Comments

Lars Oxelheim: The paper is an interesting effort to address a topical issue considering the 12th Chinese Five-year Plan, the global race for inward foreign direct investment (FDI) and for new jobs and the gradual Chinese dismantling of cross-border barriers. Based on an analysis of listed Chinese firms during 1998–2010 the authors conclude that political connections of Chinese listed firms have a strong influence on M&A activities and performance. Their advice to policymakers is that they should consider the ownership of firms when they carry out supervision and administration aimed at enhancing the efficiency of M&As.

The issue that I would have liked to see further discussed in the paper is the crowding-out effect as a result of political connectedness in the business sector. What happens to well-motivated M&As among non-state-owned enterprises (SOEs) as a result of state-supported activities by SOEs? This question raises a new one: what are the channels of the influences from political connectedness and are the importance and character different across industries and over regions? A cost-of-capital discussion would here be relevant to see what vehicles are used by the politicians to bring down the cost-of capital to facilitate the investment come true (Oxelheim, Randöy, and Stonehill 2012; Oxelheim and Ghauri 2008; Forssbaeck and Oxelheim 2011). In this context it is easy to imagine the importance of a close link between a SOE and state-owned banks.

The authors implicitly assume that the readers are familiar with China and what makes China so interesting for a study like this. They also claim that the general area of the paper is under-researched. But this empirical paper should have gained from a more detailed motivation behind the choice of China and what makes it so valuable to study to

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add, as the bottom line, to the research frontier. There are many institutional changes along the period under investigation that may have influenced—hindered or enforced—the relationship between political connectedness and M&As by Chinese firms. Hence what is not controlled for during the period is, for instance, the Chinese membership of the WTO, the introduction of International Financial Reporting Standards, the creation of new financial markets, the switch to market-based monetary policy, the dismantling of cross-border barriers, the global financial and economic crisis and the gigantic magnitude of Chinese economic stimulus. These system breaks could easily have been controlled for in the development of the models. Industry dummies may probably also make sense.

From the presentation of data it is not made fully clear to the reader to what extent all M&As are among domestic firms only. If not, this distinction should probably pay off to control for and here it can be assumed that the political agenda is different from the one when only domestic firms are involved in the M&A. Another aspect of that dimension is the firm's access to international capital markets (e.g., cross-listing on foreign exchanges) that may make them less dependent on domestic policymaking and on having political connectedness.

Moreover, the reader would also like to have more information about the type of directors and about the composition of boards in particular. The presence of European directors on the board of non-European firms are found to be value-creating and the internationalization process is found closely connected to the internationalization process of the kind Chinese firms are undergoing in the period under investigation (Oxelheim et al. 2013).

Relying on interpretations of Chinese annual reports and on official databases may call for a lengthy section on the issue of robustness, which is missing in the paper. The role of transparency could thereby be addressed (Oxelheim 2010). The sample with its missing observations (2,344) should have deserved more attention in the absence of clear guidance from the author to what extent the result lend itself to extrapolation. Moreover, as a shortcoming some statements about differences are based on pure nominal differences and not on the extent to which they are significant.

As in most studies this one also raises some doubts about the direction of causality. The authors should have restricted themselves to a discussion about connections rather than presenting strong (not properly tested) statements on causality. When the results are given the reader deserves to see more goodness of fit analyses, including analysis of the assumptions behind the tests and estimations.

The authors claim that their study contributes a new point to the literature on political connection and their economic consequences, but they do not make it easy for the reader to realize in what way the novelty accrues—since their latest reference is from 2008.

Finally, going back to the initially mentioned potential crowding-out effect the policy conclusions could have addressed in a broader sense the effects coming from close ties between those who set the rules and those who are assumed to act under them. Maybe this will be the topic of a follow-up paper.

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