Locational determinants of internationalization: Chinese and Indian acquisitions

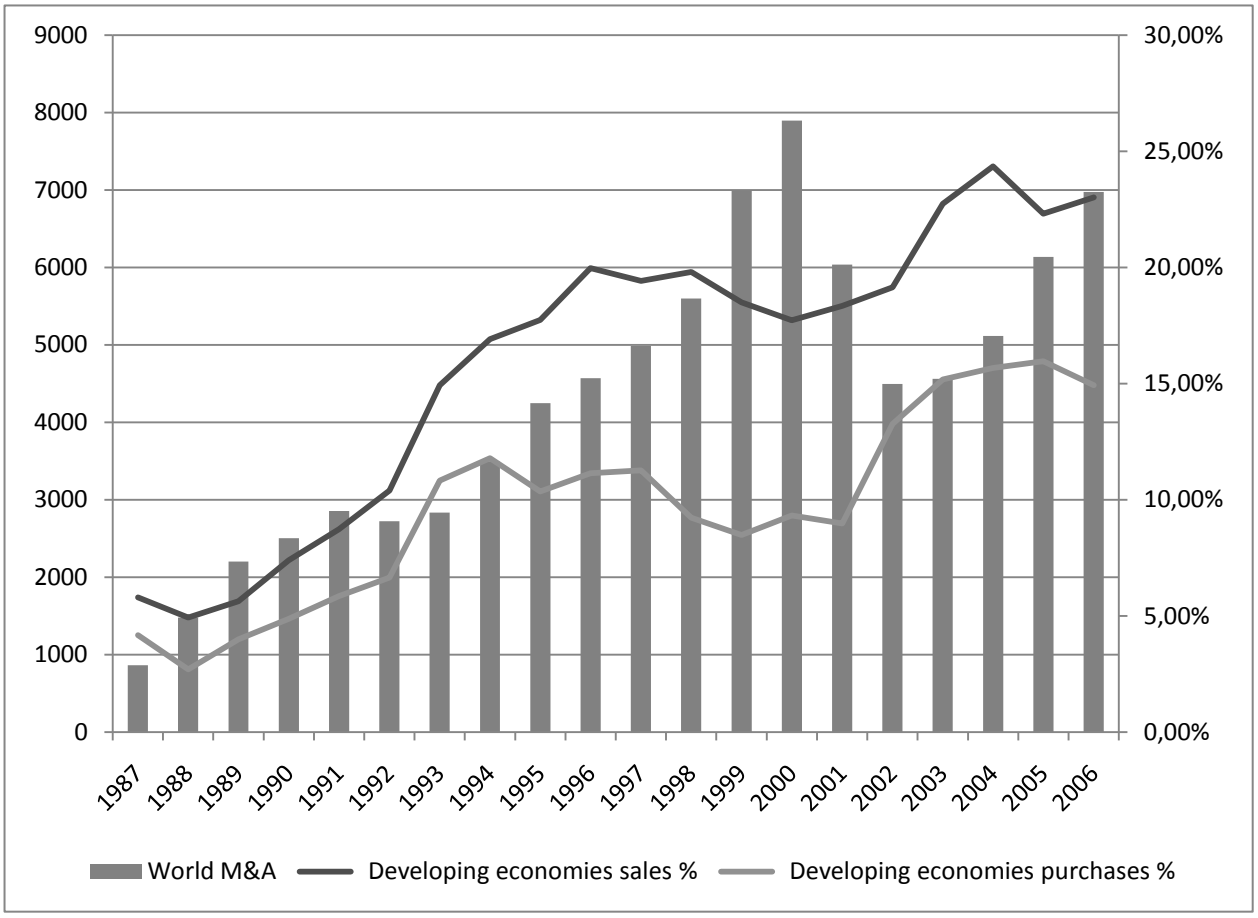
1. Introduction

MNEs are increasingly seeking to augment, as well as exploit, their global competitive advantage. Foreign direct investments are being directed to augmenting the competitive ownership specific advantages of the investing companies, exploiting and accessing the capabilities, resources, markets and institutions, also known as location (L) specific advantages of particular countries, and identifying and implementing the most acceptable mode of relating these two sets of advantages (via the internalization or externalization of cross border intermediate product markets).

Since the 1990s, in both developed and developing countries, M&As have become a more important component of inward and outward FDI. Of these challenges, perhaps the foremost was that of the emergence and growth of asset-augmenting or competence-seeking MNE activity not to exploit a particular set of O advantages but to access or acquire new ones. Here, it is the location of firm- rather than country-specific advantages that is most likely to determine a firm's choice of location –even though these former advantages may reflect at least partially their country of origin (Dunning, 2009).

This increasing use of M&As is the result of the opportunities and competitive pressures engendered by globalization, partly a reflection of the growing complexities of modern production and organizational systems; and partly the increasing need for a speedy translation of innovation into marketable products. This was also an era during which capitalism came of age, and when the growth of efficiency and asset augmenting FDI, and advances in regional integration helped foster a new configuration of cross border cooperative ventures, and the growth of the network economy (Dunning, 2009).

Figure 1. Number of M&As worldwide, share of developing economies' sales and purchases



Note: Sales are registered in the country of the target firm. Purchases are registered in the home country of the acquiring firm

Source: Authors' calculations based on UNCTAD online FDI database

In the renewed interest in M&As, the emerging economies, notably China and India, have started to become important players. So compared to the 1990s, what is new to the 2000s is the emergence of the asset augmenting FDI by developing countries, for example Lenovo's purchase of the PC division of IBM in the US in 2001 and Tata acquisitions of the Anglo-Dutch Corus Steel company in 2006 and Jaguar and Land Rover in 2007. There is also a limited amount of asset augmenting investment among and between Latin American and Asian countries

(Sauvant, 2008). Such asset augmenting FDI is perceived by developing countries as one way to help them speed up their technological and economic development. Figure 1 shows the growing importance of M&A deals across the globe and the increasing share of deals in and from developing economies.

The importance and motivation of M&As for Chinese and Indian companies has not been specifically looked at. The importance of acquisitions for Chinese as well as Indian multinationals must not be underestimated (Gugler and Boie, 2008), as the importance of the acquisition entry mode is likely to increase (Wu, 2005).

Yet some researchers were skeptical about the likely success of the kind of cross border M&As now being coordinated by some Third World MNEs (Dunning, 2009; Rugman and Li, 2007), as these are often based on country specific rather than firm specific advantages of the acquiring companies (Rugman and Li, 2007). The critical question is whether companies like Lenovo and Tata possess the kind of complementary assets (e.g. coordinating skills) to make efficient use of the knowledge, technology and management capabilities they acquire. It is not entirely clear whether such firms are able to internalize and efficiently utilize such knowledge acquired to generate sustainable O advantages that can be exploited elsewhere, particularly where they do not possess the necessary complementary assets to do so. In short, whether the purchasers possess the institutional or organizational competences to enable them to efficiently utilize the O specific advantage they acquire, remains to be seen (Dunning, 2009).

Although that some question that multinationals from emerging economies possess (sufficient) ownership advantages, it seems that more and more firms from these emerging markets have gradually accumulated sufficient technological and other capabilities – also known as firm specific advantages – to allow them to expand their operations abroad (van Agtmael 2007, Wells, 1983). Furthermore, multinationals from these emerging economies are said to be adding to their existing ownership advantages through strategic acquisitions abroad. As a result, flows of outward foreign direct investment from emerging markets have increased significantly over the past thirty years (Gammeltoft 2008), demanding another look (Child and Rodriguez, 2005).

The article will analyze the locational determinants of Chinese and Indian mergers and acquisitions (M&As). Existing literature often indicate that Chinese and Indian multinationals are motivated by access to local markets, natural resources and intangible assets (Deng, 2004; Kaartemo, 2007; Pradhan, 2008). These determinants will be used to analyze the relevant determinants of Chinese and Indian acquisitions. On the basis of several macro-economic determinants the article will analyze the relevant host country characteristics that drive the locational choices of Chinese and Indian M&A, as well as the similarities and differences between these two so-called BRIC countries. The article will end with some conclusions.

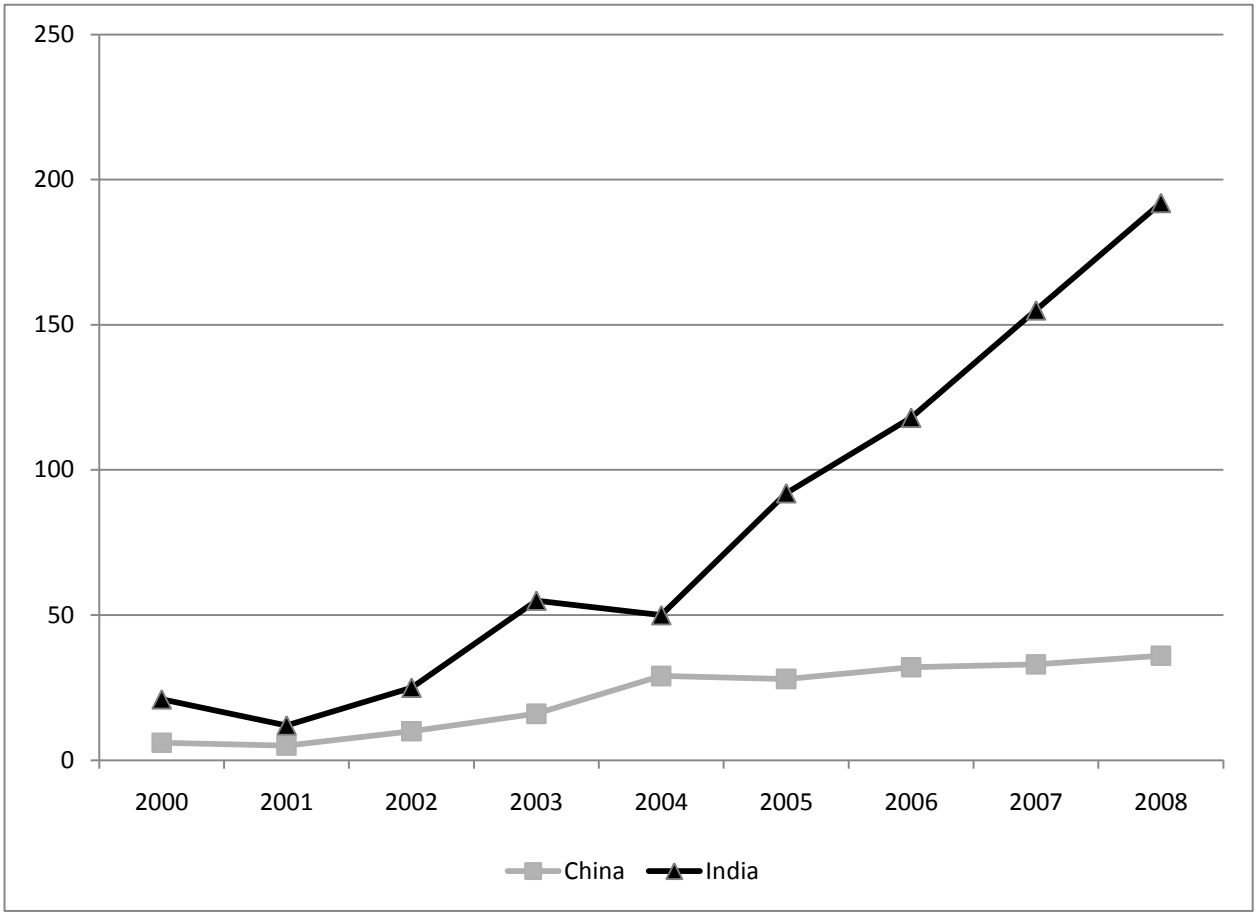
2. Chinese and Indian acquisitions

2.1. Overview

Within this trend of the increasing importance of multinationals from emerging economies, China and India are the most prominent. Although the surge of cross-border investments of Indian and Chinese companies has caught the eye of researchers and pundits, literature is still quite scarce. An investigation of the internationalization patterns of Chinese and Indian firms reveals some noteworthy similarities. For one, both MNEs from India and China have taken a shining to acquisitions in their quest for markets and resources. And both countries focus as much on other developing or emerging countries as on developed economies.

When assessing the motivation of the internationalization patterns of either Chinese or Indian multinationals, several researchers conclude that indeed the classic determinants explain much of their behavior (Buckley, e.a., 2007; Poncet, 2007). They conclude that Chinese and Indian multinationals carry out market-, natural resource- or strategic asset seeking investments. However, some researchers remark that these determinants do not fully capture the phenomenon and do not explain all activities and motivations of Chinese and Indian multinationals (Child and Rodriguez, 2005). Two studies have specifically made a comparative analysis of the investment behavior of multinationals from these two emerging economies (Duanmu and Guney, 2009; Pradhan, 2009).

Figure 2. Number of M&A deals by firms from China and India, 2000-2008.



Source: Author's calculations based on ZEPHYR database, Bureau van Dijk.

Some differences also stand out, however. While Chinese overseas investments are (at least in terms of value) predominantly carried out by state owned companies, private companies dominate Indian OFDI (Morck, e.a., 2008; Nayyar, 2008). Athreye and Kapur (2009) also find distinct differences in the sectoral distribution of the investments of those countries. Chinese investments are relatively more oriented towards oil, petroleum, steel, shipping and construction, while Indian investors mainly target sectors like pharmaceuticals, information technology, food and drink, and services (Morck, e.a., 2008; Nayyar, 2008).

2.2. Hypotheses

Dunning suggested that resources, capabilities, markets and institutions (R, C, M, and I) are the main ingredients of the competitiveness of national economies; the quality of which determine the value of inwards foreign direct investment by foreign companies and the outwards FDI of their own transnational corporations (Dunning and Zhang, 2008).

A substantial research body has indicated the positive relationship between market size and investment attraction. The larger the market, the higher the IFDI. However, small countries like Hong Kong and Singapore also seem to be able to attract plenty of investment as a result of available human capital and infrastructure (Dunning and Narula, 1996). Besides, not only the total market size but also the level of development of a market matters as higher income countries can also be targeted. Regional economic integration can furthermore enlarge the market size of countries. Regional integration agreements like the European Union or the North American Free Trade Agreement make their member countries some of the most attractive destinations for multinationals because of the enlarged market size (UNCTAD, 2006, Geppert, e.a., 2005). These regions generate positive externalities and increase the attractiveness of member countries to IFDI (Barrell and Pain, 1998). After investing in one country, companies can also benefit from free export access to the other member countries. According to Arregle e.a. (2009) researchers should add a regional level in their models and analyses as firms make arbitrage decisions among countries in the same region.

Therefore, open economies seem to attract more FDI than less open economies. The Chinese and Indian economies are the quintessential examples of the importance of market liberalization on investment. The Chinese and Indian markets were initially less attractive to foreign investors until they liberalized their economies. Kumar (2001) found a positive connection between market openness and FDI in both modern and traditional industries. When fewer restrictions are put on international trade, components, parts and materials can be imported more easily and cheaply. Most researchers therefore find a positive relationship between market openness and FDI (Chakrabati, 2001; Gastanaga, e.a., 1998; Lall, 1996). Some

studies do conclude that (non-)tariff barriers deter trade, but boost multinationals to invest abroad (Caves, 1996; Moran, 1998).

Hypotheses 1:

The number of Chinese and Indian acquisitions is positively linked to market size, wealth, openness, and integration.

The second set of investment motives are linked to the availability of natural resources, such as minerals, oil, wood, fishery and agricultural products. Transaction cost economies suggests that companies engage in upstream vertical integration investment to exploit local natural resources as inputs in the production process in home or overseas markets (Dunning, 1979). Multinationals from emerging economies engage in natural resource seeking FDI due to the increased demand for their products both at home and abroad. They also prefer to vertically integrate into raw materials because of the increased prices of commodities. They quickly realized that a steady supply of inputs at stabile prices is essential to their production processes (Anwar, e.a., 2008; UNCTAD, 2005). Buckley e.a. (2007) showed that natural resources play a positive and significant role in the attraction of Chinese FDI. Given that China is the factory of the world, while India is more focused on services, the importance is likely to be less so for India than for China.

Hypotheses 2:

The number of Chinese and Indian acquisitions is positively linked to the availability of natural resources.

This positive effect of natural resources is likely to be less important for India than for China.

Strategic assets form, next to markets and natural resources, a third important investment motivation for Chinese and Indian investors (Athreye and Kapur, 2009). The most frequent and

important strategic asset is technology. Technological advantages are typically the critical success factors for companies in global competition. These technological advantages are of primordial importance for industries that depend to a large extent on innovation, like electronics, ICT, pharmaceuticals, machinery and transportation equipment (UNCTAD, 2006).

These industries are exactly the industries in which Chinese and Indian multinationals are making inroads. Given the sectoral distribution of Chinese and Indian OFDI, strategic asset seeking investment behavior is supposed to be of significance. Some researchers argue that Indian firms possess more proprietary technological assets than their Chinese counterparts. Pradhan (2007) posits that many Indian software companies ventured abroad to add to their existing ownership-specific advantages by acquiring related knowledge, skills and technologies. Chinese companies are said, however, to be more dependent upon their foreign partners for knowledge and expertise. Although a number of emerging Chinese multinationals have in the mean time been able to take up a leading international position in innovative goods, they are often perceived as imitators of successful products (Mathews, 2006).

Hypotheses 3

The number of Chinese and Indian acquisitions is positively linked to the availability of strategic assets in the host country.

This positive effect of strategic assets is likely to be less important for China than for India.

The institutional differences of host countries also impact their relative attractiveness. Institutional distance is likely to deter FDI (Dunning, 2009). Bloningen (2005) indicated that the quality of the institutional environment is an important determinant for FDI, especially for less developed countries. Baniak e.a. (2003) suggest that macro-economic and institutional inefficiency of the host country has a negative effect on FDI. Naudé and Krugell (2007) stress specifically that legislation and regulatory quality are important determinants for FDI. Next to legal and political systems, corruption is often seen as an important proxy for the quality of the business environment of a host country. Research has shown that Chinese FDI, for instance, is

positively related to weak institutions (Buckley e.a., 2007). Duanmy and Guney (2009) come to the reverse conclusion and posit that Chinese investors might invest in host countries not because of weak institutions or corruption but in spite of it. Bénassy-Quéré e.a. (2007) show that corruption has a negative impact on FDI, while Wei (2000) stresses that corruption influences both the volume as well as the distribution of investment capital. Alvaro (2006) found that corruption results in lower FDI flows from OECD countries, but in higher FDI flows from countries with a high level of corruption themselves.

Hypotheses 4: The institutional quality will have a positive effect on Chinese and Indian acquisitions.

2.3. Data and methodology

Data for Chinese and Indian acquisitions was drawn from the Zephyr database (Bureau Van Dijk, 2010). Zephyr is a comprehensive database of worldwide M&A deals with integrated, detailed company information. All cross-border Chinese and Indian acquisitions were selected between 2000 and 2008, with the exception of Hong Kong and tax havens[i]. This leaves a panel data sample of 303 Chinese acquisitions in 37 different countries and 427 Indian acquisitions in 54 host countries. The dependent variable will be constructed through the number of acquisitions rather than the value. Given that the value of some very large deals might skew the data, the number of deals is to be preferred (Agrawal and Sensarma, 2007).

Aminian e.a. (2005) propose that market seeking investors look for large as well as rich markets. Previous research suggests the inclusion of both GDP and GDP per capita (UNCTAD, 1993; Hufbauer e.a., 1994; Buckley e.a., 2007). Both variables have an expected positive sign. Given that many firms target regions instead of mere countries, country membership of an important regionally integrated market can also act as an important determinant of FDI. In this respect, countries' openness to trade also plays an important role in the attraction of FDI. Nonnenberg and Cardoso de Mendonça (2004) concluded that the trade openness of an economy is also an important indicator of openness towards foreign investment. Regional

integration and trade openness both have an expected positive sign (Al Nasser, 2007; Torrisi e.a., 2008).

Natural resource seeking investors usually look for countries with large deposits of commodities like oil, minerals and ores to assure the steady supply of raw materials (Athreye and Kapur, 2009). Given that export of these raw materials is essential, Duanmu and Guney (2009) used the percentage of ores and metal exports in total merchandise exports as proxy of both availability and access to natural resources. Chinese investments are clearly influenced by the presence of raw materials (Buckley e.a., 2007; Cheung and Qian, 2008), but also Indian multinationals use acquisitions to secure their access to natural resources (Pradhan, 2009).

Given that firms from emerging economies like China and India have limited technological advantages that they can exploit many Chinese and Indian multinationals are more focused on the acquisition of technological expertise (Athreye and Kapur, 2009). Although research expenditures can be considered a reasonable proxy of innovative output in the absence of information on the actual innovations firms have introduced, there are several drawbacks associated with the use of R&D spending, which is essentially an input in the innovation production function (see for instance Mairesse and Mohnen, 2002). However, not all innovation efforts actually lead to the introduction of product or process innovations, i.e. it is possible that firms' efforts to innovate fail for some reason, in which case using R&D rather than actual innovations leads to an overestimation of firms' innovative activities. Pradhan (2009) therefore suggests using patents or education attainment as an indicator of the availability of strategic assets in a host country. The use of patent data (which can be considered as a true innovation output measure) has also been criticized in recent years (see for instance Smith, 2005), primarily because not all inventions are patented, patents can differ greatly in their economic impact and the propensity to patent is highly variable across industries, firms and countries. The analysis of technological will therefore also make use of the tertiary school enrolment as robustness check.

Groh and Wich (2009) show the importance of political and legal systems of a country in attracting FDI. The current analysis will make use of the government effectiveness, the rule of

law and regulatory quality to assess the importance of the institutional environment for Chinese and Indian investors. Next to legal and political systems corruption is also perceived as an important proxy for the business environment of a host country. Some researchers postulate that Chinese but also Indian businesses are accustomed to operating in a corrupt domestic market and investments are therefore positively related to weak institutions and corruption (Buckley e.a., 2007). However, given that many countries with large deposits of natural resources often suffer from corrupt governments, it is hypothesized here that Chinese and Indian multinationals accept political risk because of the need for access to natural resources. As the regression has already controlled for the availability of natural resources, the control of corruption is hypothesized –like the other institutional variables- to have a positive effect on Chinese and Indian takeovers.

The economic environment in the host country is clearly also important in determining its attraction potential. Economic theory would suggest that the exchange rate is important in driving the direction of FDI. The stronger the exchange rate, the less attractive a location. Some researchers find indeed a significantly negative influence between exchange rates and inflows of FDI (Chakrabati, 2001; Swenson, 1994; Barrell and Pain, 1998). Other studies have, however, shown that a depreciation results in the decrease of IFDI (Scaperlanda, 1974; Aqeel and Nishat, 2005). Given that depreciation can be endemic of economic decline, this might explain these results. Buckley e.a. (2007) found no significant effect of exchange rates on Chinese investments. Gonzalez e.a. (1998) indicate that M&As are encouraged by capital market imperfections that lead to the undervaluation of corporate assets. Some studies have shown that a depreciation in the exchange rate lead to increased FDI flows in the undervalued country (Aminian e.a., 2005). A negative sign is therefore expected for the exchange rate variable.

Variable type	Variable name	Information	Expected sign	Source
M&A	Y	Number of acquisitions		Zephyr, Bureau Van Dijk
Market				
Size	POP	Population	+	World Development Indicators
Wealth	GDP	Gross domestic product	+	World Development Indicators
Openness	OPEN	(Export + Imports) / GDP	+	World Development Indicators
Integration	INTEGRATION	Member countries of the EU, NAFTA, and MERCOSUR	+	europa.eu; www.nafta-sec-alena.org; www.mercosur.int
Natural resources				
Ores and metal exports (% of merchandise exports)	RESOURCES		+	World Development Indicators
Strategic assets				
Number of patents/GDP	PATENT		+	World Intellectual Property Office
R&D expenditure/GDP	GERD		+	World Development Indicators
Tertiary school enrolment	HUMAN CAP		+	World Development Indicators
Institutional environment				
Political stability	GOVEFF		+	Quality of Government Institute
Rule of law	ROLAW		+	Quality of Government Institute
Control of Corruption	CORRUPT		+	Quality of Government Institute
Economic environment				
Exchange rate	EXCHANGE	Average yearly exchange rate	-	World Development Indicators
Geographic distance				
Distance from China to host countries	DCHINA	Simple distance between most populated cities	-	CEPII www.cepii.fr/anglaisgraph/bdd/distances.htm
Distance from India to host countries	DINDIA		-	

Finally, given that a gravity model will be used, distance also impacts the investment decision as most firms still prefer to invest in countries within the existing regional network of headquarters.

The dependent variable (number of acquisitions) is a count variable with only non-negative integer values. In this case, nonlinear count data models are preferred to standard linear regression models as they explicitly take into account the non-negativity and discreteness of the dependent variable. Given that most countries do not have takeovers every year, negative binomial panel count data models will be used here, as they control for the overdispersion in the dependent variable (Cameron and Trivedi, 1998). Random effects panel data estimators were used in all regression models to control for unobserved time-variant characteristics

This offers the following model:

$$\#M\&A_{jit} = \beta_{0it} + \beta_1 MARKET_{it} + \beta_2 RESOURCES_{it} + \beta_3 STRATEGIC\ ASSETS_{it}$$

$$+ \beta_4 INSTITUTIONAL\ ENVIRONMENT_{it} + \beta_6 ECONOMIC\ ENVIRONMENT_{it} + \beta 7\ DISTANCE_{ji} + \mu_{it}$$

Where:

i = the host country

j = the home country (China or India)

t = the year (2000-2008)

μ = error term

Regressions were run for Chinese and Indian acquisitions separately in order to be able to compare results.

2.4. Results

The empirical results confirm to a large extent the first hypotheses that Chinese and Indian multinationals use acquisitions in search of new markets. The coefficient for GDP is consistently positive and significant, indicating that large markets are attractive locations. The coefficient for GDPPC is positive but not significant, however. This indicates that these multinationals do not

significantly target rich markets but are also interested in targeting lower income emerging markets. Given that they have specific experience and expertise in targeting these customers from their home markets, this strategy makes sense. Market openness and integration are also important positive determinants of direction of acquisitions, although more important to Indian multinationals than Chinese multinationals.

The results also support the second hypothesis, although there appears to be no significant difference between China and India. Natural resources clearly are an important determinant for acquisitions by Chinese multinationals. Results indicate however that this investment motive is at least equally important for Indian multinationals as well. The mineral export propensity of host countries is positive and significant in all regression models, both for China and India. With regard to the third hypotheses, results indicate that strategic assets only appear to be an important determinant for Chinese multinationals, ceteris paribus. Apparently, Indian companies possess better technological advantages than their Chinese counterparts, making it less of a necessity to acquire technological expertise abroad than for Chinese companies. Robustness checks confirm these results for all three instruments of strategic assets. The patent propensity, R&D expenditure as well as tertiary education percentage are all positive and significant for China and positive yet insignificant for Indian acquisitions.

The institutional environment also yields some interesting results. Political stability is not a prerequisite for Chinese and Indian multinationals to acquire local firms. On the contrary, results indicate that countries with less political stability are more likely to witness increased interest from these multinationals. This feeds back into their quest for natural resources and emerging markets. They apparently have other priorities and are not all that much bothered by higher political risk. The control of corruption does not yield any significant results, although results again indicate that more corruption is not an issue for these investors. The rule of law, however, does play an important part. Although these multinationals from China and India are not put off by political risk, they apparently do want their investment to be assured as the rule of law plays a significant and positive role in the attraction of both Chinese and Indian multinationals.

Table . Negative binomial panel regression results of number of Chinese acquisitions (2000-2008).

Variable type	Variable name	Model 1	Model 2	Model 3	Model 4	Model 5
Market characteristics	GDP	.0003909*** 0.000	.0002724*** 0.001	.0002428*** 0.000	0.0001963** 0.014	.0002325*** 0.001
	GDPPC	.000013 0.222	0.0000172 0.389	.0000161 0.410	0.00000276 0.911	.000022 0.254
	OPEN	.0064328*** 0.003	0.006927*** 0.002	.0077199*** 0.000	0.006375*** 0.005	.0044491 0.287
	INTEGRATION	.350569 0.364	.6857711* .086	.7884777** 0.045	.239918 0.646	.5943432 0.164
Natural resources	RESOURCE	.0449447*** 0.007	.0509328*** .001	.0504783*** 0.001	.0305392** 0.033	0.0622104*** 0.000
Strategic assets	PATENT			.0184837** 0.020		
	GERD				.6313993** 0.031	
	HUMAN CAP					.0253602*** 0.004
Institutional environment	POL STAB		-1.083141*** 0.001	-1.212078*** 0.000	-1.191522*** 0.002	-1.37711*** 0.000
	ROLAW		1.487654** 0.032	1.457334** 0.032	1.544992* 0.080	1.495328* 0.069
	CONTOL CORRUPT		-.6494785 0.232	-.6008149 0.264	-.886588 0.180	-1.003816 0.173
Economic environment	EXCHANGE	.0002231*** 0.009	0.0001765** 0.040	0.0001728** 0.030	-0.0004213 0.425	.0001382* 0.069
Geography	DISTANCE	-.0000394 0.396	-.0000421 0.407	-.0000102 0.841	.0000226 0.757	-2.347648** 0.013
Model	Number of obs	460	374	374	229	304
	Wald Chi^2 (Prob>Chi^2)	34.15 0.0000	53.78 0.0000	66.08 0.0000	45.99 0.0000	52.62 0.0000

Notes: Variable coefficients and P> |z| significance levels are reported

Table . Negative binomial panel regression results of number of Indian acquisitions (2000-2008).

Variable type	Variable name	Model 1	Model 2	Model 3	Model 4	Model 5
Market characteristics	GDP	0.00505*** 0.000	.0003455*** 0.000	.0003472*** 0.000	.0003577*** 0.000	.0003765*** 0.001
	GDPPC	.00000666 0.482	.0000133 0.438	.0000135 0.433	-.00000281 0.893	.0000228 0.384
	OPEN	.0106034*** 0.000	.0095032*** 0.000	.0094437*** 0.000	.0095146*** 0.000	.0125411*** 0.005
	INTEGRATION	.9442206*** 0.001	1.014567*** 0.000	1.005592*** 0.001	1.334804*** 0.001	.8037052** 0.020
Natural resources	RESOURCE	.0517075*** 0.002	.0469418*** 0.000	.0467328*** 0.000	.0755189*** 0.001	.0499889*** 0.004
Strategic assets	PATENT			-.0018103 0.853		
	GERD				.1953769 0.403	
	HUMAN CAP					.0097176 0.243
Institutional environment	POL STAB		-.8731405*** 0.000	-.8673365*** 0.000	-1.139114*** 0.000	-.9254738*** 0.001
	ROLAW		1.263334*** 0.009	1.267159*** 0.009	1.355938** 0.032	.5181903 0.494
	CONTOL CORRUPT		-.5865372 0.096	-.5882003* 0.095	-.5234408 0.221	-.1865339 0.774
Economic environment	EXCHANGE	.0000026 0.739	-.00000191 0.984	-.0000012 0.990	-.0003468 0.441	.00000312 0.976
Geography	DISTANCE	-.0000741 0.106	-.000076* 0.094	-.0000769* 0.092	-.0001244* 0.063	-.0000746 0.172
Model	Number of obs	460	374	374	231	305
	Wald Chi^2 (Prob>Chi^2)	57.69 0.0000	106.33 0.0000	106.15 0.0000	95.64 0.000	45.04 0.000

Notes: Variable coefficients and P> |z| significance levels are reported.

The results for exchange rate indicate that for the most part an increase in the exchange rate of the host country does not decrease acquisitions. Given that both China and India probably have an overvalued currency goes a long way in explaining this result. Given that credit is readily available in China, results indicate that a more expensive local currency does not deter Chinese acquisitions, on the contrary.

Finally distance has a negative impact on Chinese and Indian acquisitions, although the coefficients are not consistently significant. Robustness checks for the simple distance between most important cities and population weighted distance between the most important cities confirm these results.

3. Conclusion

This analysis of Chinese and Indian cross-border acquisitions has confirmed some existing characteristics but has also revealed some new traits.

First, companies from India have used acquisitions more frequently than Chinese companies have. Anecdotal evidence seems to suggest that it is not for a lack of trying, but proposed deals from China seem to get more opposition than Indian acquisitions. This might be due to the higher propensity of state-owned firms from China going out, rather than private firms from India.

Second, as far as markets are concerned, the results indicate that both Chinese and Indian acquirers are attracted to large markets. GDP per capita, however, does not yield any significant effects, suggesting that Chinese and Indian companies are not merely focusing on the richest markets, but also target other lower income economies. Host country trade openness is shown to be of significant importance as these multinationals need to be able to export as well as import goods and services. The results also confirm the role of geographic regions as presented by Rugman and Verbeke (2007), Buckley and Ghauri (2004), Ghemawat (2004), and Arregle e.a. (2009).

Third, natural resources are a significant attraction pole for Chinese and Indian firms. The results indicate that Indian multinationals have carried out more and more acquisitions in natural resource rich countries than previously anticipated. The results show that natural resource seeking motives are at least as important to Indian multinationals as to Chinese multinationals.

Fourth, strategic asset seeking investments are apparently more important to Chinese than to Indian multinationals. This implies that Chinese multinationals are more actively seeking out strategic assets in host countries. However, although these multinationals seem to increasingly acquire firms in technologically advanced countries, this does not automatically imply the active augmentation of existing ownership advantages through reverse transfers of R&D. These firms may make strategic investments that may provide no discernible economic contribution to the MNE as a whole, besides their long term market positioning, through M&A (Dunning and Narula, 2009).

Fifth, institutional quality apparently has a positive effect on Chinese and Indian multinationals as far as the rule of law is concerned. These multinationals have a clear interest in protecting their investments, although political stability seems of no concern as they invest more in politically risky countries. Corruption is of no major concern for these multinationals. Given that they are accustomed to similar circumstances in their home country; it clearly does not put them off. This indicates that institutional distance is important as they have more affinity with these types of countries than their Western counterparts.

Fifth, given the overvalued currencies of both the Chinese Yuan and the Indian Rupee, the exchange rate does not have a large impact on their investment decisions. Chinese multinationals even seem to prefer countries that have appreciating currencies. Given the liberally available investment capital in their home country, this might not come as a surprise. Besides, an appreciating currency might be indicative of strong economic performance, further attracting investments.

Finally, ceteris paribus, distance has a negative impact on Chinese and Indian acquirers. Although these multinationals from China and India seem to seek out natural resources and

strategic assets the world over, controlling for capabilities, resources, markets and institutions, investors still prefer to invest in countries within the existing regional network of headquarters.

Endnotes

[i] Antigua and Barbuda, Bahamas, Bahrain, Bermuda, British Virgin Islands, Cayman Islands, Cyprus, Isle of Man, Malta, Marshall Islands, Mauritius, Panama and Seychelles.

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