Economic Nationalism in Mergers & Acquisitions

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Abstract

This paper studies the government reaction to large corporate merger attempts in the European Union during 1997-2006 using hand-collected data. It documents widespread economic nationalism in which the government prefers the target companies remain domestically owned rather than foreign-owned. This preference for natives against foreigners takes place both as resistance to foreign acquirers and as support for domestic ones. It is also stronger at times and places with strong nationalistic sentiments, as proxied by the vote share of extreme right parties, which have made such preferences against foreigners their main policy in Europe. This nationalism has both direct and indirect economic impact: Government interventions are very effective in preventing foreign bidders from completing the merger and in helping domestic bidders succeed. Indirectly, nationalistic government reactions deter foreign companies from bidding for other companies in that country in the future.

Keywords: Protectionism, Patriotism, National Champions, Too-Big-To-Be-Acquired, Government Intervention, International Capital Flows.

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"Come sta?"[1]

Corporate mergers and acquisitions are an important part of a market economy. Large firms often enter into a new market through acquisitions of local firms. If there is excess capacity in a sector, weak firms often exit the economy, not necessarily through bankruptcy, but by being acquired by another firm. In addition when these mergers take place between companies from different countries, national economies become more integrated. Yet, the reaction of some governments to merger attempts often seems to be motivated by non-economic concerns. In particular, these interventions often seem to depend on the 'nationality' of the acquiring company rather than anti-competition concerns.

Nationalist interventions by domestic governments do not just take form as opposition to foreign acquirers. They also include support for domestic acquirers to create domestic companies that are considered too-big-to-be-acquired by foreigners. It is illustrative to note the following comment by then-finance minister, currently the president of IMF, Dominique Strauss-Cahn, about the French government's support for the merger of two French oil companies, Elf and Total Fina:

> "[The merger will create] a French oil group that is almost at the level of the three world leaders and therefore really protected from any takeover attempt by an Anglo Saxon or American [company]." (Owen(1999))

[1] Then-French President Charles de Gaulle's greeting to François Michelin, who was summoned to the presidential office upon rumors that he was about to sell the French car maker Citroen he controlled to Italian Fiat. It was arranged shortly later for Peugeot, another French car maker, to acquire Citroen, see Betts (2001).

This anecdotal evidence about nationalist behavior invites several empirical questions. Do governments really resist the acquisition of domestic companies by foreign companies? Do they support the mergers of domestic companies to create big domestic companies that are sometimes referred in the media as 'national champions'? Are these reactions just political statements or do they have real economic impact on the outcome of merger attempts? Does economic nationalism deter future acquisition attempts by foreign firms for other domestic firms in that country? These are some of the questions this paper studies.

Our study of economic nationalism uses hand-collected data on government reactions to individual merger attempts in the fifteen European Union countries (as of 1996) between 1997 and 2006. We show in a discrete-choice regression framework that domestic governments are more likely to support domestic acquirers and oppose foreign ones even though the European Union treaty does not leave them with any jurisdiction to rule in merger attempts on the basis of nationality. These results are robust to controlling for the target size, target profitability, nature of bids such as hostile vs. friendly, acquirer size, premium offered, macroeconomic conditions such as GDP growth and unemployment as well as target industry, target country, and year fixed effects.

We also show that nationalist interventions are more frequent where and when preferences for natives against foreigners in both social and economic domains are stronger. To find a proxy for the strength of these preferences, we consult the large political science literature that studies the substantial increase in the popularity and impact of extreme-right parties in Western Europe in the last several decades. This literature identifies the preference for natives against foreigners and immigrants, both in social and economic domains, as the main feature of these parties. We use the vote share of these parties as our proxy. We also demonstrate that the positive relationship between nationalist interventions and the vote share of extreme-right parties is robust to controlling for economic factors such as unemployment or GDP growth. We discuss our analysis using this proxy, our robustness checks, and the relevant political science literature in more detail later in the paper.

We then examine the direct and indirect economic impact of nationalism. Using a binary outcome regression framework, we find that government opposition decreases the chances that the acquisition is completed while government support increases them. Perhaps even more importantly, we also show in a hazard analysis that nationalism also has an indirect adverse effect on the likelihood of future acquisition attempts by foreign companies for the companies located in that country. These findings indicate that nationalistic reactions are not just political posturing but they negatively affect the workings of the market economy.

In addition, we provide estimates for the losses suffered by the target shareholders due to nationalism. We estimate these losses to be, on average, more than 3 billion Euros per foreign merger attempt opposed by the government. There are many other parties that incur costs, directly or indirectly, due to nationalism. In particular, consumers are likely to incur substantial costs as the domestic competition is reduced when the government supports domestic mergers just to create so-called national champions. Given the multitude of parties involved, our estimates, though noisy, are likely to be an underestimate for the total costs of nationalism, as discussed in the Conclusion.

The study of nationalism in economics has a long history and we follow an old tradition in economics in referring as "economic nationalism" to the preference for natives against foreigners in economic activities.[2] In this earlier literature, the closest to our paper might be Golay (QJE 1958), who studies the impact of such preferences on the ownership of firms in post-colonial Southeast Asia.[3] Much of this earlier literature has focused on trade protectionism. Interestingly, European Union countries, on which we focus, have some of the most liberal policies in the world for the flow of goods and capital, at least among themselves. Furthermore, our study focuses on some of the richest countries in the world, unlike some more recent work on economic nationalism, which focuses on less developed countries.[4]

The economic nationalism is unlikely to be restricted to Europe only[5] but we chose to focus on large merger attempts in the European Union (EU) because the EU seems to provide an ideal setting for a study of this kind for several reasons. First, for large mergers across national borders in the EU, the European Commission, not the national governments, is the anti-competition authority. Hence, a nationalistic policy by domestic governments cannot be disguised as pro-competition policy. In fact, as we describe later when we discuss the legal background, the member countries of the European Union rarely have *de jure* power to block any merger based on the acquirer's

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[2] See, e.g., Feiler (1935), Knight (1935), Hayek (1937), von Mises ([1943] 1990), Seers (1983), Olson (1987), Helleiner & Pickel (2005). Breton (JPE 1964, p.377) defines nationalism as "the investment of present scarce resources for the alteration of the interethnic and international distribution of ownership." The different treatment of foreign acquiring firms from domestic ones this paper demonstrates is also related to the discrimination literature that started with Becker (1957).

[3] With respect to our use of the vote share of extreme right parties as a proxy for nationalistic sentiments, it is interesting to note that Frank Knight (1935) focuses on –in his own words-- 'fascist nationalism' in his study of economic theory and nationalism.

[4] See, e.g., Macesich (1985), Burnell (1986).

[5] Dubai Port's attempt to acquire a Florida port and the attempt by the Chinese oil company CNOOC to acquire U.S. oil company Unocal seem to be some of the better known examples. Both are withdrawn after political opposition. It is interesting to note that China retaliated by not allowing Coca Cola to acquire one of its bottlers in China, see, e.g., King & Hitt (2006), Petrusic (2006), *The Economist* (5 March 2009).

nationality; instead, they have to rely on their *de facto* power. Second, Europe-wide economic integration is unlikely to be complete and there still seem to be many opportunities for cross-border mergers, especially following the current global financial crisis, so a study of the impediments to this integration is important. Third, there are already many domestic and cross border merger attempts within the EU to allow a statistical analysis. And, finally, there is a large body of anecdotal evidence about economic nationalism in the EU.

The current global crisis has only increased the importance of economic nationalism. Many firms are distressed and likely to exit their industry. Given the widespread weaknesses in a given country, a potential acquirer may be more likely to be found in other countries. Yet, calls for political intervention to the economy in general and for protectionism in particular also seem to have increased in the popular press.[6] Considering the role of protectionism in deepening and spreading the Great Depression around the world (Irwin (1998)), an analysis of economic nationalism and its impact will be very useful.

Our paper is related to several studies that examine the role of merger regulations in the European context. Aktas et al. (2004), Carletti et al. (2007), Duso et al. (2007) study the stock market response to regulatory decisions or legislative actions using event study methodology. Both our focus and methodology are different. Guiso et al. (2009) and Bottazzi et al. (2008) demonstrate the importance of trust in cross-border financial investments by using macroeconomic and venture capital investment data, respectively. Ahern et al. (2010) also use macroeconomic data and find that the volume of cross-border mergers is smaller when countries are more culturally distant. We focus on nationalism

[6] See the discussion in Shuman (2009), *The Economist* (5 February 2009), among others.

and use micro-level mergers and acquisitions data as well as hand-collected data on actual government reactions.[7] Finally, Morse and Shive (2008) find that country-level patriotism is significantly related to the home bias in equity investments and Gupta and Yu (2009) show that bilateral capital flows reflect bilateral political relations; our study is at the micro level.

This paper is structured as follows. Section 1 summarizes the institutional background. Section 2 provides a few examples of merger cases from our sample. Section 3 describes the data and our sample. In Section 4, we present our main findings on economic nationalism in the government reactions to merger attempts. Section 5 examines how the government reactions to the acquisition attempts affect their outcome. In Section 6, we study whether reactions to current acquisition attempts deter future foreign acquisition attempts in that country. In Section 7, we estimate the direct losses incurred by target shareholders due to nationalism. Section 8 concludes.

1. Institutional Background

Mergers above a certain size threshold with a sufficiently large representation across the European Union are deemed to have a 'European Community Dimension' and the relevant competition authority becomes the European Union. Exceptions as discussed below not withstanding, member countries have to implement the ruling made by the European Commission on a merger case; any appeal can be done only at the European Court. This section first reviews the regulation in the European Union, and then discusses

[7] For studies on European mergers and acquisitions but without a political economy focus, see, e.g., Rossi and Volpin (2004), Faccio and Masulis (2005), Ferreira, Massa, and Matos (2007), and Bris and Cabolis (2008).

some of the methods the governments of member countries use in implementing nationalistic policies within this legal framework.

1.1. Regulation in the European Union

For most of our sample period, the European Union's approach to mergers and acquisitions was determined by the EC Merger Regulation from 1989 as amended in 1997.[8] The European Commission, as opposed to individual countries, had the authority to rule on mergers if the mergers were deemed to have a community dimension, which is defined as follows:

- The combined aggregate worldwide turnover of all the merging parties is more than 5 billion Euros[9].
- The aggregate community-wide turnover of each of at least two merging parties is more than 250 million Euros.[10]

The main exception to these size and breadth thresholds is that, if more than two thirds of the turnovers of each merging party take place in one and the same member state, the competition authority is the government of that member country. The implication of this community dimension rule is that mergers between large companies from different countries within the EU typically fall within the jurisdiction of the European Commission while mergers between large companies from the same country may satisfy the exception

[8] See Council Regulation (EEC) No 4064/89 as amended by Council Regulation (EC) No 1310/97 and hereafter referred as the EC Merger Regulation. This was replaced by Council Regulation (EC) No 139/2004 but the definition of 'community dimension' in Article 1 that determined the scope of European Commission's jurisdiction did not change. In general, the changes brought by the latter regulation were minor, see Hinds (2006).

[9] For banks, the 'turnover' is calculated as the sum of interest income, income from securities, commission income, net profit on financial operations, and other income; for insurance companies, it is the value of gross premiums on policies written, see Article 5 of the EC Merger Regulation.

[10] The 1997 amendment accepted a lower threshold of 2.5 billion Euros of aggregate turnover if a) in each of the three member states, the aggregate turnover of merging parties is more than 100 million Euros; and b) the aggregate Community-wide turnover of each merging parties is more than 100 million Euros.

to the community dimension rule. The latter will prove to be important in allowing the creation of 'national champions' as discussed below.[11]

If a merger satisfies the community dimension, a member state can still take 'appropriate measures' to protect the following legitimate interests[12]: Public security, plurality of media, prudential rules for financial companies, and other public interests that are recognized by the European Commission.

As the defense and media companies unarguably fall into the first two exceptions, mergers involving defense and media companies are excluded from this study. The other two exceptions do not allow decisions based on the nationality of the acquirer but they may still potentially provide individual countries with a tool to cloak their economic nationalism as protection of legitimate interests, as discussed in more detail below.

Overall, the European Union's Merger Regulation leaves little *de jure* power to individual countries for policies to implement their economic nationalism so we now turn to their *de facto* power in implementing such policies.

1.2. Common Methods of Implementing Nationalism in M&As

We define a company's nationality as its –or its ultimate parent's-- country of registration, which is discussed in more detail in the data section. Below we review common methods used by individual countries in implementing their nationalistic policies in mergers in our sample. Multiple methods are typically used simultaneously.

1.2.1. Prudential Rules for Financial Companies

[11] Although it is beyond the scope of this paper, notice that mergers between two companies with main operations located outside of Europe may still satisfy the community dimension rule and, hence, require European Commission's approval. The case of the proposed merger between General Electric and Honeywell, which was approved by the U.S. regulators but rejected by the European regulators, is a good example for the implications of this rule for 'non-European' companies, see Evans (2002).

[12] See Article 21 of the EC Merger Regulation.

The EU's Merger Regulation allows domestic governments to oppose an acquisition of a financial company based on prudential rules even if the community dimension is satisfied. This exception allows governments to implement nationalistic policies under the rubric of prudential rules. This ability, however, has been relatively restricted since the *Champalimaud* case in 1999, in which the European Commission took Portugal to the European court because the Portuguese government vetoed the acquisition of a Portuguese bank by a Spanish bank based on the nationality of the acquirer (Gerard (2008)). The 'prudential rules' exception often serves as a way for the government to gain time while searching for a 'white knight' for the domestic target instead of vetoing an acquisition outright.

1.2.2. 'Public Interest'

The EU Merger Regulation also allows domestic governments to oppose a merger in order to protect 'public interests,' which is left undefined in the Merger Regulation. Although this might seem to be a catch-all clause that can be invoked at will by individual governments to block a merger, its use is actually limited in practice because any 'public interest' must first be recognized as such by the European Commission.

1.2.3. Moral 'Persuasion'

This is especially common when governments try to stop a merger at the rumor stage by stating that they are against it. Although they may have no *de jure* power to stop a merger, the implicit threat is that the acquiring company will be dealing with a hostile domestic government on many regulatory issues if the acquisition goes through. This implicit threat is more powerful if the government is also a major customer, as the case may be for a pharmaceutical company.

1.2.4. ‘Golden Shares’ in Privatized Companies

In many privatized companies, domestic governments still hold ‘golden shares’ or the right to veto major corporate changes, such as the decision to be acquired. This can be a major deterrent to foreign acquirers even though such veto rights increasingly seem to be in a legal grey area because these veto rights are frequently rejected in European Court when challenged (Adolff (2002)).

1.2.5. Playing For Time

This is another common method because any delay or uncertainty is often disadvantageous for the potential acquirer. It allows the domestic government to find and/or fund a friendly bidder for the target. Apart from the prudential rules for financial companies as mentioned above, requirements for the stock market regulator to approve any tender offer and/or approvals necessary from various commissions, such as energy boards to clear potential mergers, are often used to gain time. However, the politicians’ control over such regulators varies across countries and time.

1.2.6. Finding and/or Financing ‘White Knights’

This is one of the most effective methods to block an unwanted acquirer. While using other methods to gain time, the governments and/or the target management try to find a friendly acquirer (‘white knight’) or a friendly blocking minority holder (‘white squire’). Through the use of public pension funds and government-owned banks, governments may also provide financing for such friendly deals. There are typically much fewer restrictions on these financial institutions in their investment choices than the restrictions placed on individual governments by the Merger Regulation. Given the limited effectiveness and dubious legality of other methods, this method may be observed even more frequently in the future especially if governments start creating sovereign wealth funds to prevent the acquisition of domestic companies by foreign companies, as advocated by the French president Nicolas Sarkozy (Hall (2008)).

1.2.7. Creating 'National Champions'

This involves supporting the merger of two domestic companies in the hope of creating a new company that is "too big to be taken over" by foreign firms. As demonstrated in the rest of the paper, target size is a good deterrent of foreign acquisitions and this pre-emptive move is very common.

2. Illustrative Cases

As discussed in more detail in section 4, economic nationalism in mergers and acquisitions manifests itself not only in opposition to foreign acquirers but also in support of domestic acquirers to create national champions. In this section, we briefly describe some mergers and merger attempts to illustrate these cases. We will also provide examples for the opposite cases, namely, the support for foreign acquirers and opposition to domestic bidders as they are also informative. There are, of course, many cases in which the government does not intervene. Our aim in this section is not to provide a detailed description of each merger, but rather to give a flavor of the cases encountered.

2.1. Opposition to Foreign Acquirers

Endesa (Spain):[13] This is a merger case that involved multiple bidders from three different countries, saw the ruling Spanish politicians overrule the Spanish competition

[13] Our summary is largely based on, among others, Crawford (2006), Betts (2006), Mulligan (2006), Crawford and Williamson (2006), Buck et al. (2006), Mulligan (2007).

board and later change the merger rules against a foreign bidder, induced the European Commission to warn the Spanish government against nationalistic responses, and took about two years to resolve. In September 2005, Spanish energy company, Gas Natural, made an unsolicited bid for a different Spanish energy company, Endesa. Interestingly, a similar bid by the Catalonia-based Gas Natural for another Spanish energy company had been blocked two years earlier, as described below. However, the Spanish government needed Catalan support in late 2005 and approved the bid for Endesa, despite the rejection recommendation of the Spanish anti-trust commission and the opposition of Endesa management. Endesa was then able to obtain an injunction in court against the merger.

The acquisition attempt gained an international dimension in February 2006 when the German energy company, E.on, bid for Endesa. The Spanish government laid down onerous requirements for the E.on bid through its influence over the supposedly-independent Spanish energy regulator. The European Commission demanded the withdrawal of any requirements that effectively applied only to foreign acquirers. The Spanish government responded by encouraging the Spanish construction group, Acciona, and the Italian energy company, Enel, to build a blocking minority share after the end of official bidding period despite the objections of the Spanish stock market regulator. With the continuing encouragement of the Spanish government, Acciona and Enel eventually built enough stake in 2007 to acquire Endesa through a holding company that was owned 50.01% by Spanish Acciona but largely financed by Italian Enel. This was a case in which not only a domestic government opposed a foreign bidder and supported domestic bidders, but also the nationalistic policy was so overt that it attracted explicit warning from the European Commission.

Banca Nazionale del Lavoro (Italy):[14] In September 2005, Spanish bank BBVA bid for the Italian bank Banca Nazionale del Lavoro (BNL). The bid required the approval of the Italian Central Bank. The central bank governor Antonio Fazio, who had met and agreed with the Prime Minister Silvio Berlusconi earlier that 'foreign banks could be shareholders but could not control Italian banks,' rejected the bid with the support of the Berlusconi government. The communication minister Maurizio Gasparri summarized the Italian government's position as:

"Yes to competition, no to colonization [of Italian banks]!"[15]

When the EU commission warned the Italian government, the Italian central bank tried to arrange a leveraged white knight bid by Unipol, an insurer much smaller than BNL, the target. Unipol made a higher bid and BBVA withdrew its offer. Central bank governor Fazio had to resign when taped phone conversations he made in arranging white knight bids surfaced and the new central bank governor did not approve Unipol's white knight takeover of BNL for prudential reasons. BBVA did not renew its bid.

Scania (Sweden):[16] In September 2006, German truck-maker, MAN, bid for the Swedish truck-maker, Scania. Sweden's Prime Minister Fredik Reinfeldt expressed his government's opposition as follows:

"I hope that this Swedish industrial crown jewel remains Swedish.…I feel

[14] Our summary is largely based on, among others, Barber, Bickerton, Crawford, and Michaels (2005), Barber, Bickerton, Mulligan, and Larsen (2005), Michaels and Mulligan (2005), Buck and Crawford (2005), Michaels (2005a), Buck (2005a), *Financial Times* (19 July 2005), Minder (2005), Michaels (2005b), Buck (2005b), Michaels (2006).

[15] As reported in Barbet et al. (2005).

[16] Our summary is largely based on, among others, *Dow Jones News Service* (12 September 2006), Mackintosh and Milne (2006), Milne (2006), *Dow Jones News Service* (12 October 2006), *Dow Jones News Service* (17 November 2006), *Dow Jones News Service* (7 December 2006), *Dow Jones Business News* (23 January 2007).

> very strongly for those who make efforts to keep ownership in Sweden and do something to keep headquarters here in Sweden."[17]

MAN subsequently withdrew its bid.

2.2. Support for Domestic Acquirers

Olivetti controlling Telecom Italia (Italy):[18] Olivetti acquired the control of Telecom Italia through a pyramid structure in 1999. The subsequent decline in the technology sector left Olivetti highly indebted and made its fellow investors vulnerable. In July 2001 Pirelli and Benetton families captured the control of Olivetti, through their own pyramid structure, to control Telecom Italia. The government's support for the joint bid explained by the communications minister Maurizio Gasparri:

> "There was the risk of a takeover from foreign buyers. That would have been in line with the logic of the market. But it also would have put another large piece of Italy in the hands of a foreigner."[19]

Aventis (France):[20] In April 2004, French pharmaceutical company, Sanofi bid for the larger French pharmaceutical company, Aventis. The French government supported the bid despite the objections of Aventis management. When rumors surfaced that Swiss pharmaceutical company, Novartis, was considering a white knight bid for Sanofi, the government warned Novartis against it and provided financing for the acquisition through CDC-Ixis, a state-owned bank. No white knight bid materialized and Sanofi acquired

[17] As reported by *Dow Jones News Service* (7 December 2006).
[18] Our summary is largely based on, among others, Kapner (2001a), Ratner (2001), Guha (2001), Kapner (2001b), Ratner, Guha, and Kapner (2001), Kapner and Ratner (2001), Financial Times (20 September 2001).
[19] As reported by Kapner (2001b).
[20] Our summary is largely based on, among others, Arnold (2004a), Arnold and Simonian (2004), Arnold (2004b), Arnold and Dombey (2004), Johnson and Arnold (2004), Milne and Simonian (2004), Arnold, Dyer, and Smolka (2004), among others.

Aventis. Prime Minister Raffarin explained the reasons behind the government's support:

"We are concerned about the fate of vaccines [against terrorist attack]."[21]

2.3. Support for Foreign Acquirers

Support for foreign acquirers is rare, as demonstrated in the next section, but it is useful to examine it when it happens.

AGF (France):[22] In October 1997, Italian insurance company, Generali, bid for the French insurance company, AGF. The French government opposed the acquisition and delayed giving a relatively routine and technical approval, which was necessary for the bid to be presented to AGF's shareholders. In the meantime, AGF searched for a white knight and found one in the German Insurance company, Allianz. Allianz earned the French government's support by promising to keep the management and operations in France and acquired AGF.

2.4. Opposition to Domestic Acquirers

Opposition to domestic acquirers is also rare, but it is helpful to discuss one of the few.

Iberdrola (Spain):[23] In March 2003, Spanish natural gas distribution and energy company Gas Natural attempted to acquire Iberdrola, another Spanish energy company. The acquisition attempt came at a time when the Catalan independence movement was enjoying increased popularity and Gas Natural, a Catalonia-based company, obtained

[21] As reported in Johnson (2004).

[22] Our summary is largely based on, among others, Betts and Jack (1997), Fisher and Jack (1997), *Financial Time*s (19 November 1997), *Financial Time*s (2 December 1997), Jack (1997), Jack and Betts (1997), *Financial Time*s (18 December 1997), Jack (1998a), Jack (1998b).

[23] Our summary is largely based on, among others, Das Gupta (2003), Crawford (2003), Levitt (2003a), Levitt (2003b), Levitt (2003c), Levitt (2003d), Levitt (2003e).

financing from several banks controlled by the Catalan regional government. The acquisition attempt was vetoed by the Spanish Energy commission of the Madrid government with votes based along party and regional lines. As described above, the same commission approved Gas Natural's attempt to acquire Endesa, another Spanish energy company, two years later when the government in Madrid needed the support of Catalan parties in Spanish parliament.

3. Data and Sample Description

Our sample contains the largest 25 merger targets by market capitalization of target firms in each of the first fifteen European Union (EU) countries (as of 1996) between 1997 and 2006. These countries are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and the United Kingdom. All firms in our sample are publicly listed. We define the nationality of a company as its country of registration or, if it is majority-owned, as its parent's country of registration.

We use Thomson Financial's SDC Mergers and Acquisitions data base for non-U.S. targets to identify merger attempts and their characteristics. We include a merger bid in our sample if the acquiring firm aims to become, with the proposed acquisition, the majority owner or to cross the 20% ownership threshold to become the largest shareholder. If there are multiple bidders for the same target firm, we keep all of them. For Luxembourg, there are only 10 merger attempts during this time period. All other countries have at least 25 observations or more due to multiple bids, forming a sample size of 415 for fifteen countries. Spain has the largest number of observations at 35.

These merger bids are made by firms in the same country as the target firm as well as by foreign firms from all around the world. Our sample includes 197 domestic bids and 218 foreign bids.

Facing an acquisition bid, the target firm's government has three alternatives: support the bid, oppose the bid, and be neutral/do nothing. To identify government reaction to the merger bids, we searched newspaper articles about each merger attempt using Factiva. We used a large set of key words in order to identify articles that were likely to be relevant and read all of them.[24] Based on these newspaper articles, especially using quotes from government representatives, we identified governments' reaction to each merger bid as support, opposition, or neutral/no reaction. We used only quotes by prime ministers and cabinet ministers --and their spokespersons—as well as actions taken by them. For targets in banking, we also included central banks, which typically examine any bank merger. No other government agency or politicians, including those that belong to the governing party, are used in classification of the data. Any possible disagreements among the cabinet ministers do not seem to be made public. If the domestic government has the anti-competition jurisdiction on a domestic merger and the cabinet follows the recommendation of the agency in charge of the anti-competition examination, the government action is not considered as intervention for our purposes. The manual search for government action was, by far, the most time-consuming aspect of our study.

There are both advantages and disadvantages to our approach. The main disadvantage is that we cannot avoid underestimating economic nationalism in mergers

[24] Following are the keywords that we searched in the in the body of articles in order to identify relevant articles: government, minister, politic*, national assembly, parliament, central bank, nationalism, patriotism, protectionism, champion, industrial jewel, national jewel, industrial symbol, national symbol, icon, national security, strategic interest, strategic sector, strategic industry, public interest, national interest, municipal, state-owned, and patriotic.

and acquisitions by looking at the government reaction to actual bids or to rumors of bids. For example, if a country's government is known to oppose foreign acquirers, potential foreign acquirers will fail to materialize in the first place and the government will not need to openly oppose any foreign bids. This could be perceived as having no nationalistic reaction by that country's government. The main advantage of our approach is that it focuses on direct government reaction rather than surveys of nationalistic sentiments or the ideology of the ruling party that may or may not be correlated with actual actions. This method also allows us to exploit the timing of government reactions and study its subsequent deterrent effect on future merger attempts.

Simple frequency counts of government reaction already suggest that whether the bidder is foreign or domestic is an important factor behind government reactions. Figure 1 presents this difference visually: Governments are more likely to support a domestic acquisition and oppose a foreign acquisition of a domestic company. Table 1 provides a more detailed tabulation. Out of 197 domestic merger bids, 34 (about 17.3%) are supported by the government while only 9 (about 4.6%) are opposed. On the other hand, 7 out of 218 foreign merger bids (3.2%) are supported and 28 bids (12.8%) are opposed by the government. Although Table 1 indicates that governments stay neutral, or do not show any reaction to the majority of bids, the Pearson chi-squared test rejects, at better than 1%, the equality of distributions for government reactions by the nationality of the acquiring company.

There are also large differences across countries in their interventionism. France, Italy, and Spain, followed by Portugal, have the most interventions on merger attempts in our sample. Greece and U.K., on the other hand, have no interventions in our sample.

However, we caution against making country-level comparisons of nationalism for several reasons, despite the temptation for such comparisons. First, as mentioned above, our approach underestimates nationalism while the magnitude of this downward bias need not be the same across countries. In particular, a country that is very nationalistic may attract few foreign bids and may, hence, show little overt nationalistic reaction. Such a country would be seen as non-nationalistic in our sample. Second, the SDC dataset, which is the basis of merger attempts in our sample, seems to have good coverage once an official bid is made, whereas their coverage of rumors seems to differ across countries. Some countries may be more likely to intervene while a merger bid is still at a rumor stage rather than waiting until an official bid is made. This can affect the comparisons across countries. Finally, there are only fifteen countries in our sample and any country-level, as opposed to firm-level, statistical analysis is likely to have low statistical power. From an econometric perspective, however, the differences across countries still need to be taken into account in a firm-level analysis, which we discuss in the next section.

We obtain firm-level data such as market capitalization and net income for target firms from Datastream and Global Compustat. Statistics in Table 2 describe target firms and merger bids that they receive from domestic and foreign acquirers. The median target in our sample has a market capitalization of 2.49 billion Euros (adjusted for inflation). The median target of domestic bidders is larger than the median target of foreign bidders nevertheless the difference is not statistically significant. The median target in the sample has a ratio of net income over market capitalization of 5.8%, similar for targets of domestic and foreign bidders. SDC identifies 14.5% of all merger attempts as hostile and/or unsolicited and this ratio increases to 16.8% for the targets of domestic acquirers while it decreases to 12.4% for the targets of the foreign acquirers. But this difference between domestic and foreign bids is not significant either. Overall, there is little difference between the median company that receives an acquisition bid from another domestic company and the one that receives from a foreign company.

Table 3 tabulates similar characteristics by the reaction of the target country's government and we see differences based on government reaction. Compared to the median merger bid that gets a neutral or no reaction from the government, the median bid that the government opposes or supports is larger (1.4 billion Euros vs. 6.3 and 6.6 billion Euros for opposition and support, respectively). Governments tend to oppose hostile or unsolicited bids much more frequently: 43.2% of the bids opposed by the government are hostile and/or unsolicited while this ratio is reduced to 17.1% for the bids that are supported (difference is significant at the 5% level). Most importantly for our analysis, 75.7% of all merger attempts that are resisted by the government are initiated by foreign acquirers while only 17.1% of the ones supported are foreign bids. The difference is statistically significant at the 1% level.

For robustness check, we also obtain some country-level controls from various resources. GDP Growth and Unemployment Rate, which is reported as percentage of labor force, are from the IMF data base. We obtained the political affiliation of the ruling party from rulers.org and the election dates from electionguide.org and other internet sources.

4. Multivariate Analysis of Economic Nationalism in M&As

4.1. Specification

To study the government reaction to merger bids, we employ a discrete-choice model that estimates the likelihood of a particular government reaction to a given merger bid. When the target firm receives a merger bid, the government has three choices: oppose, support, or do nothing/stay neutral. Given the number of government's alternatives, the multinomial logit model allows us to estimate the effect of bid-, firm-, and macro-level factors on the government's reaction to the merger bid (see McFadden (2001) and Train (2003) for an overview). A different set of coefficients is estimated for different outcomes within the same regression. These estimates are relative to the base outcome, which is taken to be as 'doing nothing or staying neutral' as it is also the observed reaction in majority of cases. We provide Average Marginal Effects with heteroscedasticity-robust standard errors corrected for clustering at the target country level.

4.2. Results

Table 4 Panel A provides the estimates of our main multinomial logit model. The estimates are for two possible outcomes, namely, the government opposition and the government support, and are relative to the base case of no reaction/staying neutral. The first model serves as a benchmark and includes characteristics at the bid- and target firm-level but not the foreign-acquirer dummy, our main variable of interest.

The benchmark regression shows a statistically significant size effect: A ten percent increase of target size increases the probability of opposition by 0.19 percentage points and that of support by 0.32 percentage points on average, compared to about 10%

unconditional probability for either outcome. This effect is significant at the 1% level for both outcomes. The probability of government intervention is higher by 6.5 percentage points for opposition and by 7.3 percentage points for support on average if multiple bidders are competing for the same target; this effect is significant at the 5 or 10% levels depending on the specification. European governments are also more likely to oppose a bid by 8.3 percentage points on average if it is hostile or unsolicited.

The second regression adds the *Foreign Acquirer Dummy*, our main variable of interest, to explanatory variables. This variable has a large average marginal effect that is significant at the 1% level for both types of intervention. European governments are 15.1 percentage points more likely to oppose and 13.6 percentage points less likely to support a foreign acquirer, on average. This is a very strong preference for domestic owners and against foreigners given that the unconditional probability is about 10% for both outcomes and that only about half the acquirers are foreign companies in the sample.

As mentioned in the introduction, we follow an old tradition in economics and use the term nationalism to denote the preference for natives against foreigners. A natural question is whether the nationalism we find above is stronger where and when such nationalistic sentiments are strong. However, it is not trivial to measure such sentiments or to find a proxy for them. We consult the recent political science literature that studies the rise of extreme right parties in Europe in the 1990s and after. Three main findings of this literature are important for us.[25]

First, a common theme of these parties is their advocacy and preferences for natives against foreigners and immigrants. For example, Mudde (1996) finds that, among

[25] See, e.g., Hagtvet (1994, van der Brug et al. (2000), Golder (2003), Givens (2005, esp. pp .68-86) Bjorklund (2007), Wendt (2009) and the references cited below. In this voluminous literature, Bain (2008) provides a concise book-length treatment and further references.

the 26 different academic studies surveyed, the following five features are mentioned by at least half of the studies: Nationalism, racism, xenophobia, anti-democracy, and the strong state.

Second, despite the free market origins of some of these extreme right parties, most adopted economic policies that are protectionist, economic nationalistic, and anti-globalization by the 1990s (see, e.g., Swank and Betz (2003), Mudde (2007, pp. 119-137, 184-197), Zaslove (2008) and Bainsworth (2008, pp. 85-89)).

Third, although extreme right parties rarely came to power on their own, their impact on European politics has been large as they have forced other parties to move to the right and have dominated the discussion on foreigners (see, e,g., Bale (2003), Schain (2006), Bain (2008, pp. 111-121)).

Following the findings of this literature, we use the vote share of extreme right parties as identified by Golder (2003) and updated by Wendt (2009) as a proxy for the strength of nationalistic sentiments.[26] We test for whether the impact of foreign ownership of the acquirer on the government decision increases as the vote share of extreme right parties also increases. We are not aware of any other empirical study in economics using this proxy but we are certainly not the first in Economics to link extreme right ideology to economic nationalism, see Knight (1935).

This test is essentially a test for the 'interaction effect' between the foreign acquirer dummy and the extreme right vote share. In a usual linear estimation, this would be straightforward; the coefficient of the interaction term would immediately give the interaction effect. However, in a non-linear estimation such as the multinomial-logit model here, Ai and Norton (2003) show that the calculation of the interaction effect is

[26] We thank Christopher Wendt for sharing these data.

more complicated and that it typically depends also on coefficients other than that of the interaction term as well as on the values independent variables take. We provide in the Appendix how the average marginal effects are derived and calculated for the interaction effects in the multinomial logit estimation.

The regression reported in Table 4 Panel B is the same as the second regression in Panel A except that the extreme right vote share and the interaction term between that and the foreign acquirer dummy are included; country fixed effects, on the other hand, are omitted as the vote share of extreme right parties change relatively slowly and only in election years. The results show that European governments are more likely to intervene, both in support or opposition of a merger, where and when the extreme right parties are strong; this effect is statistically significant at the 5% level. The average marginal effect of foreign acquirer is somewhat smaller than, though still comparable to, the values reported above and significant at the same 1% level.

Our main interest, the interaction effect, is also statistically significant. A one percentage point increase in the extreme right vote share increases the probability that the domestic government opposes a foreign acquirer by 0.6 percentage points, on average; this effect is significant at the 10% level. To put this in perspective, the vote share of extreme right parties is in low single digits where and when they are weak but increases to low double digits when they are strong. Hence, a ten percentage point increase in the vote share increases the probability of opposition to a foreign acquirer by 6 percentage points, which is more than half the unconditional probability. Similarly, a ten percentage point increase in the extreme right vote share decreases the probability of support for a foreign acquirer by 8 percentage points, which is close to the unconditional probability. This effect is significant at the 1% level.

To summarize, the nationalistic preference of governments for domestic owners against foreign owners is stronger where the nationalistic sentiments of voters are also strong. The next section provides robustness of our main result and this interaction effect.

4.3. Robustness

Macroeconomics: Macroeconomic factors may also affect government decisions. In particular, the effect of the extreme right vote share documented above may just be a reflection of macroeconomic factors, especially unemployment, rather than the role of nationalistic sentiments in that country.[27] In Table 5, we repeat the regression in Table 4 Panel B by substituting the extreme right vote share first with the GDP growth rate, then with the unemployment rate. Neither of these terms have a statistically significant effect either alone or interacted with the foreign acquirer dummy. Hence, the extreme right vote share is not capturing any effect of macroeconomic factors, especially of the unemployment. Furthermore, the foreign ownership of the acquirer continues to have an economically and statistically significant effect.

Other Political Factors: We also check the robustness of our results, especially the role of extreme right vote share, to the ideology of the target country's prime minister and the timing of elections in the target country, see, e.g., Brown and Dinc (2005) for the role of elections in finance. We repeat the interaction regression with these two measures substituted for the extreme right vote share and report the results in Table 6. Neither

[27] Unlike the anti-foreign preferences of these parties, the role of unemployment in the strength of these parties seems unsettled in the political science literature. Arzheimer and Carter (2006) find a positive correlation while Bjorklund (2007) finds a negative one. Golder (2003) documents a positive correlation only when the immigrant population in that country is also high.

factor has a statistically significant coefficient either alone or interacted with the foreign acquirer dummy. The foreign ownership of the acquirer again has an economically and statistically significant effect, however.

Golden Shares: In some companies, the domestic government owns ‘golden shares’, the right to veto major decision, including mergers. We searched Factiva to identify the target companies where the domestic government has golden shares and excluded the bids to those target companies, about 5% of our sample, from our analysis. As reported in Table 7, our results are robust to the exclusion of those targets.

Rumors: Our mergers and acquisitions data include some merger rumors but the selection of rumors, unlike formal merger bids, may incorporate some subjective criteria by the data provider, and, in particular, may change across countries and over time. Hence, we repeat our main regression after excluding rumors in the sample and report the results in Table 7. 23 data points, or about 5% of the full sample, are excluded, but the economic nationalism found above remains robust to the exclusion of these acquisition rumors.

Acquirer size: We also check the robustness of our results to controlling for the acquirer size, using its market capitalization from Datastream as of the most recent fiscal-year end before the bid is announced. Unfortunately, we only have data on the acquirer size for 255 bids, or about two thirds of the sample. The results are reported in the first regression of Table 8. The acquirer size does not have a statistically significant effect but the foreign ownership of the acquirer continues to have a statistically and economically significant effect.

Bid premium: We also check the robustness of our results to controlling for the bid premium, which is the premium offered to the target relative to its stock price 4 weeks prior to the bid. We have data on the bid premium for only 235 of our sample, or less than 60% of our sample. The results are reported in the second regression of Table 8. The bid premium has a statistically significant –and positive-- effect only for government opposition. It is, of course, difficult to attribute any causality to this result as the acquirer may be offering a high premium when it expects government opposition. The foreign ownership of the acquirer, our main variable of interest, however, continues to have a statistically and economically significant effect as before.

Other robustness checks: Guiso et al. (2009) and Bottazzi et al. (2008) find that trust is an important factor behind international investments. In unreported regressions, we check whether the economic nationalism we find is a reflection of the trust –or the lack thereof- towards foreigners.[28] We include their measure of trust the target country residents feel towards the country of the acquiring company in both the second regression of Table 4 Panel A as well as the interaction regression of Table 4 Panel B. One complicating factor in our setting is that the acquiring companies in our sample tend to be from only a few countries so there is little heterogeneity across acquiring countries. Perhaps reflecting this lack of heterogeneity, the trust measure does not emerge as a statistically significant factor in either setting. Our foreign acquirer dummy, however, continues to have the same signs and remains statistically significant.

5. Effectiveness of Government Intervention

The next important question to address is whether nationalism has any economic impact. After all, government opposition, or support, may only be a manifestation of

[28] We thank Luigi Guiso, Paola Sapienza, and Luigi Zingales for sharing their data.

political posturing with little real economic influence. In this section, we study the direct impact of government intervention. More precisely, we examine whether a merger bid is more likely to succeed when the government supports it and/or is less likely to succeed when the government opposes it.

We first perform a univariate comparison of the success/failure of the merger attempts that receive different government reactions. Table 9 shows that 26 out of 37 merger bids (70%) that the government resists eventually fail. Out of 41 merger bids that the government supports, only 11 bids (27%) fail. This difference of distributions is significant at the 1% level as indicated by Pearson's chi-squared test. This univariate analysis suggests that government interventions have a direct economic impact. Naturally, government interventions may just be a proxy for foreign acquirers and, if cross-border merger attempts, once announced, are inherently difficult to complete, these univariate statistics may reflect that difficulty. Hence, we now turn to the regression analysis.

We employ a binary-choice framework –a logistic regression- where the dependent variable is equal to one if the merger takes place and zero if the merger fails. Table 10 reports the results of these logistic regressions. The first model is the base model with the *foreign-acquirer dummy* as well as controls at the bid- and firm-level. It also includes the target-industry and target-country fixed effects. The regression analysis indicates that acquisition attempts that target larger companies, that attract multiple bids, and that are hostile are less likely to be successful. The coefficient of the *foreign-acquirer dummy* is negative but not statistically significant. This suggests that bidders seem to internalize possible difficulties of completing a cross-border merger when they attempt the merger.

The second regression adds dummy variables that identify opposition (*negative reaction dummy*) and support (*positive reaction dummy*) by the government. (Recall that the government does not react or stays neutral in the majority of merger attempts so both of these dummy variables are zero for the majority of observations.) The coefficient of negative reaction dummy is negative and significant at the 10% level while the coefficient of the positive reaction dummy is positive and significant at the 5%. Notice that the *foreign-acquirer dummy* is also included in this regression so government intervention cannot be just a proxy for possible inherent difficulties of completing a cross-border merger.

In the third model, we control for the size of the acquirer, using its market capitalization as of the most recent fiscal-year end before the bid is announced. The acquirer size does not have a statistically significant coefficient but both the *negative reaction dummy* and the *positive reaction dummy* continue to have a statistically and economically significant effect.

These results show that, relative to government neutrality, government intervention has a direct impact on the outcome of corporate acquisition attempts. In other words, a merger bid is more likely to succeed if the government supports it while it is more likely to fail if the government resists it. Therefore, the economic nationalism demonstrated above is not just political posturing but it has a direct impact on the workings of the market economy. Next, we will also demonstrate its indirect impact on the acquisition of other, uninvolved, companies.

6. Deterrence of Future Foreign Acquisition Attempts

We have shown that nationalism has a direct impact on the outcome of an acquisition attempt if the domestic government opposes or supports that attempt. We now study the indirect effect of nationalism on future acquisition attempts by foreign companies. More specifically, we study whether nationalism deters foreign acquisition attempts for other companies in that country as potential bidders may infer from a nationalistic intervention the domestic government's willingness to intervene and oppose the European Commission. Any such deterrent effect of nationalism adds to its direct effect in impeding the workings of the market economy in general and international capital flows in particular.

We identify the top 50 listed companies in each country as of the end of 1996 and follow them through December 31, 2006 or until they became the target of an acquisition bid. [29] We do not follow a firm after it receives an acquisition bid because the government intervention –or the lack thereof- may carry information about the likelihood of government intervention in the future and consequently may bias the observation of future bids for that particular company.

Before we provide a hazard analysis of foreign acquisition attempts in this sample, we start by studying the rate of foreign bids per 1000 firm-years, the incidence rate, before and after the most recent nationalistic intervention in that country. Following the results presented above, we refer to both opposition to foreign acquirers and support for domestic acquirers by the domestic government as nationalistic intervention. Figure 2

[29] There are fewer than 50 companies from Luxembourg.

shows the incidence rate semiannually for three years after the most recent nationalistic intervention in countries with at least one nationalistic intervention in our sample. It also provides the incidence rate for the base period, which is defined as the time before nationalistic intervention or more than three years after the most recent nationalistic intervention.

The incidence rate drops during the first six months after a nationalistic intervention, continues to decrease until it reaches its low point between 13 and 18 months, and then slowly recovers. The fact that the drop is not sudden may reflect the fact that many friendly merger negotiations take place before they become public and the companies involved in such talks at the time of nationalistic intervention may choose to continue with their merger. This pattern will be confirmed in a hazard analysis below.

We employ a Cox proportional hazard framework to study the rate of foreign acquisition attempts before and after nationalistic intervention. All the regressions control for the target firm size and macroeconomic factors in the target country as well as target industry and target country fixed effects. All the standard errors are robust to heteroscedasticity and clustering at the target country level. Notice that Cox regressions non-parametrically control for time-specific common factors, which is akin to the effect of including time fixed effects in other settings. This helps controlling for merger waves and Europe wide common economic and regulatory factors.

Table 11 reports these regression results. The first regression, which serves as a benchmark, does not include any nationalism-related variable and includes only the countries with at least one nationalistic intervention in our sample. The second regression adds to the benchmark model six semi-annual dummy variables, namely, *1st half year* through *6th half year*. *1st half year* takes the value of one during the first 6 months after the most recent nationalistic intervention, *2nd half year* takes the value of one during the second 6 months after the most recent nationalistic intervention, and so on. These variables are country specific so when they take the value of one, they do so for all the firms in the country where the nationalistic intervention has taken place. Recall that we stop following a firm after it receives its first acquisition attempt, regardless of subsequent government reaction to that acquisition attempt, so these six dummy variables capture only the impact of nationalistic reactions on the rate by which *other* companies in that country receive a foreign acquisition attempt. In light of results presented below, the impact of nationalism on the target companies that are subject to nationalistic intervention would probably be even greater.

The second regression confirms Figure 2. All six dummy variables have negative coefficients and all the coefficients, except those of *1st half year* and *6th half year,* are statistically significant. The results are economically very significant. For example, at the low point of third half year after a nationalistic reaction, the rate of foreign acquisition attempts towards the firms in that country drops to less than 5% (=exp(-3.129)) of the base rate!

The final regression repeats the second regression for the full sample, without excluding the countries that have no nationalist reaction in our sample period. The results are both economically and statistically similar. These findings show that nationalism has not only a direct impact on the acquisition attempt to which it is directed, but also an indirect impact by deterring foreign companies from acquiring *other* companies in that country.

7. Quantifying the Value Lost by the Target Shareholders

In this section, we attempt to quantify the losses incurred by the shareholders of the target firm when the government rejects a foreign bid and the bid fails. There are 19 such cases in our sample. We calculate the shareholder loss as the total value of lost premiums offered by foreign acquirers in these merger bids that fail upon government opposition. If there are competing bids that are completed, we subtract the total value of premiums that the shareholders receive from these bids from the shareholder loss. Using the premium data available in SDC and hand-collecting the rest from the newspaper articles through Factiva, we found information on the premiums offered by the acquirers for 14 out of 19 cases.

As shown in Table 12, the median shareholder loss, due to lost premiums in acquisitions opposed by the government, is about one billion Euros per failed merger while the mean loss of more than 3 billion Euros. This is a non-negligible loss for shareholders. Naturally, there may be confounding factors in these losses and it is difficult to quantify the effect of nationalism precisely in such a small sample. However, as we discuss further in the conclusion, there are also other losses to nationalism, given that nationalistic interventions have both direct and indirect effects on many other economic agents.

8. Conclusion

This paper provides evidence for the economic nationalism in mergers and acquisitions. We find that, instead of staying neutral, governments where the target firms are located tend to oppose a foreign merger attempt while supporting domestic ones that create so-called 'national champions', or companies that are deemed to be 'too-big-to-be-acquired'. We find that these government reactions have both direct and indirect economic impact. Government opposition decreases the completion chances of acquisition attempts while government support increases them. Furthermore, nationalistic reactions also have an indirect effect on corporate mergers by deterring future foreign acquirers. These findings indicate that nationalistic reactions by the governments affect the workings of the market economy significantly.

It is worth mentioning that the merger attempts that form our sample actually took place. In other words, bidders in our sample must already have sufficiently high expectations of completing the deals that they attempt an acquisition in the first place. This leads to an under-representation of nationalism cases in our sample. For example, if the domestic government is so nationalistic that the potential foreign acquirers do not even attempt, no merger bids are observed. Similarly, the domestic government may be successful in deterring a potential acquirer while the bid is still at the rumor stage; such rumored attempts may not be part of our sample, a few exceptions notwithstanding. Hence, our analysis is biased against finding any nationalism and cases of nationalism that we document are, in fact, an underestimate of all such cases.

Many parties suffer from economic nationalism including consumers who face reduced competition in the product market when governments create national champions. We can only provide some estimates for the direct losses incurred by target shareholders when government opposes foreign acquisition attempts. We find these target shareholder losses to be, on average, more than 3 billion Euros per opposed merger attempt.

Given many other parties involved, directly or indirectly, these figures are likely to be an underestimate for *total* losses from economic nationalism. First, the cases in which potential bidders choose not to bid due to fears of economic nationalism remain unobserved to the econometrician. Second, the benefits of unimpeded foreign ownership have already been shown, see, Perez-Gonzales (2005), Desai et al. (2008), Chari et al. (2009). Third, consumers are likely to be major losers because they either have to live with less product market competition after the government support of domestic acquirers and/or forego the efficiency of foreign acquirers after an opposition by the domestic government. In fact, as the case of Endesa above illustrates, the prime minister may overrule the country's own anti-competition agency for nationalistic reasons and approve a domestic merger against the recommendation of that country's anti-competition authority. Unfortunately, we have no way to quantify the lost consumer surplus in the process to provide a more exact calculation for the total losses in the economy.

Our results also suggest several directions for future research. Since economic nationalism acts as a takeover defense against foreign acquirers as shown in section 6, it is interesting to explore the implications of these takeover defenses on managerial entrenchment, company valuation and diversification as well as acquisitions by domestic companies. Our sample consists of the largest mergers in a given country. We make no out-of-sample claims and one open question is whether nationalism is also present in smaller mergers in some form. Another interesting question we leave for future study is the impact of reduced capital flows from abroad due to economic nationalism.

Appendix

This appendix discusses the estimation of interaction effects in multinomial logit models and roughly follows Ai and Norton (2003). Consider the following general estimation model:

(A1) $$E[y\,|\,\mathbf{x}] = f(\mathbf{x};\beta)$$

where $\mathbf{x}$ is a vector (x_1, x_2,…, x_k), $f(.)$ is a possibly non-linear function that is known up to the parameter(s) β and is twice-continuously differentiable. Suppose we are interested in the 'interaction effect' between x_1 and x_2, that is, how the effect of explanatory variable x_1 on the dependent variable y changes with another explanatory variable x_2. This interaction effect, denoted by μ_{12}, is given by

(A2) $$\mu_{12} = \frac{\partial^2 E[y\,|\,\mathbf{x}]}{\partial x_1 \partial x_2}$$

Notice that in the usual linear case where

(A3) $$f(\mathbf{x};\beta) = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_{12} x_1 x_2 + \beta_3 x_3 + \ldots + \beta_k x_k$$

μ_{12} is given by β_{12}.

Two aspects of the linear case are noteworthy. First, the interaction effect is constant throughout the regression sample. Second, it depends only on β_{12}; hence, a consistent estimator of the latter immediately gives the interaction effect.

As Ai and Norton (2003) shows, neither of those aspects is valid in general for a non-linear $f(.)$, including logit, probit, and multinomial logit functions. μ_{12} is typically a function of more than one estimated coefficient and depends on the specific values of $\mathbf{x}$ at which it is evaluated. Since μ_{12} depends on **x,** we report its average over the regression sample.

In our specific case of multinomial logit, we have

(A4) $$E[y^i \mid \mathbf{x}] = f(\mathbf{x}^i;\beta^i)$$

where $i=1,\ldots I$ indexes the choice made by the government with i=1 serving as the base case of government neutrality and $f(\mathbf{x}^i;\beta^i)$ is given by

(A5) $$f(\mathbf{x}^i;\beta^i) = \begin{cases} \dfrac{1}{1+\sum_{m=2}^{I}\exp\{\beta_1^m x_1^m + \beta_2^m x_2^m + \beta_{12}^m x_1^m x_2^m + \beta_3^m x_3^m + \ldots + \beta_k^m x_k^m\}} & if\, i=1 \\ \dfrac{\exp\{\beta_1^i x_1^i + \beta_2^i x_2^i + \beta_{12}^i x_1^i x_2^i + \beta_3^i x_3^i + \ldots + \beta_k^i x_k^i\}}{1+\sum_{m=2}^{I}\exp\{\beta_1^m x_1^m + \beta_2^m x_2^m + \beta_{12}^m x_1^m x_2^m + \beta_3^m x_3^m + \ldots + \beta_k^m x_k^m\}} & if\, i>1 \end{cases}$$

In our case, x_1 is a dummy variable for foreign acquirer so, with the difference operator replacing the differential operator, (A2) is simplified to

(A6) $$\mu_{12}^i = \left.\frac{\partial f(\mathbf{x}^i;\beta^i)}{\partial x_2}\right|_{x_1=1} - \left.\frac{\partial f(\mathbf{x}^i;\beta^i)}{\partial x_2}\right|_{x_1=0}$$

Notice that each term on the RHS of (A6) is marginal effects with respect to x_2 evaluated at specific values of x_1.

We first use the `mlogit` command of Stata v.11 to estimate $\hat{\beta}$, then use the `margins` command to calculate average marginal effects for each independent variable. $\hat{\mu}_{12}$, averaged over the regression sample, is then obtained by calculating the marginal effect terms of the RHS of (A6) using again the `margins` command, which also provides standard errors (see also Cameron & Trivedi (2010) pp. 343-357).

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Table 1
Government Reaction to Domestic and Foreign Merger Bids

This table reports the reaction of the target country's government to merger bids. The sample contains the largest 25 merger targets by market capitalization in each of the fifteen European Union (EU) countries as of 1996. If there are competing bidders for the same target, all bids are included so a country's total may exceed 25. These countries are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and United Kingdom. The sample period is between 1997 and 2006. Pearson Chi-squared distributed statistic tests the equality of distributions between domestic bids and foreign bids across the government reactions.

	Government Reaction			
	Opposition	**Neutral**	**Support**	Total
Domestic Bids	9	154	34	197
Foreign Bids	28	183	7	218
Total	37	337	41	415

Pearson's Chi-squared p-value = 0.000

Table 2
Sample Statistics for Merger Bids by Nationality of the Acquirer

The statistics describe target firms and merger bids that they receive from domestic and foreign acquirers. Our sample contains largest 25 targets in each of the first fifteen E.U. countries (as of 1996) between 1997 and 2006. *Market Cap.* is the market capitalization of target firms in real Euros as of four weeks before the merger bid. *Net Income/Market Cap* is the ratio of target firm's net income over market capitalization as of the most recent fiscal-year end before the bid is announced. *Hostile/Unsolicited Bid Dummy* takes a value of one if the bid is classified as hostile and/or unsolicited, zero otherwise. *Target in Financial Dummy* represents targets in finance, insurance, or real-estate industries. *Target in Utilities Dummy* takes a value of one for transportation, communication, and utilities industries. Last row reports number of observations for all variables except that the number of observations for Net Income/Market Cap. is in parenthesis. p-values from Wilcoxon rank-sum test (for the medians) and mean difference tests (for the means) are reported. The symbols ***, ** and * indicate significance at the 1, 5, and 10% levels, respectively.

	statistics	Domestic Bidder	Foreign Bidder	p-value	All
Market Cap. (Billions Euro)	*median*	2.91	1.69	0.40	2.49
Net Income/Market Cap	*median*	5.8%	5.9%	0.895	5.8%
Hostile/Unsolicited Bid Dummy	*mean*	16.8%	12.4%	0.21	14.5%
Target in Financial Dummy	*mean*	45.7%	26.1%	0.00***	35.4%
Target in Utility Dummy	*mean*	13.7%	19.3%	0.13	16.6%
	N	197(196)	218(217)		415(413)

Table 3
Sample Statistics for Merger Bids by Different Government Reaction

The statistics describe target firms and merger attempts by the reaction they attract from the target country's government. Our sample contains largest 25 targets in each of the first fifteen E.U. countries (as of 1996) between 1997 and 2006. *Market Cap.* is the market capitalization of target firms in real Euros as of four weeks before the merger bid. *Net Income/Market Cap* is the ratio of target's net income over market capitalization as of the most recent fiscal-year end before the bid is announced. *Hostile/Unsolicited Bid Dummy* takes a value of one if the bid is classified as hostile and/or unsolicited and zero otherwise. *Target in Financial Dummy* represents targets in finance, insurance, or real-estate industries. *Target in Utilities Dummy* takes a value of one for transportation, communication, and utilities industries. *Foreign Acquirer Dummy* is equal to one if the bidder is not from the same country as the target and zero otherwise. Last row reports number of observations for all variables except that the number of observations for Net Income/Market Cap. is in parenthesis. p-values from Wilcoxon rank-sum tests (for the medians) and mean difference tests (for the means) between o*pposition* and *support* samples are reported. The symbols ***, ** and * indicate significance at the 1, 5, and 10% levels, respectively.

		Government Reaction				
	statistics	**Opposition**	**Support**	**p-value**	**Neutral**	**All**
Market Cap. (Billions Euro)	*median*	6.3	6.6	0.645	1.4	2.5
Net Income/Market Cap	*median*	5.8%	5.6%	0.76	5.8%	5.8%
Hostile/Unsolicited Bid Dummy	*mean*	43.2%	17.1%	0.012**	11.0%	14.5%
Target in Financial Dummy	*mean*	40.5%	56.1%	0.17	32.3%	35.4%
Target in Utility Dummy	*mean*	29.7%	17.1%	0.195	15.1%	16.6%
Foreign Bidder Dummy	*mean*	75.7%	17.1%	0.00***	54.3%	52.5%
	N	37	41		337(335)	415(413)

Table 4
Nationalism in M&As: Main Regressions

This table reports average marginal effect estimates for a multinomial logit model. The dependent variable is the government reaction, which can be *opposition*, *support*, or, the base outcome, no/neutral reaction. *Foreign Acquirer Dummy* is equal to one if the bidder is not from the same country as the target firm and zero otherwise. *Ln(Market Cap)* is the natural logarithm of the target firm's market capitalization and *Net Income/Market Cap* is the ratio of its net income over market cap as of the most recent fiscal-year end before the bid is announced. *Competing Bid Dummy* is equal to one if there is a competing bid to the target and zero otherwise. *Hostile/Unsolicited Bid Dummy* is equal to one if the bid is classified as hostile and/or unsolicited. *Far Right Vote Share* is the share of votes obtained by extreme right parties in the most recent election at the target country before the bid was announced. Heteroscedasticity-robust standard errors, corrected for clustering of observations at the target country level, are in parentheses. The symbols ***, ** and * indicate significance at the 1, 5, and 10% levels, respectively.

<u>Panel A.</u>

	Government Reaction			
	(1)		(2)	
	Opposition	Support	Opposition	Support
Foreign Acquirer Dummy			0.151***	-0.136***
			(0.039)	(0.016)
Ln(Market Cap)	0.019***	0.032***	0.016**	0.039***
	(0.006)	(0.011)	(0.006)	(0.011)
Net Income/Market Cap	0.136	0.012	0.134	0.008
	(0.160)	(0.271)	(0.131)	(0.255)
Competing Bid Dummy	0.065*	0.073**	0.080**	0.065*
	(0.039)	(0.032)	(0.036)	(0.039)
Hostile/Unsolicited Bid Dummy	0.083**	-0.005	0.094***	-0.013
	(0.039)	(0.024)	(0.026)	(0.039)
Year FEs	Yes	Yes	Yes	Yes
Target Country FEs	Yes	Yes	Yes	Yes
Target Industry FEs	Yes	Yes	Yes	Yes
Observations	413		413	
Pseudo R^2	0.339		0.417	

Panel B.

	Government Reaction	
	Opposition	Support
Foreign Acquirer Dummy	0.113***	-0.125***
	(0.036)	(0.019)
Far Right Vote Share	0.005**	0.004***
	(0.002)	(0.001)
Foreign Acquirer Dummy*Far Right Vote Share	0.006*	-0.008***
	(0.003)	(0.002)
Ln(Market Cap)	0.017***	0.024***
	(0.005)	(0.008)
Net Income/Market Cap	0.146	0.037
	(0.123)	(0.239)
Competing Bid Dummy	0.040	0.061*
	(0.036)	(0.033)
Hostile/Unsolicited Bid Dummy	0.104***	-0.014
	(0.034)	(0.029)
Year FEs	Yes	Yes
Target Industry FEs	Yes	Yes
Observations	411	
Pseudo R^2	0.295	

Table 5
Nationalism in M&As: Robustness to Macroeconomic Factors

This table reports average marginal effect estimates for a multinomial logit model. The dependent variable is the government reaction, which can be *opposition*, *support*, or, the base outcome, no/neutral reaction. *Foreign Acquirer Dummy* is equal to one if the bidder is not from the same country as the target firm and zero otherwise. *Ln(Market Cap)* is the natural logarithm of the target firm's market capitalization and *Net Income/Market Cap* is the ratio of its net income over market cap as of the most recent fiscal-year end before the bid is announced. *Competing Bid Dummy* is equal to one if there is a competing bid to the target and zero otherwise. *Hostile/Unsolicited Bid Dummy* is equal to one if the bid is classified as hostile and/or unsolicited. Macroeconomic controls are target country's *GDP Growth* and *Unemployment Rate* as a percentage of total labor force (both as of the previous year end). Heteroscedasticity-robust standard errors, corrected for clustering of observations at the target country level, are in parentheses. The symbols ***, ** and * indicate significance at the 1, 5, and 10% levels, respectively.

	Government Reaction			
	(1)		(2)	
	Opposition	Support	Opposition	Support
Foreign Acquirer Dummy	0.109***	-0.126***	0.117***	-0.127***
	(0.040)	(0.036)	(0.035)	(0.039)
GDP Growth Rate	-0.017	0.009		
	(0.017)	(0.008)		
Foreign Acquirer*GDP Growth	-0.027	0.005		
	(0.023)	(0.024)		
Unemployment Rate			0.007	-0.000
			(0.007)	(0.005)
Foreign Acquirer*Unemployment			-0.004	0.003
			(0.012)	(0.009)
Ln(Market Cap)	0.017***	0.028***	0.017***	0.025***
	(0.007)	(0.010)	(0.006)	(0.010)
Net Income/Market Cap	0.168	-0.047	0.137	-0.032
	(0.132)	(0.097)	(0.110)	(0.150)
Competing Bid Dummy	0.042	0.055	0.031	0.050
	(0.037)	(0.039)	(0.037)	(0.032)
Hostile/Unsolicited Bid Dummy	0.109***	-0.015	0.109***	-0.011
	(0.035)	(0.033)	(0.036)	(0.030)
Year FEs	Yes	Yes	Yes	Yes
Target Industry FEs	Yes	Yes	Yes	Yes
Observations	413		413	
Pseudo R^2	0.260		0.267	

Table 6
Nationalism in M&As: Robustness to Political Factors

This table reports average marginal effect estimates for a multinomial logit model. The dependent variable is the government reaction, which can be *opposition*, *support*, or, the base outcome, no/neutral reaction. *Foreign Acquirer Dummy* is equal to one if the bidder is not from the same country as the target firm and zero otherwise. *Ln(Market Cap)* is the natural logarithm of the target firm's market capitalization and *Net Income/Market Cap* is the ratio of its net income over market cap as of the most recent fiscal-year end before the bid is announced. *Competing Bid Dummy* is equal to one if there is a competing bid to the target and zero otherwise. *Hostile/Unsolicited Bid Dummy* is equal to one if the bid is classified as hostile and/or unsolicited. *Leftist Prime Minister* is a dummy variable that takes the value of one if the target country is ruled by a prime minister at the bid announcement, and *Year Before Election* is a dummy variable that takes the value of one if the bid announced one year or less before the general elections in the target firm's country. Heteroscedasticity-robust standard errors, corrected for clustering of observations at the target country level, are in parentheses. The symbols ***, ** and * indicate significance at the 1, 5, and 10% levels, respectively.

	Government Reaction			
	(1)		(2)	
	Opposition	Support	Opposition	Support
Foreign Acquirer Dummy	0.108***	-0.126***	0.108***	-0.127***
	(0.040)	(0.037)	(0.039)	(0.038)
Leftist Prime Minister	-0.029	-0.024		
	(0.035)	(0.034)		
Foreign Acquirer*Leftist Prime Minister	-0.021	0.019		
	(0.086)	(0.047)		
Election Year			0.020	-0.001
			(0.043)	(0.036)
Foreign Acquirer*Election Year			0.096	-0.035
			(0.100)	(0.066)
Ln(Market Cap)	0.020***	0.026***	0.020***	0.025***
	(0.006)	(0.009)	(0.006)	(0.009)
Net Income/Market Cap	0.110	-0.034	0.147	-0.033
	(0.104)	(0.137)	(0.134)	(0.129)
Competing Bid Dummy	0.034	0.049	0.032	0.051
	(0.039)	(0.035)	(0.039)	(0.036)
Hostile/Unsolicited Bid Dummy	0.106***	-0.011	0.108***	-0.010
	(0.035)	(0.032)	(0.033)	(0.029)
Year FEs	Yes	Yes	Yes	Yes
Target Industry FEs	Yes	Yes	Yes	Yes
Observations	413		413	
Pseudo R^2	0.253		0.254	

Table 7
Nationalism in M&As: Robustness to Golden Shares and Rumors

This table reports average marginal effect estimates for a multinomial logit model. The dependent variable is the government reaction, which can be *opposition*, *support*, or, the base outcome, no/neutral reaction. *Foreign Acquirer Dummy* is equal to one if the bidder is not from the same country as the target firm and zero otherwise. *Ln(Market Cap)* is the natural logarithm of the target firm's market capitalization and *Net Income/Market Cap* is the ratio of its net income over market cap as of the most recent fiscal-year end before the bid is announced. *Competing Bid Dummy* is equal to one if there is a competing bid to the target and zero otherwise. *Hostile/Unsolicited Bid Dummy* is equal to one if the bid is classified as hostile and/or unsolicited. Heteroscedasticity-robust standard errors, corrected for clustering of observations at the target country level, are in parentheses. The symbols ***, ** and * indicate significance at the 1, 5, and 10% levels, respectively.

	Government Reaction			
	(1)		(2)	
	Opposition	Support	Opposition	Support
Foreign Acquirer Dummy	0.118***	-0.116***	0.141***	-0.122***
	(0.037)	(0.014)	(0.036)	(0.017)
Ln(Market Cap)	0.014**	0.037*	0.020**	0.043***
	(0.006)	(0.019)	(0.008)	(0.013)
Net Income/Market Cap.	0.102	-0.022	0.213	0.006
	(0.128)	(0.262)	(0.188)	(0.276)
Competing Bid Dummy	0.102***	0.098**	0.081**	0.067*
	(0.036)	(0.049)	(0.034)	(0.041)
Hostile/Unsolicited Bid Dummy	0.087***	-0.031	0.087***	-0.017
	(0.030)	(0.028)	(0.029)	(0.025)
Year FEs	Yes	Yes	Yes	Yes
Target Country FEs	Yes	Yes	Yes	Yes
Target Industry FEs	Yes	Yes	Yes	Yes
Sample	Exclude targets where government has a golden share		Exclude Rumors	
Observations	391		390	
Pseudo R^2	0.419		0.434	

Table 8
Nationalism in M&As: Robustness to Acquirer Size and Bid Premium

This table reports average marginal effect estimates for a multinomial logit model. The dependent variable is the government reaction, which can be *opposition*, *support*, or, the base outcome, no/neutral reaction. *Foreign Acquirer Dummy* is equal to one if the bidder is not from the same country as the target firm and zero otherwise. *Ln(Market Cap)* is the natural logarithm of the target firm's market capitalization and *Net Income/Market Cap* is the ratio of its net income over market cap as of the most recent fiscal-year end before the bid is announced. *Competing Bid Dummy* is equal to one if there is a competing bid to the target and zero otherwise. *Hostile/Unsolicited Bid Dummy* is equal to one if the bid is classified as hostile and/or unsolicited. *Ln(Acquirer Market Cap)* is the natural logarithm of the acquirer's market capitalization as of the most recent fiscal-year end before the bid is announced. *Bid Premium* is the premium offered to the target relative to its stock price 4 weeks prior to the bid, in percentage points. Heteroscedasticity-robust standard errors, corrected for clustering of observations at the target country level, are in parentheses. The symbols ***, ** and * indicate significance at the 1, 5, and 10% levels, respectively.

	Government Reaction			
	(1)		(2)	
	Opposition	Support	Opposition	Support
Foreign Acquirer Dummy	0.171***	-0.176***	0.134***	-0.169***
	(0.041)	(0.029)	(0.049)	(0.053)
Ln(Market Cap)	0.009	0.054***	0.051***	0.096***
	(0.013)	(0.014)	(0.017)	(0.026)
Net Income/Market Cap.	0.124	0.014	0.206	0.157
	(0.242)	(0.254)	(0.204)	(0.258)
Competing Bid Dummy	0.101***	0.117*	0.016	0.063
	(0.035)	(0.061)	(0.025)	(0.048)
Hostile/Unsolicited Bid Dummy	0.122***	-0.019	0.121***	-0.080
	(0.036)	(0.035)	(0.039)	(0.052)
Ln(Acquirer Market Cap)	-0.002	-0.018		
	(0.012)	(0.016)		
Bid Premium			0.0010*	0.0018
			(0.0005)	(0.0013)
Year FEs	Yes	Yes	Yes	Yes
Target Country FEs	Yes	Yes	Yes	Yes
Target Industry FEs	Yes	Yes	Yes	Yes
Observations	255		235	
Pseudo R^2	0.463		0.630	

Table 9
Effectiveness of Government Intervention: Univariate Analysis

This table reports the reaction (opposition, neutral/no reaction, and support) of the target country's government and the success/failure of the merger bids. The sample contains largest 25 merger targets by market capitalization in each of the fifteen European Union (EU) countries as of 1996. If there are multiple bidders for the same target, all bids are included so a country's total may exceed 25. The sample period is between 1997 and 2006. Pearson Chi-squared distributed statistic tests the equality of distributions between failed bids and successful bids across the government reactions.

	Government Reaction			
	Opposition	**Neutral**	**Support**	Total
Failed Bids	26	120	11	157
Successful Bids	11	217	30	258
Total	37	337	41	415

Pearson's Chi-squared p-value = 0.000

Table 10
Effectiveness of Government Intervention

This table reports coefficient estimates for a logit model. The dependent variable is equal to one if the merger bid is successfully completed, i.e. the merger takes place, and zero otherwise. *Negative Reaction Dummy* takes a value of one if the target country's government opposes to the merger. *Positive Reaction Dummy* is equal to one if the government of the target firm supports the merger. *Foreign Acquirer Dummy* is equal to one if the bidder is not from the same country as the target and zero otherwise. Firm-level controls are the natural logarithm of the target firm's market capitalization and the ratio of its net income over market cap as of the most recent fiscal-year end before the bid is announced. *Competing Bid Dummy* is equal to one if there is a competing bid to the target and zero otherwise. *Hostile/Unsolicited Bid Dummy* is equal to one if the bid is classified as hostile and/or unsolicited. *Ln (Acquirer Market Cap)* is the natural logarithm of the acquirer's market capitalization as of the most recent fiscal-year end before the bid is announced. Regressions include target industry and target country fixed effects. Heteroscedasticity-robust standard errors, corrected for clustering of observations at the target country level, are in parentheses. The symbols ***, ** and * indicate significance at the 1, 5, and 10% levels, respectively.

	Successful bid		
	(1)	(2)	(3)
Negative Reaction Dummy		-1.103*	-1.758*
		(0.605)	(0.938)
Positive Reaction Dummy		0.874**	1.158**
		(0.443)	(0.496)
Foreign Acquirer Dummy	-0.293	-0.029	0.353
	(0.256)	(0.283)	(0.459)
Ln(Market Cap)	-0.235**	-0.245**	-0.050
	(0.117)	(0.120)	(0.093)
Net Income/Market Cap.	1.321	1.592	1.266
	(1.033)	(1.142)	(0.869)
Competing Bid Dummy	-0.766***	-0.774**	-1.744***
	(0.269)	(0.309)	(0.549)
Hostile/Unsolicited Bid Dummy	-0.612*	-0.444	-0.400
	(0.326)	(0.375)	(0.784)
Ln(Acquirer Market Cap)			-0.241
			(0.173)
Year FEs	Yes	Yes	Yes
Target Country FEs	Yes	Yes	Yes
Target Industry FEs	Yes	Yes	Yes
Observations	413	413	248
Pseudo R^2	0.098	0.122	0.213

Table 11
Deterrent effect of nationalism on future foreign merger attempts

This table presents results from estimating a Cox proportional hazard regression of a top 50 listed company in each country as of 1996 to receive its first acquisition bid from a foreign acquirer after January 1, 1997. *1st half year* is a dummy variable that takes the value of one in the first six months after the most recent nationalistic reaction in the target country where nationalistic reaction is defined as opposition to foreign bidders or support for domestic bidders; other half year dummy variables are defined accordingly. Firm-level controls are the natural logarithm of the target firm's market capitalization and the ratio of its net income over market cap as of the most recent fiscal-year end before the bid is announced. Macro-level controls are target country's *GDP Growth* and *Unemployment Rate* as a percentage of total labor force (both as of the previous year end). Regressions include target industry and target country fixed effects. Heteroscedasticity-robust standard errors, clustered at the target country level, are in parentheses. *, **, *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Ln (Market cap)	0.171*	0.164	0.132
	(0.101)	(0.102)	(0.096)
Net Income/Market Cap.	-0.053	-0.053	0.011
	(0.064)	(0.071)	(0.048)
Gdp Growth Rate	-0.163	-0.078	-0.074
	(0.149)	(0.159)	(0.164)
Unemployment Rate	0.053	0.034	0.005
	(0.098)	(0.096)	(0.092)
After Nationalism			
1st half year		-0.527	-0.625
		(0.690)	(0.726)
2nd half year		-1.220*	-1.348**
		(0.664)	(0.661)
3rd half year		-3.129***	-3.107***
		(1.057)	(1.004)
4th half year		-2.099**	-2.080**
		(0.961)	(0.989)
5th half year		-1.320*	-1.414*
		(0.734)	(0.724)
6th half year		-0.986	-0.929
		(0.864)	(0.846)
Industry FE	Yes	Yes	Yes
Target country FE	Yes	Yes	Yes
Sample	Countries with Nationalism only	Countries with Nationalism only	All Countries
Number of Firms	624	624	721
Firm-years at risk	5236	5236	6102

Table 12
Shareholder Loss due to Government Intervention

This table tabulates summary statistics for the losses incurred by the shareholders of the target firm when the government rejects a foreign bid that subsequently fails. The losses are quantified as the lost premiums offered by the foreign acquirers in these failed bids. If another, competing, bid succeeds for the same target, the premium offered by the winning bid is subtracted from the premium offered by the bid that was opposed by the government. Data limitations allow these calculations for only 14 of the 19 foreign merger bids that fail upon government opposition in our sample.

	Mean	**Median**	**Std. Dev**	**Min**	**Max**	**N**
Shareholder Loss (in Million Euros)	3,158.51	703.40	6,127.38	26.15	19,252.46	14

Figure 1
Government Support/Opposition for Domestic and Foreign Acquisition Attempts

This figure shows the reaction (support vs. opposition) of the target country's government to merger bids. The sample contains largest 25 merger bids by market capitalization in each of the fifteen European Union (EU) countries as of 1996. These countries are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, and United Kingdom. If there are multiple bidders for the same target, all bids are included. There are 415 merger attempts in total. The sample period is between 1997 and 2006.

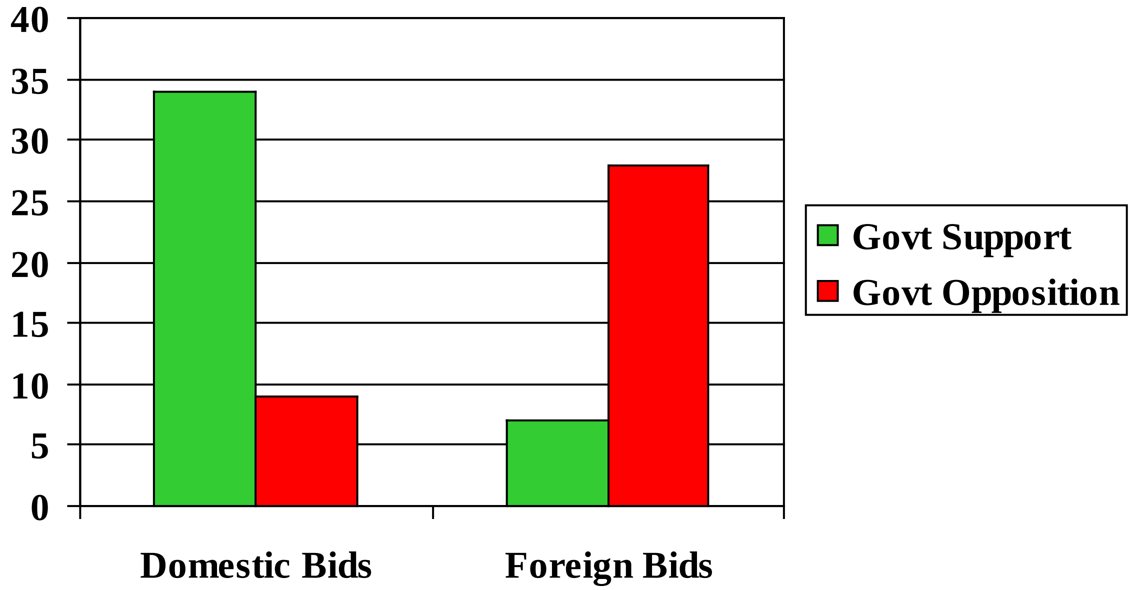

Figure 2
The Number of Foreign Acquisition Attempts per 1000 Firm-Years: Before and After Nationalism in Target Country

The figure compares the rate of receiving an acquisition bid from a foreign firm (incidence rate) before and after the most recent nationalistic reaction to another target's merger in that country. Nationalistic reaction is defined as the support of a domestic bid or an opposition to a foreign bid by the domestic government. The sample includes all the largest 50 companies by market capitalization in EU countries at the end of 1996 and follows them between 1997 and 2006. Once a company receives a foreign bid or becomes subject to any nationalistic reaction by the domestic government, it is dropped from further analysis. Countries with no nationalistic reaction during that time are excluded. The time is in half-years and the number of foreign bids received is per 1000 firms years.