsidies (Raff, 2002).

2.2.3. Population

The population is a frequently used macroeconomic factor influencing FDI's location decisions. Authors use different metrics to capture the impact of population on demand for foreign establishments. While Nagano (2013) and Davies et al. (2018) use the absolute number of inhabitants, Mateev (2009) analyzes the effect of population, described as the demand of local consumers.

In his analysis of FDI determinants in central and south-eastern Europe, Mateev (2009) discovers a positive and highly statistically significant effect of population on FDI in all observed models. He concludes that the pattern of FDI flows across transition countries is significantly determined by gravity factors such as population or geographical distance but cannot fully explain the distribution of capital flows across the host countries.

Davies et al. (2018) find that a higher origin population, both in the long and short run, has a significant negative effect on M&A activity but not on greenfield FDI. In combination with GDP, results suggest that most M&A comes from wealthier countries. On the other hand, the long-run destination population only affects greenfield FDI by increasing the number of projects completed. The short-run destination population positively and significantly affects cross-border M&A and greenfield investment. Tocar (2018) and Zander (2021) obtain similar results. Regardless of the methodology used, both authors find a statistically significant positive connection with FDI inflows. Nagano (2013) derives further conclusions. Results show that the population size, expressed in the natural logarithm, is a common determinant of both types of FDI and has a positive and significant effect on capital inflows. Therefore, the population size commonly increases cross-border M&A and greenfield investments but does not determine the firm's choice of foreign establishment.

2.2.4. Inflation Rate

Increased competition among countries to attract FDI has led to changes in the legal framework of almost all countries. The introduction of investment promotion agencies and provisions of fiscal incentives have led to distinct differences in the regulatory environment. Therefore, implementing economic reforms and monetary policy to limit inflation is valuable to investors, as a stable macroeconomic environment implies lower investment risk. Net returns and optimal investment decisions of MNEs are often directly affected by changes in inflation. According to Sayek (2009), inflation erodes the purchasing power of individuals, leading to distortions in the net returns of investments and labor. On the other hand, it shows that new regulations allow financing to occur through domestic and foreign sources. This flexibility will enable firms to hedge against fluctuation in future local currency earnings, mitigating the real effects of inflation (Sayek, 2009).

Investigating the institutional development in southeast Europe, Kersan-Škabić (2013) states that inflation is an essential determinant of FDI. Although the variable is not statistically significant because of high multicollinearity, the author adds that by reducing the effect of multicollinearity, inflation and other economic factors remain significant

determinants of FDI. Waqas et al. (2015) investigate the relationship between macroeconomic factors and foreign portfolio investment (FPI) volatilities in south Asian countries. Their results show that inflation significantly negatively affects FPI volatilities. Notably, higher inflation reduces the variation in FPI, as investors are generally attracted to high returns on investments and low inflation. Višić & Perić (2011) highlight the oscillating statistical significance and influence on cross-border M&A. In addition, Dencic-Mihajlov et al. (2021) conclude that inflation rates jointly determine cross-border M&A and greenfield FDI. The effect is positive and significant for both entry modes. Nevertheless, it is essential to note that investors often invest in index portfolios of stocks that quickly adjust to inflationary shocks. Hence, the diversification of assets reduces investment risks and contributes to stable returns.

2.2.5. *Liquidity*

Researchers use several different metrics to investigate the effect of liquidity as a determinant of FDI. For instance, Sparks et al. (2014) use the Country Liquidity Index (CLI). The CLI measures the country's ability to manage its available cash compared to its debt. The higher the index, the more attractive the country is, as a higher index indicates a positive amount of cash to debt. Results show a statically significant and positive relationship between the CLI and FDI.

Market capitalization is another commonly used metric to determine FDI movements. Defined as the total market value of a company's outstanding shares, it is often considered a proxy for turnover, size, and investment risk. According to Dencic-Mihajlov et al. (2021), the effect of market capitalization is solely significant for cross-border M&A but not for greenfield FDI. Other researchers like Arbatli (2011) and McCloud & Delgado (2022) focus on using interest rates to explain the movements of FDI. Using the name of international liquidity, Arbatli (2011) concludes that an increase in the real interest rate causes a decrease in FDI flows. In other words, lower interest rates increase FDI inflows due to lower financing costs and negative externalities. A different perspective is broad by McCloud & Delgado (2022). They show that a 1% increase in FDI inflows reduces the domestic interest rate by about 0.7%. Ab et al. (2013), in their study on determinates of FDI in developing countries, apply the metric of total reserves to investigate the

relationship between liquidity and FDI flows. The authors emphasize the importance of reserves in maintaining liquidity and depreciating the host country's real exchange rate to attract capital inflows. Reserves include monetary gold, special drawing rights, reserves of IMF members, as well as holdings of foreign exchange. Results show that total reserves are highly significant at the 1% level, suggesting that a 1% increase in total reserves causes FDI inflows to increase by 0.45% (Ab et al., 2013).

2.2.6. Exchange Rate

Exchange rate movements can have several potential effects on capital inflows. The appreciation and devaluation of currencies are critical for the home and host countries' commitment to engage in FDIs. An increase in the exchange rate in the host country reduces the domestic wages and production costs relative to its investment counterparts. Resulting of the real currency depreciation, the attractiveness of that country as an FDI recipient rises, and the overall rate of return increases. According to Byun et al. (2012), when a currency depreciates, the value of local firms declines to create a surge in cross-border M&A. Inversely, a decrease in the exchange rate in the host country encourages MNEs to engage in greenfield FDI due to the benefit of the home country's currency (Chen et al., 2006). Moghadam et al. (2019) obtained similar results, discovering a significant positive relationship between cross-border M&A and a significant negative relationship with greenfield FDI. Precisely, a 5% increase in the exchange rate causes a 0.18% increase in cross-border M&A as opposed to a 0.54% decrease in greenfield FDI. Arbatli (2011) uses two different indicators to investigate the effect of exchange rate movements on FDI inflows. Namely, the real exchange rate and exchange rate policies. The first one has a negative but insignificant effect on FDI. The second, captured by two dummy variables ensuring a fixed and floating exchange rate, proves to be statistically significant. Results show that a fixed exchange rate increases equilibrium inflows by 0.96% of GDP, whereas a floating exchange rate has a negative impact (Arbatli, 2011). These findings suggest that an exchange rate fixation or managed exchange leads to lower volatility and exchange rate risk, resulting in higher FDI inflows.

2.2.7. Taxes

Often called "the race to the bottom," tax competition and incentives are increasingly essential to attract foreign capital (Olney, 2013). Therefore, offering significant tax reductions has become integral to negotiations and business practices. Literature uses two main approaches to study the effect of taxes on foreign investments. First, studies use the relationship between tax rates and FDI inflows (Devereux et al., 2008; Bellak & Leibrecht, 2009; Davies et al., 2018). According to Davies et al. (2018), cross-border M&A and greenfield direct investments increase with higher origin tax, implying that countries seek to invest in low-tax locations. Though, the coefficients differ across the sub-samples. Higher origin taxes within developed countries have a positive and statistically significant correlation in both modes for FDI. In contrast, in developing countries, the relationship only is significant and negative for greenfield investments. Furthermore, results show that the destination tax rate negatively affects greenfield FDI but not cross-border M&A (Davies et al., 2018).

Beyond tax rates, researchers use the specifics of tax administration, including tax systems and complexity, to determine the ease of doing business in a foreign country (Martinez-Vazquez & Vulovic, 2011; Lawless, 2013). Highly complex tax systems may impose high costs on MNEs offsetting their desire to pursue business in a particular country. For instance, Lawless (2013) finds that the number of payments and the time to comply with tax obligations significantly negatively affect the appearance of FDI flows. Therefore, reducing the time taken to comply with tax obligations by 10% increases FDI inflows by 6.3%. Similarly, a reduction in the number of payments by 10% increases FDI by 5.5%, thus a slightly smaller effect.

On the other hand, if complexity comes in conjunction with several exemptions and write-offs, firms may be able to achieve tax expenses below the headline rate (Lawless, 2013). This impact might be so high that the company benefits from tax complexity rather than hurting. Lastly, Lawless (2013) points out that the effect of changes in complexity varies with the initial level. While countries with low tax complexity experience only minor changes in the estimated return, the effect is the greatest where the current level is the highest.

Last but not least, some authors use tax rates and the specifics of tax administrations to capture the effect on cross-border M&A and greenfield FDI. In his study, Sedrakyan (2019) uses three variables of effective tax rates: corporate income tax (CIT), labor tax and contributions, and other taxes. Furthermore, he exploits five variables representing various aspects of tax administration: annual number of payments, time to complete tax returns, time to obtain a VAT refund, number of cases for CIT audit, and time to comply with CIT audit. The author finds that cross-border M&A is less sensitive to destination taxes than greenfield FDI. In his analysis, only the variable "annual number of payments" shows a significant positive effect. According to Becker & Fuest (2010), this lack of statistical significance can be attributed to the fact that a country's tax advantages are likely to be capitalized in the acquisition price.

In contrast, greenfield investments are more sensitive to tax changes. No less than three variables investigated by Sedrakyan (2019) significantly affect greenfield capital inflows. While the improvement of tax administration efforts, thus a decrease in this measure, leads to a significant increase in greenfield investments, effective labor tax rates and contributions are significantly positively related to greenfield FDI (Sedrakyan, 2019). To some extent, this positive relationship can be explained by the concept of greenfield FDI. By setting up a new business subsidiary in a foreign country, companies may consider providing higher retirement contributions as an incentive to employees included in their benefits package. Therefore, higher rates may give firms the competitive advantage to secure the best talent pool (Sedrakyan, 2019).

2.3. Institutional-Political Factors

2.3.1. HDI and Human Capital

Although investigating economic determinants is essential, other areas may also significantly affect FDI flows. According to Sparks et al. (2014), only 22.46% of a country's FDI can be explained by economic factors leaving 77.54% unexplained.

Developed by the United Nations, the human development index is a statistical measure to assess various countries' social and economic development. The index consists of 3 principal areas composed of 4 sub-indices: mean years of schooling, expected years of schooling, life expectancy at birth, and gross national income (GNI) per capita.

According to Hanushek & Woessmann (2021), international math and science skills figures can explain approximately three-quarters of the GDP growth per capita variation between 1960-2000. The HDI is a fundamental indication of a country's physical and human infrastructure. In his investigations of the macroeconomic determinants of cross-border M&A and greenfield FDI, Neto et al. (2009) conclude that the human development index positively and significantly affects both entry modes. The authors show that companies in countries with good physical and human infrastructure demonstrate a greater ability to create firm-specific advantages necessary for international trade. A more advanced human capital environment will enable MNEs to access and improve existing knowledge and strengthen their competitive advantage. Dencic-Mihajlov et al. (2021) provide further insights. While the HDI positively and significantly influences cross-border M&A, it negatively affects the desire to invest capital in greenfield investments.

Arbatli (2011) and Noorbakhsh et al. (2001) further stress the importance of education to attract FDI in high-value-added industries to boost economic growth. Noorbakhsh et al. (2001) use three different explanatory variables to test their significance on FDI inflows. The variables include the secondary school enrolment ratio developed by Franklin R. Root and Ahmed A. Ahmed in 1979, the number of accumulated years of secondary education, and the number of years of secondary and tertiary education in the working-age population. Using the ordinary least square method, Noorbakhsh et al. (2001) conclude that all variables are statistically significant determinants of FDI inflows. Arbatli (2011), on the other hand, highlights the relationship between human capital and FDI by investigating the effect of an additional year of schooling on the ratio of FDI to GDP. Thus, increasing schooling by one year raises FDI to GDP by 0.3%.

Krajnakova et al. (2020) emphasize the almost perfect linear dependence between FDI inflows and higher education graduates. The authors conclude that graduates' employment has a statistically significant effect on FDI inflow. Miningou & Tapsoba (2017), who investigate the dependence between the educational system and foreign direct investments, also affirm a positive relationship between educational efficiency and FDI inflows. Results show that improving the educational system by providing sufficient training to workers can significantly increase foreign capital inflows.

2.3.2. Labor Market

Among the determinants identified by the literature, macroeconomic stability is becoming an increasingly important determinant of FDI inflows. The independence between foreign capital inflows and related labor market aspects is integral to FDI literature. Predominantly, researchers use two different indicators to investigate the effect on FDI. The unemployment rate and direct labor cost.

According to the causality analysis developed by Strat et al. (2015), the unemployment rate positively and significantly affects FDI inflows. The researchers state that a higher unemployment rate will inversely lead to increased inflows of FDI by foreign investors. Nevertheless, this phenomenon only holds to a certain threshold. If unemployment rises too much, investors will lose interest in investing in a country due to eminent macroeconomic instability. Botrić & Škuflić (2006) obtain similar results, emphasizing a positive relationship between the unemployment rate and FDI and a negative relationship between wage level and FDI.

In contrast, the results of Dencic-Mihajlov et al. (2021) show a positively significant relationship only for greenfield FDI but not for cross-border M&A. A plausible explanation is that foreign investors generally attract lower labor-cost countries. While lower wages may attract firms seeking to reduce costs and increase efficiency, high wages may also signal highly skilled human capital, which in turn attracts higher value-added industries (Basile et al., 2010). Basile et al. (2010) conclude that labor cost and unemployment rates are statistically significant determinants of FDI. Like most previous findings, high wages discourage firms from investing in a foreign country, while high unemployment rates increase FDI flows. Hayakawa et al. (2013) conclude that lower wages in host countries limit the productivity cut-off for investing in that specific region. More precisely, a 10% decline in the host country's wages leads to a 1.5% increase in the number of firms investing (Hayakawa et al., 2013). On the other hand, a 10% increase in the home country's wages will lead to a 25% increase in the number of firms investing abroad (Hayakawa et al., 2013). Moreover, the authors point out that home wages are empirically more significant than host wages as a determinant of FDI

2.3.3. Corruption

While most literature agrees that corruption plays a fundamental role in the specific choice of FDI, the author's opinion regarding the effect of corruption is sometimes far divided. Corruption can be defined "[...] as the abuse of entrusted power for private gain" (Transparency International, 2022). It weakens democracy, hampers economic development, and leads to market volatility and changes in government policy, all of which are critical aspects of maintaining business activities in a foreign country. Typically, investors seek to invest capital in countries with high economic certainty and political stability. Nevertheless, that is not always the case. For example, Lv et al. (2022) show that investors prefer to pursue greenfield investments in countries with high corruption, while cross-border M&A investors prefer market conditions with less corruption. The reason is that greenfield investments are less sensitive to changes in government regulations.

Furthermore, the methodology and quantification of corruption vary between different works of literature. The Corruption Perception Index (CPI¹) is the world's most well-known corruption indicator. Comprised of 180 entities, the CPI¹ ranks countries from 0 (high level of perceived corruption) to 100 (no perceived corruption) and combines 13 single indices supplied by 12 independent institutions. In his analysis of FDI in central and south-eastern Europe, Mateev (2009) discovers a positive and significant relationship with FDI. The higher index and, thus, a less corrupt business environment leads to higher FDI inflows. In addition to the CPI¹, Barassi & Zhou (2012) use the Worldwide Governance Indicator to investigate a potential relationship. The index is developed and published by the World Bank and consists of six dimensions of governance. Dimensions include voice and accountability, political stability and absence of violence/ terrorism, government effectiveness, regulatory quality, the rule of law, and control of corruption. Based on 30 individual data sources, the index aims to measure governance quality in over 200 countries. The results of Barassi & Zhou (2012) show a significant adverse effect on FDI inflows. Corruption erodes the probability of FDI at the individual firm level, as stated by Barassi & Zhou, and significantly affects MNEs' FDI choice. On the other hand, after correcting for MNE's location choice, results show a positive impact of corruption on FDI stock, indicating the existence of the "helping hand" role of corruption (Barassi & Zhou, 2012).

3. DATA AND METHODOLOGY

3.1. Data

This section discusses the relevant variables used to assess the main determinants affecting cross-border M&A and greenfield FDI. The study focuses on cross-sectional time series data obtained from secondary sources, enabling us to not only derive unbiased and consistent parameter estimates but also help us to understand the underlying causes and patterns of FDI modes choice. The analysis comprises a panel of 70 developing, transitioning, and developed countries across Asia, Europe, and North America. Due to the availability of data and for reasons of comparability, the study applies its analysis from 2003-2021. Unlike the research conducted by Globerman & Shapiro (2004), who use panel data of 154 countries, irrespective of relevant FDI flows, the following study solely includes countries that, in the majority of the sample years, exhibit consistent flows of FDI, M&A, and greenfield investments. Following this approach, we have selected 70 countries.

[Insert Table 1]

3.1.1. Dependent Variables

We use data on cross-border M&A and greenfield FDI for the dependent variables from the World Investment Report published by United Nations Conference on Trade and Development. The Report focuses on worldwide trends in foreign direct investments at the regional and country level and analyzes global value chains and multinational enterprises. To ensure optimal comparability and to control for different market sizes, we scroll both metrics by GDP. The goal is to compare countries on the geographic level and the level of development to provide extra depth.

The study presents values of cross-border M&A on a net basis in USD million. Defined by the United Nations, net cross-border M&A is the difference between sales of companies in a host country to foreign enterprises and sales of foreign affiliates to domestic firms. In addition, sales of foreign affiliates (already owned by foreign enterprises) are excluded from the calculation. Values of greenfield FDI are equally presented as the estimated amount of capital investment in USD million.

3.1.2. Independent Variables

The study utilizes a set of economic, laborforce, institutional, political, and monetary variables to determine the specific drivers affecting cross-border M&A and greenfield FDI capital inflows. We use data from World Bank's World Development Indicators (WDI) for the independent variables. WDI is the primary collection of cross-country data on development and includes internationally comparable statistics. The database includes 1,400 time-series indicators from 217 economies and 40 different country groups. The indicators cover six dimensions of data: poverty and inequality, people, environment, economy, states and markets, as well as, global links. The WDI is the most comprehensive data collection of its kind and is used in almost all studies comparing cross-country FDI data. In addition to the WDI, we derive data from the statistical database of the United Nations, called UNdata. The database provides annual statistics on three main data themes: economy, population and gender, sustainable development and environment. The United Nations Statistical Division has collected data since 1948 through questionnaires dispatched annually to over 230 national statistical offices.

3.1.2.1. Economic Variables

Analyzing the impact of economic variables on FDI inflows, the investigation focuses on three areas of interest: market size, tax rate and openness to trade.

As the world's population continues to grow, with most of the growth occurring in low-income and lower-middle-income countries, it is crucial to understand the interrelationship between GDP per capita, population growth, and its impact on foreign capital investments. The study applies GDP, GDP per capita, and GDP growth to analyze the factors of market size and economic growth. Values of GDP and GDP per capita are presented in current USD and expressed as natural logarithms. GDP growth is the year-over-year growth rate, expressed in percent. Furthermore, the analysis uses the population growth rate to investigate the effect of increased public expenditure and possibly social and economic problems on FDI inflows. The database used for all metrics of market size is the WDI.

Supporting the emergence of globalization and the importance of trade liberalization, a country's trade became a key determinant for industrialization and technological

transfer. Therefore, as already regarded in the literature review, trade openness is a crucial indicator of foreign capital attractiveness. It is the sum of exports and imports of goods and services measured as a share of GDP. Like GDP and population, the WDI provides comprehensive data on trade openness for our analysis.

Finally, we use the statutory corporate income tax rate, primarily derived from the Organization for Economic Cooperation and Development (OECD) and supplemented by data from the European Commission, Trading Economics database, and PwC.

3.1.2.2. *Labor Force Variables*

The labor force is vital in attracting FDI investment in developed and developing countries. Policies for training and maintaining a healthy workforce are often crucial to gain a competitive advantage. The study uses six labor force measures to account for the human capital's size, quality, and cost.

The first variable investigates the compensation made to employees in percent of total government expenditure. The measure consists of all employee payments, including additional benefits such as food and housing, in return for services rendered. Generally, higher wages will decrease foreign expenditure, but as mentioned above can also be a signal for skilled workers. We derive data on compensation from the WDI.

To analyze the human capital skills in a country, the study chooses to investigate three variables of educational quality, including the Human Development Index (HDI), mean years of schooling, and compulsory education. The HDI is a statistical composite index of life expectancy at birth, mean years of schooling, and gross national income developed and published by the United Nations Development Programme. While the HDI index already includes mean years of schooling, we have decided to investigate the isolated effect on FDI's mode choice. In order to prevent possible multicollinearity in the subsets and the final model, we first analyzed the correlation between the two measures and concluded a moderate relationship between the metrics. Additionally, our final model includes only one of the two metrics. To complement the previous variables, we have separately included the duration of compulsory education of years children are legally obliged to attend school. As for most of the variables, we obtained the data from the WDI.

The last two variables introduced by our analysis are to control for the size and health of the labor market. The unemployment rate is a proxy for labor availability in the host economy. Additionally, a higher unemployment rate may indicate the willingness to work for a lower wage. On the other hand, the labor force participation rate (LFPR) gives insight into the size of the labor market. The LFPR is the proportion of the population aged 15 and older that actively supplies labor to produce goods and services. Like the previous variables, the study retrieves its data from the WDI.

3.1.2.3. Institutional-Political Variables

To assess the implications of the institutional and political environment on foreign investments, we use data from the Worldwide Governance Indicator, Transparency International, and the WDI.

The Worldwide Governance Indicator reports aggregate and individual measures for over 200 countries between 1996-2021 for six governance dimensions. Because the individual indicators are highly correlated, the analysis focuses on two dimensions: voice and accountability and political stability and absence of violence/terrorism. Voice and accountability capture the perception of the extent to which a country's citizens can participate in selecting their government, as well as freedom of association and free media. In contrast, political stability and the absence of violence/terrorism reflects the perception of the likelihood of political instability and politically-motivated violence, including terrorism. To account for the dimension of corruption, we have separately included; the Corruption Perception Index developed and published by Transparency International. The CPI¹ scores and ranks 180 countries based on how corrupt their public sector is perceived to be. The scores capture experts' views or business figures' surveys, excluding the general public. Furthermore, the CPI¹ includes data from World Bank, the World Economic Forum, consulting companies, and think tanks to ensure a high-quality index.

Concluding the selection of institutional-political variables, we have included the measure of fixed telephone subscriptions (FTS) to proxy for the host country's infrastructure. FTS refers to the sum of active numbers of analog fixed telephone lines, voice-over-IP (VoIP) subscriptions, fixed wireless local loop (WLL) subscriptions,

integrated services digital network voice-channel equivalents, and fixed public payphones. The variable is thus a comprehensive measure of hardware and software infrastructure provided by World Banks WDI.

3.1.2.4. Monetary and Financial Variables

Lastly, we have selected two monetary and financial metrics to investigate the role of liquidity on FDI inflows. The first variable we use is the official exchange rate. It refers to the exchange rate determined by national authorities and the rate determined in the legally sanctioned exchange market, calculated as an annual average relative to the USD. Since our sample includes the United States, the study includes the official exchange rate relative to the Euro to account for the US exchange rate movement.

The second variable the analysis makes use of is inflation. Inflation can be measured using two main drivers, the GDP deflator and the consumer prices index (CPI²). While the CPI² detects movement in consumer goods and services prices, the GDP deflator also covers price changes related to government consumption, investments, and exports and imports of goods and services. For this reason and because the GDP deflator is a more comprehensive indicator of price increases, we use the former metric. The study obtains the data of both indicators from the WDI.

A summary of the descriptive statistics is included in the appendix to gain a better overview of all variables.

[Insert Table 2]

3.2. Methodology

Combining theory and the variables of interest, this section describes the empirical methodology used to assess the impact of the independent variables on cross-border M&A and greenfield FDI. Based on the data and previously reviewed literature, the study considers three economic models, pooled OLS, fixed effect, and random effect. The study uses the Hausman test to validate the most suitable model for the research.

3.2.1. Pooled Ordinary Least Squares (OLS)

The Pooling Model is the standard linear regression model and can be used to obtain unbiased and consistent parameter estimates through least squares. Though unsuitable when time plays an essential role, it is often used as the first indication of relevant predictor variables. The OLS model ignores the time aspect of the variables and pools together all observations at different time points, giving it its name. The general linear econometric model using ordinary least squares is given by Eq. (1):

$$Y_{it} = \alpha + \beta X_{it} + \epsilon_{it} \quad (1)$$

Where:

Y_{it} = Value of cross-border M&A or greenfield FDI scaled by GDP

α = Common intercept

β = Coefficient of the predictor variable

X_{it} = Predictor variable

ϵ_{it} = Error term of the estimation with an expected value of zero

i = id of a country, $i = 1, \dots, 70$

t = time period, $t = 1, \dots, 19$

3.2.2. Fixed Effect (within) Model

The fixed effect (within) model is estimated through least squares and is used to analyze the impact of variables that vary over time. Removing the effect of time-invariant characteristics enables us to analyze the net effect of the predictor variables on the outcome variable. Furthermore, it allows for a correlation between the unobserved effects (errors) with the explanatory variables. The equation of the fixed effect model is given by (2) and (3):

$$Y_{it} = \alpha + \beta X_{it} + \mu_i + \epsilon_{it} \quad (2)$$

or

$$Y_{it} = \alpha_i + \beta X_{it} + \epsilon_{it} \quad (3)$$

Where:

Y_{it} = Value of cross-border M&A or greenfield FDI scaled by GDP

α_i = Unknown intercept for each country given by $\alpha_i = \alpha - \mu_i$

β = Coefficient of the predictor variable

X_{it} = Predictor variable

ϵ_{it} = Error term

i = id of a country, $i = 1, \dots, 70$

t = time period, $t = 1, \dots, 19$

The α_i considers the unobserved factors that vary between countries but are constant in time for each unit. The $\alpha_i = \alpha - \mu_i$, are therefore considered the fixed parameters of the model that do not depend on time.

3.2.3. *Random Effect Model*

The random effect model is estimated through a generalization of the least squares approach and is used when the variation across entities is assumed to be random and uncorrelated with the independent variables. Unlike the fixed effect, the random effect model allows for the inclusion of time-invariant variables like region. The equation of the random effect model is given by (4):

$$Y_{it} = \alpha_i + \beta X_{it} + \mu_i + \epsilon_{it} \quad (4)$$

Where:

Y_{it} = Value of cross-border M&A or greenfield FDI scaled by GDP

α_i = Unknown intercept for each country given by $\alpha_i = \alpha - \mu_i$

β = Coefficient of the predictor variable

X_{it} = Predictor variable

μ_i = Between entity error assumed to be uncorrelated with the explanatory variables

ϵ_{it} = Within entity error, assumed to be uncorrelated with the explanatory variables

i = id of a country, $i = 1, \dots, 70$

t = time period, $t = 1, \dots, 19$

3.3. Model Validation

In order to ensure a robust model and validate the independent variables, we run a series of tests. First, we present the pairwise correlation matrixes of the four groups of independent variables. As already indicated, some variables exhibit multicollinearity and will only be independently included in the final model. To ensure the significance of the independent variables, we present the variance inflation factors derived from the ordinary least square estimations of our final models. We used the Breusch-Pagan Test for heteroskedasticity and subsequently concluded the existence of heteroskedasticity. Therefore, we include robust standard errors in the regressions to correct for non-constant errors in our variables. Finally, Hausmann Test provides evidence for the use of the fixed-effect model.

[Insert Tables 3-9]

4. ESTIMATION STRATEGY AND EMPIRICAL RESULTS

4.1. Estimation Strategy

In Tables 10 and 11, we start by estimating our baseline regression using the entire set of European, Asian, and North American countries, imposing no restrictions on the level of development or region. This approach aims to find general drivers of worldwide cross-border M&A and greenfield FDI and functions as a reference for later analysis on different subsets. We begin with cross-border M&A as our dependent variable, using a fixed effect model with only economic variables, described in column (1) of Table 10. We then continue to independently regress additional blocks of variables organized by topic (labor force, institutional-political, monetary and financial), as shown in columns (2) through (4) of Table 10. Overall, each block of variables, except institutional-political variables, described in column (3), exhibits a significant relationship with the output variable. Continuing, column (5) of Table 10 includes all variables specified together in a single regression model. Based on the pattern and the significant variables identified in the previous regressions in columns (1) through (5), we derive our final specification shown in column (6) of Table 10.

Table 11 follows the same strategy but considers greenfield FDI as the dependent variable of foreign establishment. Equally, equations (1) through (4) describe the different blocks of variables organized by topic. Regression (5) of Table 11 again includes all variables specified in a single regression model. Despite the relationships similar to cross-border M&A, greenfield FDI strongly correlates with institutional-political factors. After eliminating insignificant variables and specifying our final regression model based on the previous findings in columns (1) through (5), we derive the final specification described in column (6) of Table 11.

To ensure a sound analysis of all relevant variables in our dataset and to distinguish between different regions and levels of development, we perform sensitivity analysis on two subsets to better understand the factors impacting cross-border M&A and greenfield FDI. First, in Tables 12 and 13, we focus on developed countries, classified by United Nations World Economic Situation Prospect. Our data includes 33 developed countries spread across Europe and North America. Secondly, in Tables 14 and 15, we distinguish between different regions, analyzing the drivers of Asian foreign direct investment. In addition, all of the Asian countries included in our dataset classify as developing or transitioning countries, allowing us to analyze essential drivers distinguished by geography and level of development. The study applies the same estimation strategy to the two subsets used in Tables 1 and 2.

4.2. Empirical Results

4.2.1. Baseline Regression

Starting with the baseline regressions, we consider 70 countries across Europe, Asia, and North America from 2003 to 2021. Tables 10 and 11 present the results of the two alternative investment modes: cross-border M&A and greenfield FDI.

Beginning with cross-border M&A, the results suggest a positive and significant relationship between GDP growth and cross-border M&A. All else equal, cross-border M&A, scaled by GDP, increases on average by 0.417% yearly for each percentage point increase in GDP growth. Though not very sensitive, it reflects the general idea of increased M&A traffic in economically solid times. With a greater supply of targets and increasing company valuations, M&A activity accelerates. On the other hand, greenfield

FDI significantly decreases with GDP. As most foreign direct investments come from wealthier, more developed countries, smaller and less developed markets might attract investors seeking higher returns in exchange for more significant risks. Continuing, we can confirm a negative and significant correlation between the population growth rate and cross-border M&A and between the labor force participation rate and M&A. All else equal, cross-border M&A decreases on average by 1.956% yearly for each percentage point increase in the population growth rate. Davies et al. (2018) obtain similar results, concluding that a higher origin long-run population leads to a decrease in M&A but not in greenfield FDI. Not as sensitive but following the same direction, we observe a negative and significant relationship between the labor force participation rate and cross-border M&A. All else equal, cross-border M&A decreases by 0.688% yearly for each percentage point increase in the labor force participation rate. In combination with the positive effect of GDP on M&A, we can conclude that growing markets generally attract cross-border M&A if growth is generated not by an increasing labor force but through other drivers like technological development or more efficient human capital. In line with the analysis of Bertrand & Zitouna (2006) and Moghadam et al. (2019), we obtain a positive and significant correlation between trade openness and cross-border M&A. All else equal, cross-border M&A increases by 0.081% yearly for each percentage point increase in trade openness. As described above, trade openness is a crucial determinant of liberalization and favorable market conditions, enabling companies to engage with foreign investors. Lastly, the results of equation (6) provide evidence of a significant positive relationship between the corporate income tax rate on cross-border M&A. While this may seem odd at first, high tax rates often accompany substantial benefits such as cost reductions and sophisticated infrastructure, resulting in a certain degree of inertia in the location choice of firms.

Analyzing greenfield FDI, Table 11 identifies a positive and significant relationship between the population growth rate and greenfield FDI. All else equal, greenfield FDI increases by 2.678% yearly for each percentage point increase in the population growth rate. Comparing the results with cross-border M&A, the effect is positive and much more sensitive. As opposed to the negative correlation presented in Table 10, greenfield FDI looks to be attracted by a growing population. Furthermore, equation (6) concludes a significant negative relationship between GDP, expressed as the natural logarithm, and

cross-border M&A. All else equal, cross-border M&A decreases by 0.408% for every 1% increase in GDP. Generally, this implies that investors seek to invest in countries with smaller market sizes, which may allow a higher return in exchange for higher risks.

In addition to the economic factors presented above, the regressions highlight a significant relationship with monetary and financial indicators, namely inflation and the official exchange rate. Both variables show a positive and significant effect on greenfield capital inflows. High inflation erodes the purchasing power of domestic companies and people, reducing the value of assets. Nevertheless, the effect is twofold. On the one hand, it depreciates domestic assets and services, helping to attract foreign capital inflows.

On the other hand, it drives up operating costs, making greenfield FDI too risky in some locations. Furthermore, as individual costs increase, companies may be pressured to raise wages to prevent employees from switching roles to maintain a similar living standard. In contrast, rising exchange rates have two significant implications that align with the previously stated points. First, a depreciating currency reduces the country's wages and production costs relative to its foreign counterparts. Therefore, all else equal, it enhances the location's attractiveness as a recipient of greenfield foreign direct investment. Second, if companies anticipate exchange rate movements, the importance of the relative wage could be diminished. This could lead to higher financing costs since interest rate parity conditions equalize risk-adjusted expected rates of returns across countries. All else equal, greenfield FDI increases by 0.712% and 0.005% yearly for each percentage point increase in the inflation and official exchange rate.

Even if not included in the final model, described in equation (6), institutional and political factors are far more critical for greenfield FDI than they are for cross-border M&A. Equations (3) and (5) suggest a negative relationship between the corruption perception index and greenfield investments and a positive relation between fixed broadband subscriptions and greenfield FDI. Rising perceived corruption significantly decreases the value of incoming greenfield FDI while political stability, population rights and a more sophisticated infrastructure increase greenfield investments.

[Insert Tables 10-11]

4.2.2. *Developed Countries*

Next, we focus on 33 developed countries across Europe and North America from 2003-2021. The objective is to understand the differences that might arise from economic development and location changes. Tables 12 and 13 provide information on the relevant regressions.

Starting with cross-border M&A in Table 12, GDP growth rate, population growth rate, and labor force participation show similar relationships with cross-border M&A compared to the baseline case. All three variables have equal signs with slightly inflated coefficients, indicating a more substantial effect on cross-border M&A. Further, the results emphasize that GDP significantly and positively affects cross-border M&A in developed countries, implying that market size plays an essential role in FDI's mode choice. Furthermore, these results provide empirical validation for the view that investors using cross-border M&A prefer more financially and economically developed markets in countries where the return on investing in this specific country might be lower. On the other hand, GDP per capita shows a significant adverse effect on M&A. All else equal, cross-border M&A decreases by 0.352% yearly for every unit increase in GDP per capita. Therefore, we derive a similar conclusion to the baseline case. While economic growth and market size increase overall M&A spending, investors dislike rising populations. Then again, population growth and workforce productivity primarily determine GDP growth, implying that investors seek to invest in countries with increasing labor force efficiency. Productivity growth allows citizens to achieve higher material living standards with the same labor input. Besides economic factors observed in our sample, institutional-political factors seem to have no significant effect on cross-border M&A in our final model described in (6). Similar to the results obtained in Table 10, we conclude that the statutory corporate income tax rate jointly determines cross-border M&A not only in its entirety of all investigated countries but also by focusing on European and North American developed countries.

Table 13 presents the regressions undertaken for greenfield FDI in developed countries. Like the baseline case, GDP and GDP growth significantly affect greenfield FDI. Even though the effect of GDP growth is not as significant for developed countries as for the entire set analyzed in the baseline case, they still comply with the general picture

of greenfield FDI. Compared to the negative correlation in Table 11, GDP positively contributes to greenfield capital inflow in developed countries. Continuing, we derive similar results for the corruption perception index and inflation. All else equal, greenfield FDI decreases on average by 0.594% for every unit increase in the CPI¹ index.

On the other hand, on average, every 1% increase in inflation increases greenfield FDI by 1.406%. Furthermore, equations (1) and (5) highlight a significant negative correlation between the HDI and greenfield FDI. Since greenfield FDI primarily focuses on locating the firm's existing technology in the most profitable location, this result may reflect the attractiveness of lower destination wages and human capital for companies planning to expand their operation to Europe or North America. Then again, the variable becomes insignificant in the final model described in equation (6).

[Insert Tables 12-13]

4.2.3. *Asian Countries*

Tables 14 and 15 present the regression results from 29 Asian countries from 2003-2021. 24 of the 29 countries are classified as developing, while the remaining five fall under transition countries.

Again starting with cross-border M&A in Table 14, the final model described in (6) indicates similar patterns to the previous findings in Tables 10 and 12. The output highlights a negative relationship between GDP per capita and the population growth rate. Even though both variables' effect is less potent than the former analysis presented in tables 10 and 12, both are still significant at the 5% level. Additionally, equation (5) emphasizes a significant negative correlation between GDP and cross-border M&A, which aligns with table 10 results. All else equal, cross-border M&A decreases by 0.381% for every unit increase in GDP. Supporting the results from the baseline case, we find a positive and significant relationship between trade openness and cross-border M&A, highlighting the importance of trade liberalization to allow for technological transfer and economic growth.

Besides economic indicators, we derive a positive relationship between political stability and the absence of violence in cross-border M&A. All else equal, cross-border

M&A increases by 0.243% for each unit increase in the index. Comparing the results with the findings from developed countries, we highlight the importance of stable governance and the absence of unconstitutional or violent means to attract foreign capital inflows in cross-border M&A.

Table 15 presents the estimation results obtained from Asian greenfield investments. Unlike the results obtained from developing countries, we find a significant negative effect between GDP and Asian greenfield FDI. All else equal, greenfield FDI decreases by 0.679% for each unit increase in the natural logarithm of GDP. The results suggest that while investors seek to invest in large markets in developed countries, they prioritize smaller markets in less developed countries. That follows the general implication of higher returns in exchange for substantially more risk, as investors bear most of the investment risks. Besides GDP, we find a positive and significant relationship between population growth and cross-border M&A. This result is in line with previously obtained findings in table 11. While more sophisticated and larger markets negatively affect greenfield FDI, higher population growth and, thus, a growing labor force positively affect greenfield capital inflows.

[Insert Tables 14-15]

5. CONCLUSION

While some variables jointly determine capital inflows from both modes of foreign establishment, other indicators are unique to a specific set of countries. The existing literature, analyzed in the second part of this study, presents evidence of the determinants that encourage cross-border M&A and greenfield FDI but do not elaborate and compare the specific determinants unique to a set of countries distinguished by location and level of development. Based on the results from the regressions conducted in tables 10 through 6, we can derive the following similarities and differences between cross-border M&A and greenfield FDI.

The results in tables 10 and 11 suggest that the population growth rate positively affects greenfield FDI in the baseline case. However, it negatively affects cross-border M&A. Considering that greenfield FDI depends on building a new venture with new employees, a growing labor force naturally contributes to a positive effect for greenfield

investors. Furthermore, we find that the GDP growth rate positively affects both modes of foreign investments, even though not included in the final model of greenfield FDI. In line with the previous results, we conclude that the labor force participation rate negatively affects cross-border M&A in the baseline case and developing countries.

Tables 12 and 13 highlight the significance of GDP, GDP growth, and GDP per capita as joint determinants of cross-border M&A and greenfield FDI in developed European and North American countries. GDP and GDP growth positively and significantly affect cross-border M&A and greenfield FDI, emphasizing the importance of economic growth in attracting foreign capital. On the other hand, GDP per capita jointly decreases both modes of FDI. Combined with the previous result, we can imply that large and growing markets generally attract capital inflows if not generated through an increase in the population but rather by utilizing higher productivity. Furthermore, we can conclude that the statutory corporate income tax rate positively affects cross-border M&A in the baseline case and developed countries presented in Table 12. The positive effect can be explained by positive externalities, such as more sophisticated infrastructure, additional public programs promoting Medicare and social security, or the expansion of real estate and office space. Furthermore, it helps to balance state budgets that, in turn, result in a more robust government.

Additionally, tables 13 and 15 findings emphasize the positive effect of inflation on greenfield investments, showing that a moderate inflation level enhances the location's attractiveness to receiving foreign capital. Furthermore, it helps to promote domestic growth by reducing the value of debt owed to suppliers. Considering tables 14 and 15, we can further conclude that GDP jointly and negatively affects FDI investments in selected Asian countries, highlighting the desire of investors to invest in smaller markets with a more considerable potential to grow. On the other hand, investors in developed countries usually seek to invest in more sophisticated markets, as indicated by tables 12 and 13.

Based on the finding in tables 11 and 13, we conclude that HDI and the Corruption Perception Index negatively affect greenfield FDI inflows but not M&A. However, Institutional and political factors play a far more significant role in greenfield capital inflows. We further conclude that economic factors, especially variables concerning GDP, jointly determine cross-border M&A and greenfield FDI.

The evidence provided in this study gives a general indication of the different drivers affecting cross-border M&A and greenfield FDI in selected European, Asian, and North American countries that could be of great interest to policymakers in creating a favorable, healthy, and sustainable business environment for FDI.

In the end, we should outline some limitations to the research presented. Since the database for individual analyzed variables significantly differs and is sometimes limited to a small number of countries, the length of the study is limited to 19 years. Furthermore, due to the lack of data reported by Asian countries, the paper was forced to drop many countries to ensure a robust model. Finally, data on M&A and greenfield FDI show substantial differences in the reporting volume and consistency, making it challenging to present a sound analysis covering the Asian market.

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APPENDICES

Table 1 Countries by Region and Development

Country	Region	Development	Country	Region	Development
Albania	EU	Transition	Lebanon	ASIA	Developing
Armenia	ASIA	Transition	Lithuania	EU	Developed
Austria	EU	Developed	Luxembourg	EU	Developed
Bahrain	ASIA	Developing	Malaysia	ASIA	Developing
Bangladesh	ASIA	Developing	Malta	EU	Developed
Belarus	EU	Transition	Moldova	EU	Transition
Belgium	EU	Developed	Mongolia	ASIA	Developing
Bosnia Herzegovina	EU	Transition	Netherlands	EU	Developed
Brunei Darus.	ASIA	Developing	North Macedonia	EU	Transition
Bulgaria	EU	Developed	Norway	EU	Developed
Cambodia	ASIA	Developing	Oman	ASIA	Developing
Canada	NAM	Developed	Pakistan	ASIA	Developing
China	ASIA	Developing	Philippines	ASIA	Developing
Croatia	EU	Developed	Poland	EU	Developed
Cyprus	EU	Developed	Portugal	EU	Developed
Czechia	EU	Developed	Qatar	ASIA	Developing
Denmark	EU	Developed	Romania	EU	Developed
Estonia	EU	Developed	Russia	EU	Transition
Finland	EU	Developed	Saudi Arabia	ASIA	Developing
France	EU	Developed	Serbia	EU	Transition
Georgia	ASIA	Transition	Singapore	ASIA	Developing
Germany	EU	Developed	Slovakia	EU	Developed
Greece	EU	Developed	Slovenia	EU	Developed
Hong Kong	ASIA	Developing	Spain	EU	Developed
Hungary	EU	Developed	Sri Lanka	ASIA	Developing
Iceland	EU	Developed	Sweden	EU	Developed
India	ASIA	Developing	Switzerland	EU	Developed
Indonesia	ASIA	Developing	Thailand	ASIA	Developing
Ireland	EU	Developed	Turkey	ASIA	Developing
Italy	EU	Developed	Ukraine	EU	Transition
Jordan	ASIA	Developing	Arab Emirates	ASIA	Developing
Kazakhstan	ASIA	Transition	United Kingdom	EU	Developed
Kuwait	ASIA	Developing	United States	NAM	Developed
Kyrgyzstan	ASIA	Transition	Uzbekistan	ASIA	Transition
Latvia	EU	Developed	Viet Nam	ASIA	Developing

Table 2 Summary Statistics

	N	Mean	Std. Dev.	p25	Median	p75
Cross-border M&A to GDP	1177	10	18	1	3	11
Greenfield investments to GDP	1323	36	56	7	17	39
GDP (log)	1328	26	2	24	26	27
GDP per capita (log)	1328	9	1	8	10	11
GDP growth rate	1327	3	4	1	3	6
Population growth rate	1330	1	2	0	1	1
Openness to trade	1302	108	68	67	92	128
Statutory corporate income tax rate	1272	22	8	17	21	28
Employee compensation	1016	19	10	12	17	25
Human development index	1328	1	0	1	1	1
Mean years of schooling	1328	10	2	9	11	12
Compulsory education	1252	10	2	9	10	11
Labor force participation rate	1330	60	9	55	60	65
Unemployment rate	1330	8	5	4	6	9
Voice and accountability	1330	57	30	30	57	86
Political stability	1330	56	27	32	59	79
Corruption perception index	1315	52	21	34	48	71
Governance index	1260	54	24	35	54	73
Fixed telephone subscriptions	1256	2792	1729	1435	2443	4191
Official exchange rate	1300	517	2099	1	4	48
Inflation GDP deflator	1327	5	6	1	3	7

Table 3 Pairwise Correlations: Economic Variables

Variables	(1)	(2)	(3)	(4)	(5)	(6)
(1) GDP	1.000					
(2) GDP per capita	0.416*	1.000				
(3) GDP growth	-0.141*	-0.310*	1.000			
(4) Population growth	-0.013	0.103*	0.164*	1.000		
(5) Trade openness	-0.235*	0.304*	0.039	0.059*	1.000	
(6) Corporate Tax	0.441*	0.104*	0.057*	0.110*	-0.159*	1.000

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Table 4 Pairwise Correlations: Labor Force Variables

Variables	(1)	(2)	(3)	(4)	(5)	(6)
(1) Compensation	1.000					
(2) HDI	-0.383*	1.000				
(3) Mean education	-0.256*	0.569*	1.000			
(4) Compulsory educ.	-0.238*	0.233*	0.275*	1.000		
(5) Labor participation	-0.011	0.118*	0.095*	-0.153*	1.000	
(6) Unemployment	-0.024	-0.002	0.019	0.043	-0.514*	1.000

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Table 5 Pairwise Correlations: Institutional-Political Variables

Variables	(1)	(2)	(3)	(4)	(5)
(1) Voice a. accountability	1.000				
(2) Political stability	0.624*	1.000			
(3) Corruption perception	0.720*	0.773*	1.000		
(4) Governance Index	0.533*	0.494*	0.517*	1.000	
(5) Fixed telephone subs.	0.642*	0.573*	0.656*	0.412*	1.000

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Table 6 Pairwise Correlations Monetary variables

Variables	(1)	(2)
(1) Official exchange rate	1.000	
(2) Inflation GDP	0.143*	1.000

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Table 7 VIF: Baseline Regression

M&A	VIF	1/VIF
Population growth	1.084	.923
Labor participation	1.067	.937
Trade openness	1.059	.944
CIT	1.059	.944
GDP growth	1.027	.974
Mean VIF	1.059	.

Greenfield	VIF	1/VIF
Inflation GDP	1.057	.946
GDP (log)	1.023	.977
Exchange rate	1.022	.979
Population growth	1.014	.986
Mean VIF	1.029	.

Table 8 VIF: Developed Countries

M&A	VIF	1/VIF
GDP per capita (log)	3.143	.318
Population growth	2.2	.455
GDP (log)	1.705	.587
CIT	1.667	.6
Labor participation	1.664	.601
GDP growth	1.067	.937
Mean VIF	1.908	.

Greenfield	VIF	1/VIF
GDP per capita (log)	3.292	.304
CPI ¹	3.18	.314
Inflation GDP	1.214	.824
GDP growth	1.144	.874
Mean VIF	2.208	.

Table 9 VIF: Asian Countries

M&A	VIF	1/VIF
Political stability	2.777	.36
GDP per capita (log)	2.49	.402
Trade openness	1.243	.804
Population growth	1.037	.964
Mean VIF	1.887	.

Greenfield	VIF	1/VIF
HDI	1.102	.908
Inflation GDP	1.078	.928
Population growth	1.048	.954
GDP (log)	1.022	.978
Mean VIF	1.062	.

Table 10 Baseline: Cross-Border M&A – Fixed Effect

VARIABLE	(1)	(2)	(3)	(4)	(5)	(6)
GDP (log)	8.739 (10.122)				4.078 (15.725)	
GDP per capita (log)	-9.597 (10.722)				-2.016 (16.455)	
GDP growth rate	0.426*** (0.125)				0.304** (0.132)	0.417*** (0.117)
Population growth rate	- 1.958*** (0.641)				-1.430 (2.036)	- 1.956*** (0.512)
Openness to trade	0.087* (0.047)				0.064 (0.057)	0.081** (0.039)
Statutory corporate income tax rate	0.433*** (0.156)				0.907*** (0.200)	0.378** (0.160)
Employee compensation		0.108 (0.366)			-0.082 (0.264)	
Human development index		-29.320 (52.946)			31.106 (67.694)	
Mean years of schooling		-0.378 (2.218)			-1.818 (1.689)	
Compulsory education		-0.705 (0.806)			-1.012 (0.856)	
Labor force participation rate		-1.152*** (0.412)			-0.929** (0.385)	- 0.668*** (0.250)
Unemployment rate		-0.054 (0.212)			0.001 (0.204)	
Voice and accountability			0.122 (0.121)		0.062 (0.131)	
Political stability and absence of violence			-0.003 (0.085)		-0.076 (0.094)	
Corruption perception index			-0.151 (0.098)		-0.012 (0.137)	
Governance index			-0.065 (0.049)		-0.048 (0.059)	
Fixed telephone subscriptions (log)			0.001 (0.001)		-0.001 (0.001)	
Official exchange rate				-0.000 (0.000)	0.001 (0.001)	
Inflation GDP deflator				0.244** (0.101)	0.359** (0.170)	
Constant	-144.780 (164.147)	112.075*** (28.539)	12.427 (7.958)	8.869*** (0.535)	-38.533 (245.286)	32.222** (14.741)
Observations	1,112	901	1,107	1,155	869	1,112
R-squared	0.037	0.020	0.005	0.006	0.064	0.042
Adj. R2	0.00212	0.0115	0.000266	3.27e-05	0.000104	0.0546

Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Table 11 Baseline: Greenfield FDI – Fixed Effect

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
GDP (log)	-60.671 (45.478)				-23.512 (49.296)	-40.819*** (7.447)
GDP per capita (log)	30.020 (48.624)				-12.910 (53.518)	
GDP growth rate	0.510 (0.445)				0.586* (0.307)	
Population growth rate	3.076 (2.087)				2.576 (3.942)	2.688** (1.295)
Openness to trade	-0.066 (0.121)				-0.030 (0.091)	
Statutory corporate income tax rate	0.403 (0.518)				-0.051 (0.375)	
Employee compensation		0.371 (0.584)			0.594 (0.638)	
Human development index		-346.110* (176.473)			210.995 (269.885)	
Mean years of schooling		-1.977 (6.403)			-7.915 (4.816)	
Compulsory education		-3.777 (4.186)			-2.421 (4.411)	
Labor force participation rate		-0.547 (1.235)			-0.744 (1.179)	
Unemployment rate		0.207 (0.593)			0.449 (0.669)	
Voice and accountability			1.031 (0.694)		-0.081 (0.533)	
Political stability and absence of violence			0.125 (0.205)		0.385 (0.234)	
Corruption perception index			-1.574*** (0.461)		-0.638** (0.273)	
Governance index			-0.130 (0.188)		-0.069 (0.116)	
Fixed telephone subscriptions (log)			0.007*** (0.003)		-0.001 (0.003)	
Official exchange rate				0.002 (0.002)	0.006** (0.003)	0.005* (0.003)
Inflation GDP deflator				1.446*** (0.417)	0.988 (0.828)	0.712** (0.309)
Constant	1,303.511* (720.986)	399.553*** (108.129)	40.476 (37.010)	28.814*** (2.188)	743.206 (760.241)	1,076.016*** (190.745)
Observations	1,241	987	1,241	1,292	945	1,292
R-squared	0.114	0.082	0.039	0.024	0.138	0.128
Adj. R2	0.0850	0.111	0.0102	0.0679	0.174	0.170

Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Table 12 Developed Countries: Cross-Border M&A – Fixed Effect

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
GDP (log)	39.497*				29.162	41.714***
	(20.765)				(31.082)	(14.845)
GDP per capita (log)	-38.993*				-21.368	-35.518**
	(21.669)				(31.709)	(15.978)
GDP growth rate	0.564**				0.472**	0.671***
	(0.211)				(0.196)	(0.212)
Population growth rate	-4.317***				-2.611	-3.379***
	(1.282)				(2.894)	(1.160)
Openness to trade	0.073				0.082	
	(0.063)				(0.067)	
Statutory corporate income tax rate	0.909***				0.828***	0.901***
	(0.232)				(0.272)	(0.230)
Employee compensation		0.169			0.031	
		(0.838)			(0.646)	
Human development index		-19.726			-65.205	
		(105.953)			(84.605)	
Mean years of schooling		0.862			0.390	
		(2.623)			(1.776)	
Compulsory education		-0.677			-0.433	
		(1.453)			(1.282)	
Labor force participation rate		-1.772**			-1.422*	-1.245***
		(0.722)			(0.839)	(0.402)
Unemployment rate		-0.070			0.106	
		(0.265)			(0.320)	
Voice and accountability			0.440*		0.241	
			(0.235)		(0.194)	
Political stability and absence of violence			-0.229		-0.271**	-0.230**
			(0.150)		(0.124)	(0.106)
Corruption perception index			-0.047		0.150	
			(0.144)		(0.151)	
Governance index			-0.084		-0.072	
			(0.065)		(0.064)	
Fixed telephone subscriptions (log)			0.000		-0.001	
			(0.001)		(0.001)	
Official exchange rate				-0.044**	-0.014	
				(0.021)	(0.025)	
Inflation GDP deflator				0.910**	0.722	
				(0.399)	(0.572)	
Constant	-653.509*	129.901**	-1.292	10.733***	-425.790	-648.901***
	(329.969)	(63.398)	(19.978)	(0.935)	(524.238)	(233.771)
Observations	609	561	578	610	561	610
R-squared	0.055	0.020	0.012	0.017	0.076	0.068
Adj. R2	0.0103	0.0166	0.0257	0.00819	0.00272	0.0115

Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Table 13 Developed Countries: Greenfield FDI – Fixed Effect

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
GDP (log)	106.065** (46.995)				140.115** (67.834)	
GDP per capita (log)	-145.317** (53.851)				-162.840** (72.595)	-41.286*** (11.714)
GDP growth rate	1.148*** (0.382)				0.791** (0.325)	0.669** (0.280)
Population growth rate	-0.664 (2.719)				-3.616 (3.838)	
Openness to trade	-0.213* (0.122)				-0.109 (0.114)	
Statutory corporate income tax rate	-0.143 (0.353)				-0.670 (0.454)	
Employee compensation		1.098 (0.838)			0.725 (0.702)	
Human development index		-715.111*** (201.262)			-285.989** (131.639)	
Mean years of schooling		13.066** (6.102)			4.894 (3.504)	
Compulsory education		-2.647 (6.505)			-2.983 (5.132)	
Labor force participation rate		-2.441 (1.522)			-1.721 (1.226)	
Unemployment rate		-0.474 (0.467)			-0.828 (0.742)	
Voice and accountability			1.180 (0.798)		0.555 (0.573)	
Political stability and absence of violence			0.070 (0.282)		-0.062 (0.230)	
Corruption perception index			-1.489*** (0.464)		-0.258 (0.238)	-0.594*** (0.199)
Governance index			-0.020 (0.112)		-0.041 (0.103)	
Fixed telephone subscriptions (log)			0.005*** (0.002)		0.003 (0.003)	
Official exchange rate				0.050 (0.074)	0.006 (0.047)	
Inflation GDP deflator				2.307*** (0.764)	0.708 (0.633)	1.406*** (0.468)
Constant	-1,239.204* (688.993)	658.746*** (203.922)	-6.572 (61.321)	13.469*** (2.047)	-1,656.678 (998.318)	479.424*** (122.172)
Observations	625	576	592	626	575	625
R-squared	0.259	0.184	0.120	0.060	0.309	0.254
Adj. R2	0.000129	0.236	0.0719	0.142	0.000431	0.362

Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Table 14 Asian Countries: Cross-Border M&A – Fixed Effect

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
GDP (log)	-8.448 (6.330)				-38.119** (17.247)	
GDP per capita (log)	7.997 (7.124)				32.955 (19.969)	-3.367** (1.656)
GDP growth rate	0.021 (0.192)				-0.439 (0.303)	
Population growth rate	-1.150** (0.571)				-0.088 (1.141)	-1.075** (0.534)
Openness to trade	0.079* (0.042)				-0.090 (0.090)	0.086** (0.043)
Statutory corporate income tax rate	0.083 (0.150)				1.172** (0.569)	
Employee compensation		0.250 (0.276)			0.132 (0.283)	
Human development index		2.833 (57.724)			53.487 (87.384)	
Mean years of schooling		-2.647 (2.601)			-0.103 (3.430)	
Compulsory education		-0.748 (1.290)			-1.168 (1.373)	
Labor force participation rate		-0.660 (0.520)			-0.120 (0.521)	
Unemployment rate		-0.314 (0.628)			-1.093 (0.684)	
Voice and accountability			-0.195 (0.146)		-0.267 (0.205)	
Political stability and absence of violence			0.217** (0.086)		0.173 (0.149)	0.243*** (0.083)
Corruption perception index			-0.101 (0.136)		0.337 (0.248)	
Governance index			-0.137 (0.096)		-0.254* (0.147)	
Fixed telephone subscriptions (log)			0.002 (0.002)		0.001 (0.003)	
Official exchange rate				-0.001 (0.001)	0.000 (0.002)	
Inflation GDP deflator				0.060 (0.095)	0.086 (0.183)	
Constant	145.509 (105.931)	70.994* (39.179)	12.047* (7.041)	7.384*** (1.926)	668.691** (290.377)	19.267 (16.401)
Observations	421	243	421	447	238	430
R-squared	0.035	0.033	0.026	0.002	0.150	0.047
Adj. R2	0.105	0.00118	0.00971	0.00745	0.0769	0.188

Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Table 15 Asian Countries: Greenfield FDI – Fixed Effect

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
GDP (log)	-120.291** (53.675)				-237.727*** (57.695)	-67.871*** (19.080)
GDP per capita (log)	100.471* (57.869)				210.198** (75.005)	
GDP growth rate	-0.888 (0.837)				-0.005 (0.879)	
Population growth rate	2.538 (2.351)				2.567 (4.944)	3.135** (1.142)
Openness to trade	-0.138 (0.265)				-0.471 (0.456)	
Statutory corporate income tax rate	0.122 (1.055)				-0.568 (2.289)	
Employee compensation		0.466 (0.840)			-0.213 (0.933)	500.574* (262.196)
Human development index		-149.893 (267.226)			-41.519 (359.525)	
Mean years of schooling		-11.538 (12.595)			8.661 (12.779)	
Compulsory education		0.691 (6.274)			11.938 (8.524)	
Labor force participation rate		-1.390 (1.756)			-1.573 (1.710)	
Unemployment rate		-0.173 (3.006)			0.172 (3.788)	
Voice and accountability			0.815 (1.033)		-0.721 (0.979)	
Political stability and absence of violence			0.226 (0.342)		0.476 (0.665)	
Corruption perception index			-1.415 (0.870)		0.360 (1.115)	
Governance index			-0.270 (0.601)		-0.739 (0.542)	
Fixed telephone subscriptions (log)			0.023 (0.015)		-0.003 (0.011)	
Official exchange rate				0.002 (0.002)	0.011** (0.005)	
Inflation GDP deflator				1.342** (0.506)	1.045 (1.439)	0.677* (0.364)
Constant	2,253.624** (904.676)	329.659** (155.261)	54.805 (37.799)	41.298*** (4.157)	4,315.091*** (1,134.428)	1,392.983*** (311.989)
Observations	470	281	507	533	264	542
R-squared	0.137	0.039	0.036	0.022	0.144	0.150
Adj. R2	0.0781	0.0139	6.69e-05	0.0378	0.112	0.0953

Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1