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The real effects of corruption on M&A flows: Evidence from China's anti-corruption campaign[☆]

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ABSTRACT

We exploit the public enforcement of the anti-corruption campaign across China to identify a causal role of political corruption in corporate takeover flows through a difference-in-differences (DID) analysis. We find that a reduction in corruption increases cross-region takeover activities by 40% and that deal volume more than doubles. Further analyses reveal that treatment effects are more evident for non-SOEs, politically unconnected acquirers, and acquirers that are less corrupt *ex ante*. We also show that the impact of the anti-corruption campaign is more pronounced in segmented cities where corruption practices are more entrenched. The reduction in corruption leads to higher bidder returns, improves post-acquisition performance, and markedly strengthens local economic development. The evidence indicates that the anti-corruption campaign was effective in attracting inbound corporate investments and supporting economic growth.

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1. Introduction

The last two decades have witnessed a major upswing in cross-border takeover activities, both within and across countries. These developments have stimulated much academic interest in

the drivers of takeover flows across geographical divides.¹ Corrupt practices, characterized as the abuse of public power for private gain, are widespread globally (World Bank, 1997). However, to date, the causal relationship between political corruption and M&A flows has received a dearth of attention and remains an unresolved issue. This paper attempts to fill this void in the literature by investigating whether and how host location corruption affects M&A flows by exploiting a quasi-natural experiment in China.

When investigating the impact of corruption on economic or corporate decisions, previous literature has mainly focused on the relationship between the level of local corruption and outcome variables, and the results are mixed. Many find that corruption is detrimental for businesses and economies (Mauro, 1995;

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¹ Prior studies have documented a number of factors affecting cross-border acquisitions: investor protection (Rossi and Volpin, 2004), foreign institutional ownership (Ferreira, Massa, and Matos, 2010), geographical proximity (Erel, Liao, and Weisbach, 2012), the quality of accounting disclosures (Erel et al., 2012), cultural differences (Ahern, Daminelli, and Fracassi, 2015), political uncertainty (Cao, Li, and Liu, 2019), and bilateral trade agreements (Bhagwat, Brogaard, and Julio, 2021). At the regional level, Allen and Song (2005) argue that the establishment of the European Monetary Union fostered the integration of the European financial services industry through cross-region M&A activities.

Smarzynska and Wei, 2002; Huang and Yuan, 2019) and affects corporate financial and sales policies (Caprio, Faccio, and McConnell, 2013; Smith, 2016; Jia and Mayer, 2017). The role of corruption in economic growth and investment, however, is contested by some scholars (Leff, 1964; Huntington, 1968). Wheeler and Mody (1992) and Henisz (2000) do not report a negative relationship between corruption and foreign direct investments (FDI). Mauro (1995) raises the reverse causality issue by arguing that institutions and economic variables evolve jointly. Furthermore, Ding et al. (2020) posit that corruption norms are slow to change unless the government actively implements targeted policy reforms. Additionally, national-level differences contributing to differences in outcomes are likely to be hidden, as such variables may be omitted in cross-country and cross-border studies. These issues may lead to biases in estimation such that for the econometrician, a shock to local corruption is helpful.

In December 2012, the new leadership of President Xi Jinping embarked on an anti-corruption campaign in China. The central commission for discipline inspection (CCDI) of the communist party of china (CPC) initiated several rounds of inspections for all levels of bureaucrats across different regions.² Once a high-level local government official has been arrested for alleged corruption as a result of this campaign, a large exogenous shock to local political corruption levels occurs (Fan et al., 2008; Pan and Tian, 2017). The campaign was continuous and still effective in 2020 (People's Daily, 2020), with the inspection of a particular area by authorities being largely unexpected by market participants and unlikely to be affected by firm lobbying (Ding et al., 2020). It is rare to observe countries perceived to have high levels of corruption implementing sweeping changes to curb political corruption (Griffin, Liu, and Shu, 2022). Taking advantage of this swift reform, we design a difference-in-differences identification strategy with staggered treatment to examine cross-region M&A flows around the anti-corruption campaign.

We expect corruption to have two opposing effects on cross-region M&A flows. Host-region corruption could raise operational costs and create uncertainty for outside acquirers, leaving local firms unattractive to them (Shleifer and Vishny, 1993; Wei, 2000). Furthermore, the secrecy of corruption may lead to less bureaucratic transparency and higher transaction costs, which may discourage outside acquisitions. On the other hand, in some situations, host location corruption creates opportunities for private illicit gains to firms and may benefit cross-region acquirers (Leff, 1964; Huntington, 1968; Lui, 1985). Whether the cost of corruption outweighs its benefits remains an empirical question.

To construct the sample, we extract all M&A deals announced by Chinese public firms from 2007 to 2018 from the WIND database and aggregate cross-region deals within each city at the prefecture level and above based on the target firm's incorporation. To investigate the enforcement of anti-corruption campaigns across different cities, we manually collect information from the CCDI website and analyze the biographies of all arrested government officials. We then take the political arrest of the first deputy bureau chief or above-level official in the city during the campaign as a shock to local political corruption.³ We find that cross-region deals increase significantly following the anti-corruption campaign, and the results are both statistically and economically significant. For instance, the number of deals rises by 40% in cities encountering arrests of high-level officials relative to those cities not yet investigated or where no arrests have been made. The coefficient dynamics map out treatment effects only in the post-treatment pe-

riod, and our estimations satisfy the pretreatment trend assumption. In addition, in placebo tests, the treatment effects become insignificant. A negative shock to local corruption results in more cross-region deals, and our results thus lend support to the view that significant obstacles are created by corruption for takeover activities.

Moreover, we investigate the heterogeneity in cross-region M&A activities (Kaufmann and Wei, 1999; Ding et al., 2020). Our results reveal that the treatment effects are more evident for non-SOEs and politically unconnected firms, as they are more sensitive to corruption than their counterparts (Allen et al., 2005; Faccio, 2006). Additionally, we find that *ex ante* less corrupt firms (with lower entertainment expenditures) make more cross-region bids following the campaign. Next, we explore whether SOEs, politically connected firms, and *ex ante* corrupt firms lose their competitive advantages after the campaign. Specifically, we find that the cross-region takeover activities of non-SOEs, politically unconnected firms, and *ex ante* less corrupt firms increase relative to their corrupt competitors following the campaign. Overall, our results highlight the heterogeneous effects of corruption on firms and document a leveling of the playing field after the campaign.

As a next step, we investigate whether the impact of the corruption shock differs among regions depending on the level of segmentation. In segmented cities, government interference is recurrent, so corrupt practices are likely to be more entrenched (Young, 2000). Indeed, we find the treatment effects to be more pronounced in regions with more segmentation. We further exclude the alternative explanation that our findings are driven by the spillover effects in bordering cities or peer cities in the same province sharing spatial proximity and the turnover of government officials (An et al., 2016).

We then examine the valuation implications of the anti-corruption campaign for cross-region M&As. We find that following the anti-corruption campaign, the acquirer CAR increases by almost 2% in the seven-day event window. Our results also indicate that post-acquisition operating performance improves after the negative shock to local corruption, suggesting an overall net cost reduction in deal negotiation and corporate integration. Moreover, when we examine other dimensions of M&A activities, we find that the anti-corruption campaign leads to a higher deal completion rate and a higher likelihood of equity payments. The anti-corruption campaign speaks to not only cross-region M&A activities within a single country but also cross-border transactions. This evidence lends further support to the external validity of our findings.

In additional analyses, we explore the impact of the shock on cross-region deals when benchmarked against local deals and local economic development. We document that after changes in the target firm's institutional regime imposed by the anti-corruption campaign and the ensuing reduction in local corruption, cross-region deals are more likely to occur even when benchmarked against local deals. We also find that among local deals, competitive advantages shift toward firms that are disadvantaged in a corrupt market. Moreover, we find that the public enforcement of such a campaign is associated with better economic outcomes.

Finally, our main results remain robust to a battery of robustness tests. We include sensitivity tests on the timing of the shock to local corruption, and validity checks using multiple hypothesis correction, permutation, and mediation analyses of the natural experiment. We then explicitly control for the intensity of the campaign, economic policy uncertainty, and potential confounding effects. We also adopt alternative measures of political connections perform analyses that suggest that the anti-corruption campaign was effective.

Our paper contributes to the literature from several perspectives. First, our work extends a large body of research centered on

² The institutional background details are illustrated in Online Appendix A.

³ The deputy bureau chief level could include positions such as the vice mayor or deputy party secretary of a city. Officials of the deputy bureau chief level and above can be considered high-level officials in the Chinese political system.

the impact of corruption on economic outcomes. Our paper documents an increase in cross-region M&A activities after the anti-corruption campaign and provides new causal evidence of the role of host location corruption in influencing investment and resource allocation decisions (Wheeler and Mody, 1992; Henisz, 2000; Wei, 2000; Smarzynska and Wei, 2002; Fan et al., 2007).

We also add to the literature on the drivers of M&A activities. While significant efforts have been devoted to understanding the drivers of cross-region or cross-border M&A flows (Ferreira et al., 2010; Erel et al., 2012; Ahern et al., 2015; Bhagwat et al., 2021 among others), there remains scant evidence on whether or how political corruption affects M&A flows. Our results indicate that an exogenous reduction in host-region corruption spurs cross-region deals. We add to the literature by investigating the causal relationship between political corruption (as a critical institutional factor) and corporate takeover flows. Our paper differs markedly from Nguyen et al. (2020) because it exploits the negative shock to local political corruption and our results are less likely to be biased by reverse causality and omitted variable concerns. Our study also focuses on aggregate M&A flows.

Finally, our paper has important policy implications. Our study of China's sweeping policy changes to eliminate political corruption indicates that eradicating local corruption helps firms attract more outside capital, creates shareholder wealth, and advances local economic development (Giannetti et al., 2021; Berkowitz et al., 2022; Griffin et al., 2022). This paper also offers new insights into the market for corporate control in China under the new political leadership (Jiang et al., 2020; Jiang and Kim, 2020).

The rest of our paper is structured as follows. Section 2 develops the testing hypotheses and describes the empirical strategy employed. Section 3 illustrates our sample's construction. Section 4 discusses the main results. Section 5 concludes the paper.

2. Hypotheses and methodology

2.1. Hypothesis development

Corruption is referred to as a situation where government officials abuse public power to acquire personal gains (Shleifer and Vishny, 1993). Theoretically, it is unclear how corruption impacts cross-region M&A transactions. On the one hand, in a corrupt host region, politicians and bureaucrats stretch out their "grabbing hands" and rely on threats of regulations, bureaucratic delays, or targeted taxation to extract personal benefits and extort firms (Shleifer and Vishny, 1993; Caprio et al., 2013; Smith, 2016). M&A transactions, unlike other investments, are complex and often involve substantial operational, financial, governance, and human resource restructuring activities. To facilitate corporate integration and conduct business in the local market, nonlocal acquirers must typically interact with potentially corrupt government officials. The size and complex nature of M&A activities creates additional channels for bribery and the potential extraction of political rents, making firms in a corrupt region less likely to be attractive (to nonlocal investors) as takeover targets. Furthermore, corruption must be hidden from the public and agencies facing the ever-present threat of mutual denunciation in a corrupt agreement are "locked in" with each other, so that the entry of outside bidders could expose existing corrupt practices (Shleifer and Vishny, 1993; Lamsdorff, 2002). Corruption-prone officials are therefore inclined to lower bureaucratic transparency to the extent that host-region corruption increases acquirers' unknown costs when estimating synergies. As such, host-region corruption may raise transaction costs in the form of market barriers and deter cross-region M&As.

However, the negative effect of host-region corruption could be offset in some situations, as corruption may lead to more M&A activities by helping firms cut through bureaucratic red tape and

reduce regulatory costs (Leff, 1964; Huntington, 1968; Lui, 1985; Mironov, 2015). If the payment of bribery ensures and expedites the delivery of government goods and services, some acquirers could take advantage of the corrupt environment to facilitate deals. To conduct business in a corrupt host region, outside acquirers may bribe government officials in exchange for the creation and allocation of rents and resources (Fan et al., 2008) and unobtainable benefits (Cheung, Rau, and Stouraitis, 2021). However, this greasing-the-wheel theory assumes that red tape/regulatory burdens are exogenous independent of incentives for officials to accept bribery. Several scholars question such an assumption (Shleifer and Vishny, 1993; Bardhan, 1997), and Kaufmann and Wei (1999) propose a general equilibrium model in which bribery is predicted to be positively correlated with bureaucratic red tape.

The overall theoretical impact of host-region corruption on cross-region M&A activities is *ex ante* unclear, and which of these opposing effects dominates remains an empirical question. When the anti-corruption campaign is enforced, the demand for bribery is reduced, and the cost of corrupt practices increases, lessening the benefits of corruption. If paying bribery facilitates corporate transactions, the anti-corruption campaign should result in fewer cross-region M&As. If instead the cost of corruption outweighs its benefits, we should expect the anti-corruption campaign to attract more cross-region deals.

2.2. Identification strategy

Our identification strategy exploits the inspection enforcement of the anti-corruption campaign across cities. The timing of the inspection varies and is unanticipated by local government officials and market participants. If high-level government officials are arrested for corruption activities, the impact should be greater for the corporate sector and regional economy than for general corruption scandals, and this attracts more public attention (Fan et al., 2008; Pan and Tian, 2017). We thus expect the intensity of the shock to be greater for cities encountering the public arrest of high-level government officials for corruption during the campaign and then take the arrest of the first deputy bureau chief or above level official as a shock to the local city (see the Online Appendix B for information on China's civil service system). When vice minister or above-level officials are arrested during the campaign, we also trace their employment history in the same province, identify the cities in which they were appointed in the same province, and consider these cities to be in the treatment group.⁴ Our identification strategy is to compare changes in cross-region M&A flow in cities around the arrest of the first high-level government official during the campaign (treatment group) to changes in cities not yet investigated or where no arrests have been made (control group).

To obtain our list of arrested officials, we manually collected information from the CCDI website (the data are disclosed until 2018). We scrutinized all investigation and arrest announcements of officials on the website and matched them with individual biographies. We then specified the timing of the first arrest to a local city. We estimate the average treatment effect with the following city-year panel regression:

$$y_{it} = \alpha + \beta AC_{it} + Controls + \delta_i + \gamma_t + \varepsilon_{it} \quad (1)$$

where y_{it} is one of several dependent variables for city i and year t , and our treatment indicator AC_{it} is set to zero for all cities as

⁴ It is possible that same civil service level officials at different levels of cities, such as leading cities, have different political capabilities. Vice-minister or above level officials are also concentrated in leading cities, including direct-controlled municipalities (Beijing, Shanghai, Tianjin, and Chongqing), plan list cities (Dalian, Qingdao, Ningbo, Xiamen, and Shenzhen), and provincial capital cities. In our untabulated results, we remove all such leading cities and find that the results remain qualitatively unchanged.

Table 1
Summary Statistics of Key Variables.

Variables	N	Mean	SD	25%	50%	75%
<i>Deal Number (Log)</i>	3774	0.477	0.734	0.000	0.000	0.693
<i>Deal Volume (Log)</i>	3774	2.147	2.923	0.000	0.000	4.707
<i>Number of Arrests</i>	3774	0.158	0.409	0.000	0.000	0.000
<i>Bureaucrat Ranking</i>	3774	0.188	0.495	0.000	0.000	0.000
<i>Bureaucratic Ranking (Power)</i>	3774	0.506	1.195	0.000	0.000	0.000
<i>GDP Per Capita</i>	3774	4.300	3.683	1.995	3.173	5.395
<i>Secondary Industry</i>	3774	0.474	0.115	0.407	0.479	0.548
<i>Third Industry</i>	3774	0.387	0.094	0.324	0.377	0.440
<i>Retail Sales</i>	3774	15.074	1.206	14.331	15.125	15.834
<i>Population</i>	3774	5.771	0.786	5.389	5.872	6.326
<i>Higher Education</i>	3774	1.571	0.914	0.693	1.386	1.946
<i>High-speed Train</i>	3774	0.347	0.476	0.000	0.000	1.000

Notes: This table reports summary statistics. The data on M&A activity are obtained from the WIND database, and the data on cities are sourced from the China City Statistics Yearbook.

of 2012. In the following years, once the city has had the arrest of the first high-level government official, the indicator variable is switched to one and zero otherwise. We control for city demographics, including GDP per capita, industry structure, population, education level, and transportation (high-speed train networks). We include city fixed effects δ_i to absorb any unobserved time-invariant differences between cities and year fixed effects γ_t . To prevent the impact of outliers, we winsorize the data at the 1% and 99% levels. Furthermore, to account for cross-firm correlation within cities, the correlation that occurs over time, and heteroscedasticity (Petersen, 2009), we double-cluster standard errors at the target firm city and year levels.

3. The sample

We apply the following procedure to construct our testing sample. First, we extract all completed deals announced by Chinese public firms between 2007 and 2018 from the WIND database. We require a deal to involve the acquisition of control rights and not a connected transaction within a conglomerate. We then clarify the incorporation details of targets and acquirers. We extract regional statistics from the China City Statistics Yearbook, and the basic observation unit is a division at the prefecture level and above.⁵ We manually check and remap the incorporation city of the target firm to the prefecture level if the administrative level is below the prefecture level. We define cross-region deals as those in which the province of incorporation of the target is different from that of the acquirer. We then aggregate the cross-region deals within each city at the prefecture level and above based on the target firm's incorporation and construct city-year panel data. After that, we obtain a sample of 3774 city-year observations from 7143 cross-region deals.

Sample summary statistics are presented in Table 1. The mean number of cross-region deals is approximately two, while the deal volume is approximately 691.9 million CNY. Table 2 presents a province-level breakdown for the number and volume of cross-region M&A deals and bidder CARs. We refrain from providing a detailed discussion of the sample statistics, apart from noting that the most salient features are in line with prior work based on Chinese M&A data (Yang et al., 2019). For instance, the average CAR for the seven-day window is positive and takes a value of 1.41%,

⁵ A prefecture is an administrative division in the Chinese political system. There are 333 prefecture-level divisions in China, including 293 prefecture-level cities, 7 prefectures, 30 autonomous prefecture-level regions, and 3 leagues. There are four directed-administered municipality-level cities, including Beijing, Shanghai, Tianjin, and Chongqing. We include all divisions at the prefecture level and above with available data from the China City Statistics Year Book. For simplicity, we use the title city to represent the division at the prefecture level and above.

suggesting that the Chinese stock market reacts positively to the announcement of merger activity. Additionally, transactions are geographically concentrated in provinces with better economic development, such as Guangdong, Jiangsu, Zhejiang, Beijing, and Shanghai. All variable definitions are illustrated in the Appendix I.

4. Empirical results

4.1. Effect of the anti-corruption campaign on cross-region m&a activity

We first explore the effect of the anti-corruption campaign on cross-region takeovers at the macro level and the baseline results are presented in Table 3. Column 1 shows that the cross-region deal number (in logs) increases following the anti-corruption campaign. The effect is both statistically and economically significant. We estimate that the average effect of the anti-corruption campaign is 0.340, suggesting that the number of deals increased by 40%⁶ in cities encountering the arrests of high-level officials during the campaign relative to cities that did not. In Column 4, we repeat the test with deal volume (in logs) set as the dependent variable. The average effect shown in Column 4 is 1.305, which is significant at the 1% level. The magnitude of the coefficient suggests that the deal volume increases by 268.7% in response to the campaign.

To claim causality, we follow Bertrand and Mullainathan (2003) by adopting a "leads and lags model" to examine the dynamics of the effect and validate the parallel trend assumption. If there is a causal relationship, the dynamics should be small and insignificant during the pre-treatment period. Such dynamics map out the treatment effect over time in the post-treatment period. In Columns 2 and 5, we replace the AC variable with seven dummy variables: AC^{-k} is a dummy variable that equals one for a city that had the arrest of the first high-level government official k years prior to the shock, AC^0 stands for the original shock year, and AC^{+k} is a dummy variable that equals one for a city that had an arrest of the first high-level government official k years after the shock. No statistically significant effect exists in the years prior to the campaign. An increase is evident every year following the campaign. Consistent with a causal interpretation, we find that the estimate of AC^0 is economically smaller than those of the AC^{+1} , AC^{+2} , and AC^{3++} dummy variables. Furthermore, we include province-by-year fixed effects to control for unobserved, time-varying differences across provinces. Anti-corruption campaigns may remove the externalities associated with corruption and increase the profitability and value of firms (Giannetti et al.,

⁶ $e^{0.340} - 1 = 0.4049$; $e^{1.305} - 1 = 2.6877$.

Table 2
M&A Activities by Chinese Provinces.

Province	Deal Activity		Bidder CAR [-3, 3]	
	Deal Number (Cross-region)	Deal Volume (Cross-region): Million CNY	Mean	Median
Anhui	205	123,950.100	0.026	0.005
Beijing	918	324,326.500	0.022	0.007
Chongqing	141	62,429.900	0.018	0.002
Fujian	159	56,711.450	0.034	0.009
Gansu	34	8113.572	0.007	-0.012
Guangdong	736	332,264.300	0.017	0.003
Guangxi	59	12,278.430	-0.027	-0.013
Guizhou	63	14,200.670	0.025	0.006
Hainan	62	23,002.650	0.038	0.003
Hebei	153	89,827.860	0.014	0.001
Henan	146	28,127.390	0.030	0.009
Heilongjiang	64	22,081.340	0.002	0.013
Hubei	268	89,413.450	0.024	0.011
Hunan	186	31,960.140	0.028	-0.002
Jilin	62	13,806.050	0.020	0.008
Jiangsu	736	251,872.000	0.102	0.004
Jiangxi	163	31,846.450	0.036	0.011
Liaoning	172	64,132.810	-0.003	-0.004
Neimenggu	149	85,285.270	0.014	0.012
Ningxia	40	12,075.810	-0.024	0.003
Qinghai	38	5716.789	0.013	0.015
Shandong	264	89,007.390	0.010	0.007
Shanxi	74	33,088.870	-0.022	0.002
Shannxi	151	33,568.090	0.007	0.001
Shanghai	849	292,045.900	0.020	0.004
Sichuan	339	124,107.800	0.010	0.002
Tianjin	171	91,208.430	-0.001	-0.003
Xizang	33	10,611.900	-0.055	-0.018
Xinjiang	120	43,234.810	0.000	0.004
Yunnan	91	22,106.280	0.022	0.006
Zhejiang	497	188,946.700	0.029	0.012
Total	7143	2611,349.101	0.014	0.004

Notes: This table reports the breakdown of the sample and takeover outcomes by province. The data on M&A activity are obtained from the WIND database.

2021), and time-varying, unobserved acquisition opportunities at the province level may influence our outcomes of interest and bias our findings. In Columns 3 and 6, we find statistically significant and qualitatively similar results with respect to our estimations in the baseline regressions.

To further assess the validity of our difference-in-differences design, we apply two placebo shocks—three years before and three years after the actual shock—and check whether artificial shocks predict our outcomes. If our design is credible, we should find null results for the placebo test. Table 4 reports the results of the placebo test. Across Columns (1)–(4), we find that all coefficients of the pseudo anti-corruption campaign are insignificant. Additionally, the magnitude of the coefficients is much smaller than those in the baseline regression in Table 3. This evidence validates our research design. The results indicate that, on balance, the substantial cost associated with political corruption presents significant hurdles for takeover flows across regions.

4.2. Relative cross-region M&A activities

As noted in prior theoretical work (Kaufmann and Wei, 1999; Ding et al., 2020), not all acquirers are equal or tolerate the same level of corruption. Specifically, the government controls the activities of SOEs, and Kornai et al. (2003) propose a paternalistic conjecture that government officials feel protective of and responsible for SOEs. Hence, bureaucrats are inclined to allocate scarce resources to SOEs (Allen et al., 2005). Furthermore, Faccio (2006) posits that political connections could serve as a remedy for potential political extraction and increase firm value,

especially in areas of high corruption. In this vein, SOEs and politically connected firms suffer less from political extractions in a corrupt market. On the other hand, as they are treated favorably by governments and rely less on the payment of bribery to obtain government goods and services than their counterparts so they may be less sensitive to corruption and in a more advantageous position in corrupt host regions than are non-SOEs and politically unconnected firms.

Moreover, firms with greater entertainment expenditures (a proxy for firm-level corruption) are better positioned to benefit from corruption and presumably are more successful in gaining political favors. Conversely, less corrupt acquirers could be deterred from corruption and face greater hurdles to corporate transactions in a corrupt environment. The competitive advantage of corrupt acquirers relative to less corrupt acquirers may decrease after the anti-corruption campaign, and cross-region deals from corrupt acquirers could be more moderate than those from less corrupt acquirers. In brief, the impact of the anti-corruption campaign is expected to be more prominent for non-SOEs, politically unconnected acquirers, and *ex ante* less corrupt acquirers.

To understand relative cross-region M&A activities, we follow Aldatmaz et al. (2021) and standardize the cross-region activities of the group of interest by those of counterpart groups. For instance, we use the ratio of cross-region takeover activities of non-SOE acquirers to those of SOEs to explore the relative responsiveness of non-SOE bidders. We follow Faccio et al. (2006) and Fan et al. (2007) in defining politically connected firms. If the chairperson or CEO of the firm is or was an officer in a central or local government department or the military, a member of the

Table 3
Effect of the Anti-Corruption Campaign on Cross-region M&A Activities.

VARIABLES	(1) Deal Number (Cross-region)	(2) Deal Number (Cross-region)	(3) Deal Number (Cross-region)	(4) Deal Volume (Cross-region)	(5) Deal Volume (Cross-region)	(6) Deal Volume (Cross-region)
AC	0.340*** (6.03)		0.321*** (5.23)	1.305*** (6.84)		1.246*** (4.99)
AC ⁻³		0.016 (0.57)			-0.019 (-0.13)	
AC ⁻²		0.019 (0.38)			0.239 (1.23)	
AC ⁻¹		0.047 (0.95)			0.227 (1.33)	
AC ⁰		0.283*** (3.66)			1.132*** (3.68)	
AC ⁺¹		0.456*** (4.24)			1.784*** (4.94)	
AC ⁺²		0.443*** (4.48)			1.814*** (6.12)	
AC ³⁺⁺		0.548*** (4.74)			2.164*** (5.99)	
GDP Per Capita	0.128*** (7.00)	0.123*** (6.90)	0.117*** (5.73)	0.328*** (6.80)	0.307*** (6.65)	0.296*** (4.87)
Secondary Industry	-0.327 (-0.87)	-0.314 (-0.86)	-0.019 (-0.03)	-0.765 (-0.44)	-0.726 (-0.43)	1.460 (0.61)
Third Industry	0.648 (1.56)	0.682 (1.66)	0.685 (1.19)	1.944 (0.91)	2.035 (0.95)	3.606 (1.31)
Retail Sales	0.010 (0.20)	0.011 (0.22)	-0.075 (-0.85)	0.163 (1.10)	0.162 (1.09)	0.084 (0.27)
Population	0.453* (1.94)	0.411 (1.77)	0.527** (2.31)	0.398 (0.62)	0.215 (0.33)	0.458 (0.75)
Higher Education	0.073 (0.91)	0.062 (0.79)	0.076 (0.82)	0.364 (1.01)	0.317 (0.91)	0.312 (0.68)
High-speed Train	0.102** (2.33)	0.094** (2.25)	0.092 (1.75)	0.477*** (3.51)	0.442*** (3.44)	0.549** (2.85)
Constant	-3.068* (-1.94)	-2.834 (-1.79)	-2.505 (-1.40)	-5.514 (-1.21)	-4.390 (-0.94)	-6.275 (-1.10)
City FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	No	Yes	Yes	No
Province-Year FE	No	No	Yes	No	No	Yes
Adjusted R ²	0.402	0.408	0.425	0.303	0.306	0.311
Observations	3774	3774	3774	3774	3774	3774

Notes: This table reports the results of the regression models that investigate the effect of the anti-corruption campaign on cross-region M&A activities. The data on M&A activity are obtained from the WIND database. AC is the indicator variable that equals one if the city encountered the arrest of the first high-level official during the anti-corruption campaign since 2012 in a given year and zero otherwise. AC^{-k} is a dummy variable that equals one for a city that had the arrest of the first high-level government official k years prior to that shock, AC⁰ stands for the shock year, and AC^{+k} is a dummy variable that equals one for a city that had the arrest of the first high-level government official k years after the shock. We include city fixed effects and year fixed effects. In Columns (3) and (6), we also use multiplicative fixed effects to control for time-varying heterogeneity across provinces. Robust standard errors are double-clustered at the city and year levels, and t-statistics are reported in parentheses. * significant at the 10% level, ** significant at the 5% level, and *** significant at the 1% level.

People's Congress (PC), or a member of the Chinese People's Political Consultative Conference (CPPCC), the firm is considered politically connected. In addition, following Giannetti et al. (2021), we consider bidders in the top quartile of the distribution of the average ratio of entertainment expenses to sales during the pre-treatment period of 2007–2012 as corrupt firms and the rest as less corrupt firms.

The results are presented in Table 5. In Panel A, we find that the anti-corruption campaign has a positive and significant effect on two streams of takeover flows. The coefficient magnitude of the anti-corruption campaign shown in the first column is higher than that shown in the second column, and the ratio between the two streams of takeover flow increases after the shock. The results match our expectations. Corruption results in substantial transaction costs to outside bidders, and both non-SOEs and SOEs could benefit from the anti-corruption campaign. Furthermore, the treatment effects are more evident for non-SOE bidders since they are more sensitive to corruption. In Panel B, there are increasing cross-region deal flows from both bidders following the campaign, but the campaign elicits a stronger effect on politically unconnected bidders. Panel B further examines whether the acquirer's managers have worked for the central or local government, and the con-

nection with the central government is considered the strongest (Griffin et al., 2022). Our results suggest that the treatment effects are primarily concentrated among less politically connected (local government) and politically unconnected groups. Our findings regarding political connections are slightly different from those of Liu et al. (2016) and Schweizer et al. (2019), who document that politically connected firms are more likely to make acquisitions. Without changes in the target firm's institutional regime, politically connected bidders have a competitive advantage over politically unconnected firms and are expectantly more likely to make an offer. In Panel C, we find that acquirers who benefit less from corruption increase their cross-region bids to a greater extent than those who spend more on entertainment expenses. In brief, the results in Table 5 highlight the heterogeneous effects of corruption on firms' investment activities.

Table 5 illustrates that SOEs, politically connected firms, and ex ante corrupt firms also choose to make more bids after the campaign, although to a lesser extent since they can generally benefit from the overall crackdown on corruption. It may be questioned whether their competitive advantages diminished after the campaign. To uncover competition effects, we investigate the cross-region takeover activities of non-SOEs, nonpolitically connected

Table 4
Placebo Tests.

VARIABLES	(1) Deal Number (Cross-region)	(2) Deal Volume (Cross-region)	(3) Deal Number (Cross-region)	(4) Deal Volume (Cross-region)
AC -3 years	0.019 (0.69)	0.116 (0.57)		
AC +3 years			0.027 (0.48)	0.122 (0.55)
GDP Per Capita	0.066*** (7.34)	0.250*** (6.60)	0.005 (0.19)	0.041 (0.38)
Secondary Industry	-0.473 (-1.46)	-1.332 (-0.56)	0.136 (0.23)	0.445 (0.14)
Third Industry	0.313 (0.90)	0.365 (0.15)	0.839 (1.37)	4.754 (1.31)
Retail Sales	0.032 (0.55)	0.105 (0.32)	0.002 (0.11)	0.080 (0.69)
Population	0.061 (0.24)	-0.649 (-0.70)	0.250 (0.50)	1.665 (0.78)
Higher Education	0.085 (1.01)	0.361 (0.74)	-0.042 (-0.66)	0.267 (1.63)
High-speed Train	0.097** (2.51)	0.320* (1.96)	0.123 (1.79)	0.671* (2.37)
Constant	-0.835 (-0.47)	2.295 (0.40)	-1.221 (-0.39)	-10.700 (-0.84)
City FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Adjusted R ²	0.145	0.106	0.035	0.012
Observations	2377	2377	1397	1397

Notes: This table reports the placebo tests. The data on M&A activity are obtained from the WIND database. *AC -3 years* is a dummy variable that equals one for a city that had the arrest of the first high-level government official three years before the original shock during the campaign since 2012 in a given year and zero otherwise. *AC +3 years* is a dummy variable that equals one for a city that had the arrest of the first high-level government official three years after the original shock during the campaign since 2012 in a given year and zero otherwise. We include city fixed effects and year fixed effects. Robust standard errors are double-clustered at the city and year levels, and t-statistics are reported in parentheses. * significant at the 10% level, ** significant at the 5% level, and *** significant at the 1% level.

bidders, and *ex ante* less corrupt bidders that are direct competitors of SOEs, politically connected bidders, and *ex ante* corrupt bidders. As per [Servaes and Tamayo \(2014\)](#), we classify the firms in the same industry as their peers using the China Security Regulatory Commission's Industry Classification of 2012. The results are shown in [Table 6](#). In Panels A, B, and C, we show that the magnitudes of the coefficients for cross-region takeover activities from competitors are larger and that the ratios between competitors and privileged groups (SOEs, politically connected firms, and *ex ante* corrupt firms) increase after the anti-corruption campaign. It appears on the whole that anti-corruption campaigns promote a fairer environment for competition and that the competitive advantages of SOEs, politically connected firms, and *ex ante* corrupt firms emanating from their corrupt practices dissipate after such campaigns are implemented.

4.3. Where is the anti-corruption campaign more effective?

Thus far, our findings demonstrate that the anti-corruption campaign is associated with higher cross-region M&A flows on average, but it may well be that the impact of the campaign varies across the cross-section of regions. To answer this question, we study the market segmentation across which the impact of the anti-corruption campaign might vary. Market segmentation is defined as the local government limiting the resources flowing in and out of the local market through regulation to protect the interests of the local incumbents, which is a typical phenomenon in the Chinese economy ([Young, 2000](#)). In segmented regions, government interference could be recurrent, and corrupt practices may be more entrenched. One may then expect the effect of the anti-corruption campaign to be more pronounced in cities that are more segmented.

We follow the method provided in [Parsley and Wei \(2001\)](#) to construct a market segmentation index (MSI). More specifically, we extract the consumer price index (eight selected categories), the price index of investments in fixed assets (three selected categories), and the index of the average salary of employees (three selected categories) from the Statistics Year Book for all provinces. These values are price proxies for the consumer, capital, and labor markets. We then calculate the relative price changes to the bordering provinces for each selected category in each index with adjustments as described in [Parsley and Wei \(2001\)](#) and obtain the variance in the relative price changes for 66 bordering-province pairs as a pair MSI and calculate the market segmentation of each market in each province by averaging the pair MSI. In a final step, we adopt principal component analysis to generate the composite MSI for each province. We partition the sample into two groups using the median of the segmentation index for each year. We define the group with an index above the median as the segmented market and the rest as the integrated market. [Table 7](#) presents the results. We find that the coefficients of the anti-corruption campaign are positive and significant for all regressions. In particular, the magnitude of the coefficient is much larger for the segmented market, and the differences between the coefficients of the segmented and integrated markets are significant at least at the 5% level. These results are consistent with the notion that a negative shock to local corruption helps lower market barriers and attract more cross-region M&A activities.

4.4. Alternative explanations

In this section, we consider two alternatives for our results and conduct further empirical tests to rule them out.

Spillover effects. Previous research documents the critical role of spillover effects because of industry and spatial proximity in in-

Table 5
Relative Cross-Region M&A Activities.

Panel A: Non-SOEs vs. SOEs					
VARIABLES	(1) Non-SOEs	(2) SOEs	(1)/(2)		
AC	0.278*** (6.22)	0.129*** (4.61)	0.318*** (6.32)		
Controls	Yes	Yes	Yes		
City FE	Yes	Yes	Yes		
Year FE	Yes	Yes	Yes		
Adjusted R ²	0.387	0.142	0.262		
Observations	3774	3774	3774		
Panel B: Politically unconnected firms vs. Politically connected firms					
VARIABLES	(1) Politically Unconnected Firms	(2) Politically Connected Firms	(3) Central Government Connection	(4) Local Government Connection	(1)/(2)
AC	0.306*** (6.00)	0.173*** (3.70)	0.031* (1.91)	0.175*** (4.03)	0.279* (2.18)
Controls	Yes	Yes	Yes	Yes	Yes
City FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.406	0.215	0.027	0.226	0.214
Observations	3774	3774	3774	3774	3774
Panel C: Less-corrupt firms vs. Corrupt firms					
VARIABLES	(1) Less-corrupt Firms	(2) Corrupt Firms	(1)/(2)		
AC	0.276*** (6.62)	0.182*** (4.70)	0.354*** (4.97)		
Controls	Yes	Yes	Yes		
City FE	Yes	Yes	Yes		
Year FE	Yes	Yes	Yes		
Adjusted R ²	0.366	0.221	0.217		
Observations	3774	3774	3774		

Notes: This table examines relative cross-region M&A flows in response to the anti-corruption campaign. The data on M&A activity are obtained from the WIND database. Panel A presents the response differences in cross-region M&A flows between non-SOEs and SOEs. Panel B presents the response differences in cross-region M&A flows between politically unconnected firms and politically connected firms. Panel C presents the response differences in cross-region M&A flows between *ex-ante* less corrupt firms and *ex-ante* corrupt firms. AC is the indicator variable that equals one if the city had the arrest of the first high-level government official during the anti-corruption campaign since 2012 in a given year and zero otherwise. We include city fixed effects and year fixed effects. Robust standard errors are double-clustered at the city and year levels, and t-statistics are reported in parentheses. * significant at the 10% level, ** significant at the 5% level, and *** significant at the 1% level.

novation activities and economic growth (Glaeser et al., 1992). In our setting, because of spatial proximity, if a city encounters the arrest of a high-level government official during the campaign, the shock might spread to surrounding cities and affect the takeover outcomes in those areas. To test this possibility, once a city has encountered the arrest of a high-level official, we classify the city and its bordering cities or peer cities in the same province as treated cities. Table 8 reports our findings. Across regressions (1)–(4) in Panel A, we find little evidence of such spillover effects.

Turnover of high-level government officials. If we take the arrest of a high-level government official in the anti-corruption campaign as a shock to a local city, there will be turnovers of officials. New officials, especially nonlocal officials, may attract cross-region deals from cities in which they have been appointed (An et al., 2016). The increase in cross-region deal flow could be attributable to such turnovers. To rule out this possibility, we follow An et al. (2016) and manually collect turnover data for the CPC head of the city (General Party Secretary of the city) and the mayor and conduct an intensive web search for their biographies. By analyzing their biographies, we can piece together their employment histories and the cities in which they were appointed. We consider not only turnover due to the anti-corruption campaign but also normal turnover. In the first test, if the new CPC head or mayor is not from the same city, we exclude all deals from cities in which the new CPC head or mayor was employed. In the second test,

we exclude these cities if the new CPC head or mayor is not from the same city. In Panel B, after excluding these employment-linked deals and employment-linked cities, we find that the significant impact of the anti-corruption campaign on cross-region takeovers remains.

4.5. The anti-corruption campaign and bidder acquisition performance

We now examine the effect of the anti-corruption campaign on shareholder wealth creation and the acquirer's post-acquisition performance. Suppose market participants correctly anticipate the overall net cost reduction in deal negotiation and corporate integration because of a lower corruption level. In this case, the change in the acquirer's market value provides an estimate of the wealth created for acquirer shareholders. If there are real economic efficiency improvements, they ultimately appear in financial statements as well.

4.5.1. Short-term performance

This subsection estimates the effect of the anti-corruption campaign on the acquirer's cumulative abnormal return (CAR). We construct the CAR over three-, seven-, eleven-, and twenty-one-day windows based on the market model and control for acquirer characteristics, including size, leverage, growth, operating

Table 6
Anti-Corruption Campaign and the Corporate Competition Environment.

Panel A: Non-SOEs (competitor) vs. SOEs			
VARIABLES	(1) Non-SOEs (Competitor)	(2) SOEs	(1)/(2)
AC	0.162*** (4.90)	0.129*** (4.61)	0.224*** (4.39)
Controls	Yes	Yes	Yes
City FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Adjusted R ²	0.315	0.142	0.248
Observations	3774	3774	3774
Panel B: Politically unconnected firms (competitor) vs. Politically connected firms			
VARIABLES	(1) Politically Unconnected Firms (Competitor)	(2) Politically Connected Firms	(1)/(2)
AC	0.206*** (5.42)	0.173*** (3.70)	0.168*** (5.01)
Controls	Yes	Yes	Yes
City FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Adjusted R ²	0.371	0.215	0.243
Observations	3774	3774	3774
Panel C: Less corrupt firms (competitor) vs. Corrupt firms			
VARIABLES	(1) Less corrupt Firms (Competitor)	(2) Corrupt Firms	(1)/(2)
AC	0.223*** (5.51)	0.182*** (4.70)	0.240*** (4.32)
Controls	Yes	Yes	Yes
City FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Adjusted R ²	0.372	0.221	0.278
Observations	3774	3774	3774

Notes: This table indicates whether or not the anti-corruption campaign leads to a fair competition environment. The data on M&A activity are obtained from the WIND database. Panel A presents the response differences in cross-region M&A flows between non-SOEs (competitors) and SOEs. Panel B presents the response differences in cross-region M&A flows between politically unconnected firms (competitor) and politically connected firms. Panel C presents the response differences in cross-region M&A flows between *ex-ante* less corrupt firms (competitor) and *ex-ante* corrupt firms. AC is the indicator variable that equals one if the city had the arrest of the first high-level government official during the anti-corruption campaign since 2012 in a given year and zero otherwise. We include city fixed effects and year fixed effects. Robust standard errors are double-clustered at the city and year levels, and t-statistics are reported in parentheses. * significant at the 10% level, ** significant at the 5% level, and *** significant at the 1% level.

cash flow, SOE status, corporate governance characteristics including board duality, the ratio of independent directors, management confidence, the share of the largest block-holder, and bidder city characteristics. We present the results in Panel A of Table 9. Most of these effects are not only statistically significant but also economically important. After the anti-corruption campaign, the acquirer CAR for cross-region M&A deals increases by almost 2% in the seven-day event window. These results indicate that market participants might anticipate such benefits from the exogenous reduction in local corruption and react positively to acquirers' bids.

4.5.2. Long-term performance

We now analyze whether the reduction in the cost of deal negotiation and corporate integration translates into the acquirer's post-acquisition operating performance. Following Golubov and Xiong (2020), we construct changes in returns on assets (ΔROA) from year $t - 1$ to year $t + 2$ and year $t + 3$ as a proxy for post-acquisition performance. As a standard proxy for firm performance, we also include changes in Tobin's Q ($\Delta \text{Tobin's Q}$) as a dependent variable in our estimation. The results in Panel B of Table 9 show that post-acquisition performance increases once the anti-corruption campaign is in effect. On average, ΔROA is approximately 1.4% after the campaign, while Tobin's Q increases approximately 0.4 following the negative shock to local corruption. In

brief, the anti-corruption campaign may promote real economic efficiency, and firms might be able to achieve better operating outcome.

4.6. Effect of the anti-corruption campaign on deal completion and payment method

In this section, we explore two more dimensions of M&A activities: deal completion rate and method of payment. After the campaign, we anticipate a higher completion rate if there is an increase in the ease of cross-region takeovers. The anti-corruption campaign may also affect the means of payment used in M&A transactions. In China's market for corporate control, the majority of targets are non-listed companies, and the majority of transactions are financed with cash. In our cross-region sample of takeovers, only 42 deals involved pure stock payments, and a total of 231 deals involved stock components (pure stock and mixed payment). We expect more equity financing to be used post-campaign because target shareholders may anticipate a reduction in net costs and thus greater synergies following the anti-corruption campaign. They are likely to prefer bidder's equity as a takeover currency due to the potential value appreciation of those shares. To calculate the completion rate, we collect all announced deals (completed and failed) from the WIND database and map them to each city

Table 7
Where is the Anti-Corruption Campaign More Effective?.

VARIABLES	(1)		Diff.	(3)		Diff.
	Deal Number (Cross-region)			Deal Volume (Cross-region)		
	Segmented	Integrated		Segmented	Integrated	
AC	0.410*** (6.03)	0.249*** (4.56)	0.161*** (8.79)	1.589*** (5.50)	0.907*** (5.34)	0.682** (6.27)
GDP Per Capita	0.116*** (5.94)	0.145*** (5.37)		0.280*** (4.19)	0.360*** (4.38)	
Secondary Industry	-0.058 (-0.11)	-0.568 (-1.38)		-0.294 (-0.13)	-1.287 (-0.67)	
Third Industry	0.736 (1.47)	0.705 (1.33)		0.632 (0.27)	4.137 (1.67)	
Retail Sales	0.019 (0.26)	0.050 (0.79)		0.232 (0.69)	0.252 (1.38)	
Population	0.402* (2.03)	0.432 (1.70)		0.136 (0.17)	0.431 (0.69)	
Higher Education	0.117 (1.76)	0.046 (0.50)		0.538 (1.61)	0.238 (0.48)	
High-speed Train	0.131** (2.76)	0.100** (2.35)		0.499*** (3.11)	0.568*** (3.14)	
Constant	-3.029** (-2.22)	-3.500* (-2.06)		-4.638 (-0.81)	-7.629 (-1.72)	
City FE	Yes	Yes		Yes	Yes	
Year FE	Yes	Yes		Yes	Yes	
Adjusted R ²	0.372	0.425		0.264	0.325	
Observations	1830	1944		1830	1944	

Notes: This table examines the heterogeneity across regions. The data on M&A activity are obtained from the WIND database. AC is the indicator variable that equals one if the city had the arrest of the first high-level government official during the anti-corruption campaign since 2012 in a given year and zero otherwise. We include city fixed effects and year fixed effects. Robust standard errors are double-clustered at the city and year levels, and t-statistics are reported in parentheses. Chi-square statistics are presented in parentheses and in columns for differences between groups. * significant at the 10% level, ** significant at the 5% level, and *** significant at the 1% level.

Table 8
Alternative Explanations.

Panel A: Spillover effects				
VARIABLES	(1)	(2)	(3)	(4)
	Deal Number (Cross-region)	Deal Volume (Cross-region)	Deal Number (Cross-region)	Deal Volume (Cross-region)
AC (<i>Bordering</i>)	0.081 (1.75)	0.132 (0.64)		
AC (<i>Same Province</i>)			0.080 (1.56)	0.130 (1.39)
Controls	Yes	Yes	Yes	Yes
City FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Adjusted R ²	0.380	0.286	0.380	0.286
Observations	3774	3774	3774	3774
Panel B: Turnover of the high-level government official				
VARIABLES	(1)	(2)	(3)	(4)
	Excluding Deals		Excluding Cities	
	Deal Number (Cross-region)	Deal Volume (Cross-region)	Deal Number (Cross-region)	Deal Volume (Cross-region)
AC	0.330*** (5.85)	1.263*** (6.36)	0.282*** (5.26)	1.207*** (6.34)
Controls	Yes	Yes	Yes	Yes
City FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Adjusted R ²	0.394	0.297	0.322	0.258
Observations	3774	3774	3774	3774

Notes: This table reports the testing results of other potential explanations. Panel A reports the spillover effects via spatial proximity. Panel B reports the results after considering the turnover of the high-level government official. The data on M&A activity are obtained from the WIND database. AC (*Bordering*) is the indicator variable that equals one for the city that had the arrest of the first high-level government official during the anti-corruption campaign since 2012 in its bordered cities in a given year and zero otherwise. AC (*Same Province*) is the indicator variable that equals one for the city that had the arrest of the first high-level government official during the anti-corruption campaign since 2012 and its peer cities in the same province in a given year and zero otherwise. AC is the indicator variable that equals one if the city had the arrest of the first high-level government official during the anti-corruption campaign since 2012 in a given year and zero otherwise. We include city fixed effects and year fixed effects. Robust standard errors are double-clustered at the city and year levels, and t-statistics are reported in parentheses. * significant at the 10% level, ** significant at the 5% level, and *** significant at the 1% level.

Table 9
The Anti-Corruption Campaign and Bidder Acquisition Performance.

Panel A: Short-term performance				
VARIABLES	(1) CAR [-1, 1]	(2) CAR [-3, 3]	(3) CAR [-5, 5]	(4) CAR [-10, 10]
AC	0.006 (1.42)	0.019** (2.23)	0.026** (2.21)	0.032* (1.90)
Bidder City Event	0.001 (0.11)	0.001 (0.05)	-0.005 (-0.27)	-0.006 (-0.30)
Size	-0.007** (-2.75)	-0.009* (-1.86)	-0.009 (-1.59)	-0.007 (-1.20)
Leverage	0.016 (1.25)	0.011 (0.56)	0.016 (0.69)	0.030 (1.08)
Growth	0.004 (0.84)	0.005 (0.88)	0.006 (0.73)	0.003 (0.25)
Cash	-0.010 (-0.57)	-0.046 (-1.30)	-0.029 (-0.76)	0.002 (0.04)
Duality	0.007 (1.67)	0.008 (1.37)	0.008 (1.15)	0.008 (1.15)
Independence	0.034 (1.44)	0.055 (1.09)	0.105 (1.69)	0.029 (0.30)
Confidence	0.005 (0.45)	0.002 (0.11)	0.005 (0.17)	0.055 (0.89)
Block-holder	-0.016 (-1.15)	-0.033 (-1.74)	-0.046 (-1.53)	-0.064 (-1.54)
SOE	-0.000 (-0.07)	0.001 (0.19)	-0.003 (-0.46)	-0.006 (-0.60)
Constant	0.172*** (3.27)	0.233** (2.46)	0.170 (1.63)	0.136 (1.27)
Industry FE	Yes	Yes	Yes	Yes
City FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Adjusted R ²	0.030	0.030	0.029	0.023
Observations	6965	6965	6965	6965
Panel B: Long-term performance				
VARIABLES	(1) Δ ROA [t - 1, t + 2]	(2) Δ ROA [t - 1, t + 3]	(3) Δ Tobin's Q [t - 1, t + 2]	(4) Δ Tobin's Q [t - 1, t + 3]
AC	0.013*** (4.12)	0.016*** (5.12)	0.425*** (5.22)	0.397*** (5.54)
Bidder City Event	0.002 (0.58)	-0.002 (-0.46)	-0.059 (-0.68)	-0.052 (-0.59)
Size	-0.003** (-2.52)	-0.002* (-1.73)	0.041** (2.08)	0.068*** (3.53)
Leverage	0.029*** (3.84)	0.027*** (3.16)	-0.108 (-0.74)	-0.094 (-0.71)
Growth	0.012*** (5.60)	0.008*** (4.41)	-0.309*** (-4.04)	-0.310*** (-4.10)
Cash	0.155*** (9.16)	0.171*** (9.88)	0.252 (0.69)	0.103 (0.33)
Duality	-0.007*** (-3.04)	-0.009*** (-3.79)	0.059 (1.28)	0.056 (1.28)
Independence	-0.011 (-0.53)	-0.014 (-0.61)	-0.135 (-0.50)	-0.154 (-0.55)
Confidence	-0.013 (-1.47)	-0.017* (-1.91)	-0.260* (-1.95)	-0.267** (-2.11)
Block-holder	0.043*** (5.63)	0.045*** (6.11)	0.582*** (5.41)	0.559*** (5.41)
SOE	0.010*** (2.78)	0.011*** (3.01)	-0.075* (-1.94)	-0.076* (-1.92)
Constant	0.006 (0.18)	-0.000 (-0.01)	0.681 (1.23)	0.102 (0.21)
Industry FE	Yes	Yes	Yes	Yes
City FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Adjusted R ²	0.079	0.087	0.333	0.322
Observations	5441	5441	5441	5441

Notes: Panel A reports the impact of the anti-corruption campaign on bidders' short-term acquisition performance. Panel B reports the impact of the anti-corruption campaign on bidders' long-term acquisition performance. The data on M&A activity are obtained from the WIND database, and firm data are from CSMAR. AC is the indicator variable that equals one if the city had the arrest of the first high-level government official during the anti-corruption campaign since 2012 in a given year and zero otherwise. We include industry fixed effects, city fixed effects, and year fixed effects. Robust standard errors are double-clustered at the city and year levels, and t-statistics are reported in parentheses. * significant at the 10% level, ** significant at the 5% level, and *** significant at the 1% level.

Table 10
Effect of the Anti-Corruption Campaign on Deal Completion and Payment Method.

VARIABLES	(1) Deal Completion Ratio	(2) Number of Deals with Equity Component Payment
AC	0.143*** (4.62)	0.030*** (3.61)
GDP Per Capita	0.018** (2.68)	0.010* (1.86)
Secondary Industry	0.177 (0.54)	-0.033 (-0.48)
Third Industry	0.469 (1.40)	0.004 (0.03)
Retail Sales	0.059** (2.58)	-0.038*** (-3.28)
Population	-0.069 (-0.73)	0.045** (2.36)
Higher Education	0.051 (0.80)	-0.014 (-1.43)
High-speed Train	0.067** (3.00)	0.011 (1.14)
Constant	-0.672 (-0.93)	0.302 (1.37)
City FE	Yes	Yes
Year FE	Yes	Yes
Adjusted R ²	0.205	0.052
Observations	3774	3774

Notes: This table reports the impact of the anti-corruption campaign on deal completion and payment method. The data on M&A activity are obtained from the WIND database, and firm data are from CSMAR. AC is the indicator variable that equals one if the city had the arrest of the first high-level government official during the anti-corruption campaign since 2012 in a given year and zero otherwise. We include city fixed effects and year fixed effects. Robust standard errors are double-clustered at the city and year levels, and t-statistics are reported in parentheses. * significant at the 10% level, ** significant at the 5% level, and *** significant at the 1% level.

using the same approach discussed in Section 3. The completion rate is defined as the ratio of completed deals to all announced deals. For the payment method, we count deals involving the equity component at the prefecture city-year level. Table 10 reports the regression results. Our results support our conjecture that the anti-corruption campaign could facilitate deal completion and that stocks would become more popular as the payment method used following the campaign.

4.7. Effect of the anti-corruption campaign on cross-border M&A activity

All of the above results are based on an analysis of cross-region M&A activities in a single country, and we establish the internal validity of our conjectures. In this subsection, we seek external validity by examining whether such a campaign also affects the decisions of international bidders in cross-border M&A deals. We extract the cross-border M&A data from the Thompson Reuters SDC database and apply the following sample selection criteria. We include all completed deals. Second, deals do not involve spinoffs, LBOs, recapitalizations, self-tenders, repurchases, minority stake purchases, acquisitions of remaining interests, or privatizations. In addition, the acquirer owns less than a 50% share of the target before a deal and more than 50% afterward. Finally, deals involving financial and utility firms are excluded.

Similar to the baseline regression in Table 3, we aggregate cross-border deal numbers and volumes within each city at the prefecture level and above based on the location of the target firm. In Table 11, the coefficient of the anti-corruption campaign is positive and statistically significant for the cross-border deal number regression. The average effect estimated for the anti-corruption campaign is 0.02, suggesting that the number of deals increased by 2% in cities encountering the arrest of high-level officials relative to cities that did not. Although the coefficient in the deal volume regression is insignificant, the positive sign and magnitude are still

notable. Overall, our estimations in Table 11 increase the external validity of our study to some extent.

4.8. Cross-region vs. local deals

Next, we examine whether cross-region deals are more likely to occur as benchmarked against local deals. In the acquisition bidding process, the target firm could receive bids from both local and out-of-area firms. Local deals have a relatively lower corruption-related transaction cost because local bidders are more likely to be insiders in the local corruption game and are more familiar with the target firm. Additionally, by participating in the local economy, such as creating a local conglomerate through takeovers, local bidders may provide rent to officials rather than engaging in corrupt activities, as local government officials have incentives to boost economic growth and be promoted to a higher rank (Li and Zhou, 2005). In comparison, cross-region acquirers are likely to be hindered by the market barriers to enter another city and the local government's biased attitude toward companies with different provincial practices, norms and customs. As the anti-corruption campaign reduces local corruption, thus lowering market entry barriers, the risk of political rent extraction and the cost of doing business, outside bidders become increasingly less competitively disadvantaged. As a result, one might expect cross-region deals to increase relatively more than local deals, as the latter would increase only marginally with lower corruption-related transaction costs and greater competition from outside bidders.

Table 12 indicates that the anti-corruption campaign has a positive but insignificant impact on local deals. When we divide local deals into those from corrupt and less corrupt bidders, we find that less corrupt bidders make slightly more deals after the campaign. In addition, cross-region transactions increase significantly relative to local transactions. Taken together, it appears that among local deals, the competitive advantages shift toward firms that are disadvantaged in a corrupt market, and the evidence indicates that

Table 11
Effect of the Anti-Corruption Campaign on Cross-border M&A Activities.

VARIABLES	(1) Deal Number (Cross-border)	(2) Deal Volume (Cross-border)
AC	0.027** (2.62)	0.063 (1.45)
GDP Per Capita	-0.002 (-0.27)	0.018 (1.05)
Secondary Industry	-0.039 (-0.38)	-0.280 (-1.26)
Third Industry	-0.215* (-1.92)	-0.546* (-1.86)
Retail Sales	0.019* (2.02)	-0.044 (-0.92)
Population	0.035 (0.67)	0.241 (1.29)
Higher Education	0.028* (1.96)	0.133* (1.91)
High-speed Train	0.003 (0.23)	0.047 (0.83)
Constant	-0.293 (-1.08)	-0.447 (-0.36)
City FE	Yes	Yes
Year FE	Yes	Yes
Adjusted R ²	0.004	0.005
Observations	3774	3774

Notes: This table reports the impact of the anti-corruption campaign on cross-border M&A flow. The data on M&A activity are obtained from the SDC database. AC is the indicator variable that equals one if the city had the arrest of the first high-level government official during the anti-corruption campaign since 2012 in a given year and zero otherwise. We include city fixed effects and year fixed effects. Robust standard errors are double-clustered at the city and year levels, and t-statistics are reported in parentheses. * significant at the 10% level, ** significant at the 5% level, and *** significant at the 1% level.

Table 12
Cross-region Deals vs. Local Deals.

VARIABLES	(1) Local Deals	(2) Local Deals (Corrupt bidders)	(3) Local Deals (Less corrupt bidders)	(4) Deal Number Ratio (Cross-region/local)
AC	0.017 (0.64)	0.003 (0.16)	0.056* (2.15)	0.404*** (4.92)
GDP Per Capita	0.046*** (3.28)	0.003 (0.30)	0.071*** (4.54)	0.166*** (5.10)
Secondary Industry	-0.146 (-0.65)	0.156 (0.97)	-0.428** (-3.10)	-0.397 (-0.68)
Third Industry	0.170 (0.51)	0.237 (1.07)	0.021 (0.09)	0.837 (1.33)
Retail Sales	-0.031 (-0.95)	-0.030 (-1.66)	-0.063 (-1.58)	-0.081 (-1.23)
Population	0.174* (1.85)	0.065 (1.08)	0.233* (2.17)	0.543* (1.87)
Higher Education	0.005 (0.13)	-0.021 (-0.57)	0.021 (0.57)	0.104 (0.89)
High-speed Train	0.045 (1.30)	0.041 (1.63)	0.015 (0.53)	0.122* (2.09)
Constant	-0.464 (-0.69)	0.077 (0.19)	-0.395 (-0.56)	-2.429 (-1.12)
City FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Adjusted R ²	0.042	0.013	0.185	0.241
Observations	3774	3774	3774	3774

Notes: This table reports the results for cross-region takeover activities benchmarking against local takeover activities. The data on M&A activity are obtained from the WIND database. AC is the indicator variable that equals one if the city had the arrest of the first high-level government official during the anti-corruption campaign since 2012 in a given year and zero otherwise. We include city fixed effects and year fixed effects. Robust standard errors are double-clustered at the city and year levels, and t-statistics are reported in parentheses. * significant at the 10% level, ** significant at the 5% level, and *** significant at the 1% level.

the anti-corruption campaign effectively eradicates the competitive advantages previously enjoyed by local bidders within corrupt host regions.

4.9. Local economic consequences of the anti-corruption campaign

As additional analyses, we further explore the impact of such an anti-corruption campaign on local economics. Following prior stud-

ies such as Mauro (1995) and Bai et al. (2013), we include three variables-GDP per capita growth, general government revenue per capita, and the unemployment rate-and repeat the baseline regression specification. Table 13 reports the results. Strikingly, we find that the anti-corruption campaign, which curbs local corruption, contributes significantly to local economic development. The reduction in corruption leads to faster GDP per capita growth, more general government revenue per capita, and less unemployment.

Table 13
Local Economic Consequences of the Anti-Corruption Campaign.

VARIABLES	(1) GDP Per Capita Growth	(2) General Government Revenue Per Capita	(3) Unemployment Rate
AC	0.009* (1.92)	0.052** (2.58)	-0.416* (-1.99)
Secondary Industry	0.199*** (3.50)	-0.682** (-2.73)	-9.390*** (-4.27)
Third Industry	0.066 (0.75)	-0.750** (-2.59)	-5.259* (-2.03)
Retail Sales	-0.008* (-2.02)	-0.014 (-0.85)	-0.058 (-0.51)
Population	-0.042* (-1.95)	0.213 (1.20)	-0.347 (-0.35)
Higher Education	-0.003 (-0.35)	0.022 (0.97)	0.179 (0.55)
High-speed Train	0.010 (1.77)	0.012 (0.66)	-0.282* (-2.04)
Constant	0.437*** (3.56)	-0.327 (-0.34)	15.227** (2.39)
City FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Adjusted R ²	0.534	0.530	0.157
Observations	3774	3753	3640

Notes: This table reports the local economic consequences of the anti-corruption campaign. The data on economic statistics are obtained via the China Statistics Year Book. AC is the indicator variable that equals one if the city had the arrest of the first high-level government official during the anti-corruption campaign since 2012 in a given year and zero otherwise. We include city fixed effects and year fixed effects. Robust standard errors are double-clustered at the city and year levels, and t-statistics are reported in parentheses. * significant at the 10% level, ** significant at the 5% level, and *** significant at the 1% level.

Overall, our results are in line with prior work supporting the view that corruption is detrimental to economic growth (Shleifer and Vishny, 1993; Mauro, 1995; Smarzynska and Wei, 2002).

4.10. Robustness tests

To validate our results and interpretations, we implement a battery of robustness tests. First, we perform a sensitivity check on the timing of the shock to local corruption by using survival analysis and find that most economic predictors are insignificant. Second, we perform the permutation analysis to alleviate the concern that the baseline estimate is a statistical artifact. When the natural experiment is reused, the likelihood of encountering false-positive issues increases. We then conduct multiple hypothesis testing, and our analyses reveal that the treatment effects documented may not be false-positive test results. Next, we examine whether our results reflect the auxiliary effects of other variables, as prior studies document the campaign's effect on other economic variables. Our results suggest that the effects of the anti-corruption campaign on cross-region takeover flows are more likely to be of the first order. We also control for the intensity of the campaign and economic policy uncertainty. In addition, we re-estimate the baseline regression after removing potential confounding effects. We present two alternative measures of political connection: a direct relationship between the acquirer and the local government authority of the target firm and the corporate visits of national leaders. We obtain consistent results using these alternative measures. Toward the end of the robustness tests, we discuss the effectiveness of the anti-corruption campaign. The robustness tests are presented in Online Appendix C.

5. Conclusion

This study examines how host location political corruption affects cross-region M&A flows. Specifically, we exploit the anti-corruption campaign publicly enforced across different regions in China as the exogenous shock to host corruption and design a

staggered difference-in-differences approach to examine the cross-region takeover flow around such a campaign.

Using a sample of 3774 city-year observations from 2007 to 2018, we find that after the anti-corruption campaign, cross-region takeover activity intensified significantly. We provide unambiguous evidence that corruption is perceived as costly and discourages cross-region takeover flows. We also find that the anti-corruption campaign has stronger effects on non-SOEs, politically unconnected firms, and *ex ante* less corrupt firms. Additionally, the anti-corruption campaign results in a fairer business environment. Moreover, our results reveal that the treatment effects are more pronounced in segmented cities since corruption practices are likely more entrenched in these more remote locations. We further confirm that our results are unlikely to be explained by alternative explanations. At the deal level, we illustrate that the anti-corruption campaign improves bidder acquisition performance in both the short and long terms. From an international M&A perspective, we show that such a campaign may also trigger cross-border M&A flows. Furthermore, we document that cross-region deals have a higher propensity to occur, benchmarked against local deals, and that the anti-corruption campaign has been instrumental in stimulating local economic development. Our results are robust to a rich set of robustness tests.

Overall, this paper advances the current understanding of the determinants of cross-region M&A activity by considering an unexplored source of market friction within capital markets - political corruption. By exploiting a quasi-natural experiment from China, we are able to provide plausibly causal evidence of the relationship between corruption and cross-region corporate takeover activity. Our results point to anti-corruption measures being attractive for inbound corporate investments. The results have direct implications for policy-makers seeking to implement reforms that strengthen the institutional environment to support economic development, especially in transition economies. Future research in this area should focus on how firm-specific corporate governance controls may interact with political corruption in affecting M&A outcomes.

Appendix I

Definitions of Key Variables.

Key Variables	Definition and Source
M&A Outcome Variables	
<i>Deal Number (Log)</i>	Logarithm of one plus the number of cross-region deals in the city in a given year. (WIND)
<i>Deal Volume (Log)</i>	Logarithm of one plus the volume in million CNY of cross-region deals in the city in a given year. (WIND)
<i>CAR</i>	[-1, 1], [-3, 3], [-5, 5], and [-10, 10] cumulative abnormal returns of bidders based on the market model. (CSMAR)
<i>Delta ROA</i>	$t - 1$ to $t + 2$ and $t + 3$ changes in ROA of bidders (see e.g., Golubov and Xiong, 2020). (CSMAR)
<i>Delta Tobin's Q</i>	$t - 1$ to $t + 2$ and $t + 3$ changes in Tobin's Q of bidders. (CSMAR)
Local Economic Outcome Variables	
<i>GDP Per Capita Growth</i>	Growth rate of GDP per capita in the city in a given year. (China City Statistics Yearbook)
<i>General Government Revenue Per Capita</i>	Ratio of government revenue to population in the city in a given year. (China City Statistics Yearbook)
<i>Unemployment Rate</i>	Ratio of registered unemployed population to registered labor population. (China City Statistics Yearbook)
Anti-Corruption Variables	
<i>AC</i>	Dummy variable that equals one if the city had the arrest of the first high-level official (deputy bureau chief or above level) during the anti-corruption campaign since 2012 in a given year, and zero otherwise.
<i>Number of Arrests</i>	Logarithm of one plus the number of arrested government officials above the level of deputy bureau chief in the city in a given year. (CCDI Website)
<i>Bureaucrat Ranking</i>	Logarithm of one plus the sum of the ranking scores of all arrested bureaucrats in the city in a given year. Ranking scores are distributed as follows: Deputy Bureau Chief – 1 point, Bureau Chief – 2 points, Vice Minister, Vice Governor – 3 points, Minister, Governor – 4 points, Vice National Leader – 5 points, and National Leader – 6 points. (CCDI Website)
<i>Bureaucrat Ranking (Power)</i>	Logarithm of one plus the sum of the ranking scores to the power of themselves for all arrested bureaucrats in the city in a given year. Ranking scores are distributed as follows: Deputy Bureau Chief – 1 point, Bureau Chief – 2 points, Vice Minister, Vice Governor – 3 points, Minister, Governor – 4 points, Vice National Leader – 5 points, and National Leader – 6 points. (CCDI Website)
Control Variables	
<i>GDP Per Capita</i>	GDP per capita in the city in a given year. (China City Statistics Yearbook)
<i>Secondary Industry</i>	Ratio of the secondary industry production to GDP in the city in a given year. (China City Statistics Yearbook)
<i>Third Industry</i>	Ratio of the third industry production to GDP in the city in a given year. (China City Statistics Yearbook)
<i>Retail Sales</i>	Logarithm of one plus the total retail sales of consumer goods in the city in a given year. (China City Statistics Yearbook)
<i>Population</i>	Logarithm of one plus the number of residents in the city in a given year. (China City Statistics Yearbook)
<i>Higher Education</i>	Logarithm of one plus the number of higher education institutions in the city in a given year. (China City Statistics Yearbook)
<i>High-speed Train</i>	Dummy variable that equals one if the city is connected to the high-speed train network in a given year and zero otherwise. (China City Statistics Yearbook)
<i>Bidder City Event</i>	Dummy variable that equals one if the city where the acquirer is located had the arrest of the first high-level official (deputy bureau chief or above level) during the anti-corruption campaign since 2012 in a given year and zero otherwise.
<i>Size</i>	Logarithm of one plus the firm's total assets at year-end. (CSMAR)
<i>Leverage</i>	Ratio of total liabilities to total assets. (CSMAR)
<i>Growth</i>	Growth rate of total sales in a given year from the previous year. (CSMAR)
<i>Cash</i>	Ratio of operating cash flow to total assets. (CSMAR)
<i>Duality</i>	Dummy variable that equals one if the CEO and the Chairman is the same person and zero otherwise. (CSMAR)
<i>Independence</i>	Proportion of independent directors on the board of directors. (CSMAR)
<i>Confidence</i>	Ratio of the compensation of the top three executives to total employee compensation. (CSMAR)
<i>Block-holder</i>	Share proportion of the largest block-holder. (CSMAR)
<i>SOE</i>	Dummy variable that equals one if the firm is a state-owned enterprise (SOE) and zero otherwise. (CSMAR)
<i>Market Segmentation Index (MSI)</i>	We take into account the consumer price index (eight selected categories), the price index of investment in fixed assets (three selected categories), and index of the average salary of employees (three selected categories), and adopt a principal component analysis following Parsley and Wei (2001) to produce the composite index. (China Statistics Yearbook)

CRedit authorship contribution statement

Chenghao Huang: Conceptualization, Investigation, Data curation, Writing – review & editing. **Zhi Jin:** Conceptualization, Investigation, Project administration, Writing – review & editing. **Siyang Tian:** Conceptualization, Methodology, Writing – original draft, Writing – review & editing. **Eliza Wu:** Methodology, Writing – original draft, Writing – review & editing.

Data availability

Data will be made available on request.

Supplementary materials

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