

The “Chilling” Effect of Climate Laws on Cross-Border Mergers and Acquisitions*

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Abstract

We document a chilling effect of climate regulations on the cross-border corporate investment. Specifically, countries enacting climate laws subsequently experience significant declines in in-bound mergers and acquisitions by foreign firms. Completed transactions after law enactment feature lower premiums and diminished post-merger performance improvement, and deals initiated pre-enactment are more likely to be withdrawn. The chilling effect is amplified when acquirers are from countries less concerned about climate change and when climate regulations provide no subsidies. Key mechanisms underlying our results include economic burdens and geopolitically-driven selective enforcement. Our findings suggest that climate laws can disrupt global capital and resource reallocation and highlight a hitherto overlooked cost of climate regulations.

JEL Classifications: G34, Q54, Q58, F21

Keywords: Climate Law; Cross-Border Mergers and Acquisitions; Capital Reallocation

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1 Introduction

The last several decades witnessed a slew of laws and regulations adopted by governments around the world to combat climate change, requiring firms to meet various obligations such as reducing their reliance on fossil fuels.¹ More recently, however, the tide has started to turn against stringent climate mandates as a number of countries rolled back climate regulations.² Part of the reason for this development is the concern that, while beneficial to the environment and society at large, climate laws carry negative externalities and impose costs on firms, consumers, and the overall economy.³ Amid all these contentions, it is timely and crucial to understand how climate policies affect firms in an economy and what costs they impose at the national level.

In this paper, we contribute to a better understanding of these critical issues by examining the impact of climate regulations on the international market for corporate control, an economically important source of capital and opportunities for firms around the world. For instance, the global cross-border mergers and acquisitions in 2024 alone valued at \$1.2 trillion. Prior research shows that these transactions are associated with efficiency gains, governance improvement, and value creation in firms and industries of the target countries (e.g., Albuquerque, Brandão-Marques, Ferreira, and Matos, 2019; Erel, Jang, and Weisbach, 2024).

Climate laws can influence the process of cross-border mergers and acquisitions (M&A) in various, potentially offsetting ways, making their overall impact difficult to predict *ex ante*. On the one hand, there are reasons to expect that the adoption of climate laws in a country leads to fewer cross-border mergers that target firms in the country. Unlike other forms of regulations, climate laws introduce both operational and strategic constraints that are highly industry-specific, internationally heterogeneous, and politically salient. First, climate laws may reduce

¹ Notable examples of these regulations include the Inflation Reduction Act in the U.S. and the Carbon Border Adjustment Mechanism in the E.U.

² For example, the U.S. Environmental Protection Agency (EPA) proposed eliminating the greenhouse gas emission disclosure requirements for large industrial polluters. See <https://www.reuters.com/legal/litigation/us-epa-proposes-end-mandatory-greenhouse-gas-reporting-2025-09-12/>. In the European Union, the Omnibus package in 2025 simplifies sustainability reporting requirements, resulting in roughly an 80% reduction in the number of firms subject to the rules. Similar backlash has emerged in other countries, including Canada, New Zealand, and Singapore.

³ For example, ExxonMobil has publicly challenged the European Union's climate laws, arguing they increase energy and production costs for industrial sectors. See <https://www.ft.com/content/18335e6a-1ffd-4df2-8cd4-e5108da137b1>.

M&A activity by impeding the realization of synergy gains, which are the primary motivation for many M&A transactions. Synergies typically arise through cost reductions (via economies of scale and scope) or revenue enhancements (through improved operational efficiency or increased market reach). However, climate laws impose technology- and process-specific compliance requirements that may hinder the transfer of operational practices across borders, directly restricting the synergy generation. For instance, an acquirer may be restricted from deploying its energy-intensive production methods in the target country, or may face new obligations for emissions monitoring and disclosure. Importantly, these climate-specific rules are likely to erode potential synergy gains disproportionately in emission-intensive sectors, a crucial feature that distinguishes them from more generic regulatory frictions.

Second, climate laws can change the calculus of regulatory arbitrage, which may be partly behind some cross-border acquisitions targeting firms from countries with lax environmental regulatory regimes. The passage of climate laws in these target countries reduces the appeal of such arbitrage-driven acquisitions, as the expected regulatory advantages dissipate. Unlike taxes or labor rights, which are relatively straightforward to quantify and compare, climate laws are multidimensional (e.g., emissions caps, renewable-energy mandates) and display far greater international variation. These features make regulatory arbitrage associated with climate laws harder to design and sustain, implying that the introduction of these regulations can trigger a decline in cross-border acquisitions that are partly driven by such motives.

Third, climate law enforcement adds a distinctive political dimension to cross-border M&A, because governments may choose to enforce climate rules more stringently against foreign acquirers. Climate regulations often grant regulators broad discretion over permit approvals, monitoring intensity, and the imposition of fines. This discretion enables governments to deploy climate laws as instruments of industrial policy or geopolitical leverage. Such selective enforcement raises uncertainty and transaction costs and potentially deters foreign acquirers, particularly those from countries perceived as unfriendly by the target-country government. Accordingly, we expect the chilling effects of climate laws on cross-border M&A to be more pronounced when the acquirer and target firms are based in politically distant countries.

On the other hand, the passage of climate laws in a country could also increase cross-

border mergers and acquisitions targeting firms in the country. First, the enactment of climate laws can be perceived as a resolution to uncertainties surrounding future climate policies. This, in turn, may enhance the willingness of foreign acquirers to purchase firms operating in countries with established climate regulations, as the elimination of uncertainty can incentivize companies to undertake significant and irreversible investments such as mergers and acquisitions. Second, potential targets in countries with climate laws can be more attractive due to the benefits of heightened resilience to future physical climate risks, particularly in the long run. Finally, climate regulations can provide opportunities for acquirers possessing advanced technologies in climate mitigation and adaptation to generate value by applying their expertise in the target country.

To test these competing predictions, we compile a comprehensive dataset of climate laws in 157 countries or regions and link it to cross-border M&A deals. Employing a difference-in-differences (DiD) approach that utilizes the staggered enactment of climate laws, we find that climate laws have a significant chilling effect on cross-border merger activities. In particular, both the number and the dollar volume of acquisitions between two countries decrease after the target country adopts a climate law. This effect is robust to controlling for a wide range of time-varying factors influencing cross-border deals (e.g., macroeconomic factors, investment environment, institutional quality, bilateral trade relations, and valuation effects associated with local currencies) and any time-invariant country-pair-specific factor. We obtain stronger results after taking into account potential heterogeneous treatment effects. A dynamic DiD analysis confirms that the decline occurs only post-enactment, persisting in both the short and long term. Notably, we also observe a substantial increase in the likelihood of withdrawals among deals announced shortly before the climate regulations are introduced, highlighting the heightened regulatory burdens and uncertainties that deter cross-border investments. Robustness checks using alternative measures of merger activities and excluding very large and/or small countries yield similar findings. Furthermore, tests with pseudo adoption years reveal no significant impacts, suggesting that the observed effects are not driven by chance.

We explore cross-sectional variations in our baseline finding to shed light on the channels through which climate laws affect cross-border M&A activities. Our first set of results suggest that climate laws impose considerable restrictions and costs on post-acquisition integration,

restructuring, and operations. These adverse effects are particularly severe for firms in high-emission industries—such as mining, manufacturing, transportation, and public utilities—that face substantial compliance and operational costs under stringent environmental regulations, thereby becoming less appealing to foreign acquirers.⁴ In addition, we find that cross-border M&A activity declines significantly when the target country enforces climate laws more rigorously. Policy stringency also plays a crucial role: countries with stricter climate regulations experience a more pronounced decline in cross-border acquisitions. Taken together, these results indicate that stringent climate policies amplify anticipated financial and operational burdens for foreign investors. While these cross-sectional tests highlight the importance of economic costs stemming from regulatory frictions, we recognize that they offer indirect evidence and do not entirely preclude alternative explanations.

To provide more direct evidence for the economic cost channel, we examine the impact of climate laws on merger synergies and post-merger performance. We find that the passage of climate regulations in target countries is associated with a 6.2 percentage point reduction in combined cumulative abnormal returns (CAR) of acquirer and target firms over a five-day window surrounding M&A announcements. This significant decrease in expected synergies suggests that investors anticipate lower value creation from cross-border acquisitions involving targets subject to stringent climate laws. Interestingly, while acquirer firms' standalone equity returns do not show substantial negative reactions, the offer premiums they are willing to pay decrease markedly by 9.8 percentage points, equivalent to 23% of the average offer premium. This adjustment reflects acquirers' proactive efforts to incorporate the anticipated regulatory costs associated with climate laws into their valuations. Finally, we assess post-merger performance by analyzing changes in the acquirers' return-on-assets (ROA). We find that acquirers experience a 2.68% lower improvement in ROA for deals involving targets in countries with climate laws compared to those in countries without such laws. This evidence strongly supports the economic cost hypothesis, demonstrating that climate regulations hinder post-merger integration and create significant operational inefficiencies and compliance burdens that discourage cross-border M&As.

⁴ Note that mining and manufacturing industries cover firms in oil & gas extraction and petroleum & coal products, respectively.

Beyond the economic burden channel, we also uncover an additional geopolitical mechanism: selective enforcement of climate regulations. We find that national governments tend to enforce climate regulations more rigorously against foreign acquirers, particularly those from countries with lower political affinity. Using the similarity of voting patterns in the United Nations General Assembly to measure political affinity between two countries, we show that the negative impact of climate laws on cross-border M&A is more pronounced when political alignment between the acquirer and target countries is low. This result highlights how selective enforcement introduces additional costs and uncertainties for foreign investors. Furthermore, climate laws are enforced with greater intensity in deals involving large, strategically important firms, suggesting that economic and national interests influence regulatory actions. These geopolitical and strategic dimensions of climate law enforcement compound the economic burdens faced by foreign investors, amplifying the deterrent effects on cross-border M&A activity.

We further investigate how the willingness and capacity of acquirers to bear climate-related regulatory costs affect the impact of climate laws. Our results show that acquirers from countries where climate change is perceived as a critical concern are more inclined to proceed with acquisitions in nations with stringent climate regulations. The deterrent effect of climate laws diminishes significantly for these environmentally conscious acquirers, who may view regulatory compliance as part of their corporate responsibility or a long-term sustainability strategy. Similarly, acquirers with recent exposure to severe climate disasters are less discouraged by stringent climate laws, likely due to heightened awareness of climate risks and a greater commitment to environmental compliance. These consistent findings emphasize that the impact of climate laws on cross-border M&A is influenced by acquirers' attitudes and experiences, highlighting the unique role that climate considerations play in shaping global investment decisions.

Finally, we find that climate regulations incorporating financial relief mechanisms, such as subsidies or tax incentives for emission reductions, do not deter cross-border M&A activity. Unlike traditional regulations that impose strict compliance costs without compensation, these subsidy-embedded climate laws alleviate financial burdens on firms, reducing the negative impact on acquisitions. By categorizing climate laws into those with and without subsidies, we

observe that the deterrent effect on cross-border M&A is significantly diminished when financial incentives are provided. The evidence further supports the economic costs channel and illustrates the importance of regulatory design, suggesting that measures to offset compliance expenses can play a crucial role in negating the chilling effect of climate laws on foreign investments.

Contributions to Related Literature. First, this paper informs on the debate on climate policies by providing the first evidence on the effects of climate regulations on global cross-border M&A activities. Given the benefits associated with these transactions documented in prior literature (e.g., Albuquerque, Brandão-Marques, Ferreira, and Matos, 2019; Erel, Jang, and Weisbach, 2024; Fresard, Hege, and Phillips, 2017; Ahern, 2025), our results highlight a previously overlooked cost at the national level associated with climate regulations, i.e., the disruption of the international market for corporate control and the reduction of in-bound foreign investment in law-enacting countries. As such, our paper provides valuable policy implications. While climate laws are crucial for combating climate change and can prevent a country from becoming a “pollution heaven” by reducing the likelihood of carbon leakage, it is important to recognize that they can impede the realization of synergies from cross-border acquisitions and discourage such transactions. Given the significance and many beneficial roles of the global market for corporate control, this paper calls for more careful designs of climate regulations. Our results suggest that as exposed to policies imposing compliance costs on firms through mostly punitive measures, those that encourage climate-friendly corporate actions with subsidies could be an alternative approach to climate change mitigation and adaptation without incurring the adverse consequences documented in this paper.

Second, this paper adds to the literature on cross-border mergers and acquisitions. Prior research highlights the role of economic nationalism (Dinc and Erel, 2013), national culture (Ahern, Daminelli, and Fracassi, 2015), bank regulations (Karolyi and Taboada, 2015), labor protection (Dessaint, Golubov, and Volpin, 2017), disclosure requirements (Bonetti, Duro, and Ormazabal, 2020), economic policy uncertainty (Bonaime, Gulen, and Ion, 2018), and bilateral investment treaties (Bhagwat, Brogaard, and Julio, 2021).⁵ Distinct from these studies, we

⁵ Cross-border mergers and acquisitions are also related to other factors such as international trade relations (e.g., Ahmad, de Bodt, and Harford, 2021) and firms’ incentives to deploy their intangible advantages on foreign assets

focus on climate regulations. What distinguishes climate regulations from other regulations is that the global public good nature of climate makes it uncertain how effectively climate regulations are enforced by countries and as a result, whether these regulations will have material effects on major firm decisions. We find robust evidence that cross-border acquirers are less likely to take over targets in countries enacting climate laws, especially when targets are from industries more exposed to climate regulations and from countries with stronger legal enforcement. These results suggest that the frictions and costs created by climate regulations in the target country are indeed part of the consideration for firms contemplating foreign acquisitions.

Finally, we contribute to the growing literature on the impact of climate regulations on corporate activities. Regulatory risk is considered as one of the most pressing climate-related concerns for businesses and investors in the coming years (Stroebel and Wurgler, 2021). Existing research shows that climate policies influence a range of corporate decisions, including abatement behavior (Ramadorai and Zeni, 2024), total carbon emissions (Bai and Ru, 2024), the location of carbon emissions (Ben-David, Jang, Kleimeier, and Viehs, 2021), capital structure (Dang, Gao, and Yu, 2023), innovation strategies (Dai, Duan, and Ng, 2025), and R&D expenditure (Brown, Martinsson, and Thomann, 2022). We extend this literature by documenting the chilling effects of national climate laws on cross-border mergers and acquisitions, highlighting the potential for climate policy to shape global capital reallocation. Unlike most prior studies that focus on firm-level responses, our analysis primarily exploits cross-country variation in climate laws and enforcement, allowing us to uncover how climate regulations interact with legal institutions, geopolitical relations, and attitudes toward climate risk in shaping cross-border investment. Furthermore, we establish that the economic consequences of climate laws depend critically on their design. In particular, the chilling effect on cross-border acquisitions is concentrated in climate laws that impose compliance costs without offering financial offsets, whereas subsidy-embedded laws largely mitigate these adverse effects. Our findings suggest that well-designed climate regulations can balance environmental objectives with the preservation of international capital flows.

(Fresard, Hege, and Phillips, 2017).

2 Data and Summary Statistics

2.1 Climate Laws

We combine four sources to collect information on climate change-related laws. The first one is ECOLEX, which is an official service jointly offered by the Food and Agriculture Organization of the United Nations (FAO), the International Union for Conservation of Nature (IUCN), and the United Nations Environment Programme (UNEP). We also rely on other sources, including the Climate Change Laws of the World database provided by the Grantham Research Institute, the Climate Policy Database maintained by NewClimate Institute, and the Carbon Pricing Dashboard of the World Bank.

Climate laws take various forms, ranging from legislation approved by parliaments (or equivalent parties) to executive orders or policies of equal importance issued by governments. It is common for climate laws to specify obligations for businesses, which increase regulatory costs for firms.⁶ In general, climate laws cover one or more of the following dimensions: enhancing energy efficiency, promoting low-carbon energy, curbing greenhouse gas emissions through carbon pricing or other policies, encouraging research and development on green technology, regulating land use to reduce deforestation, and establishing supervisory authorities to manage domestic responses to climate change. Examples of climate laws are provided in the Internet Appendix.

We focus on the first major national-level climate change laws in the following categories within each country: regulations regarding greenhouse gas emissions, national climate strategy, and the establishment of a supervisory committee for combating climate change.⁷ A list of these laws is provided in the Internet Appendix (Table IA.1). We find that these climate laws are effective in cutting carbon emissions (Figure IA.1 in the Internet Appendix), which is consistent

⁶ Existing evidence suggests that climate policies indeed impose significant financial burdens on companies through both direct and indirect costs (e.g., Ben-David, Jang, Kleimeier, and Viehs, 2021; Bolton and Kacperczyk, 2021; Bartram, Hou, and Kim, 2022; Ng, Wang, and Yu, 2023; Ivanov, Kruttli, and Watugala, 2024; Seltzer, Starks, and Zhu, 2025).

⁷ Other types of climate laws, such as those specifically aiming to reduce deforestation, are likely not influential for firms in the business sector.

with findings from other studies.⁸

[Insert Figure 1 Here]

There is a large cross-country variation in the adoption time of climate laws (shown in Figure 1). Early adopters introduced climate change regulations around 1990. The first climate-related law in our sample was adopted by Australia in 1989, shortly after the establishment of the Intergovernmental Panel on Climate Change (IPCC) in 1988. In 1990, United States revised the Clean Air Act, which incorporated regulations on greenhouse gas emissions. Over the past decades, a growing number of countries started adopting climate-related regulations. The staggered adoption of these regulations allows us to identify the effects of climate laws on cross-border acquisition activities in a difference-in-differences design.

Concerns may arise that the timing of climate law adoption is not entirely exogenous. While we acknowledge this possibility, we believe it does not severely bias our estimates for several reasons. First, the enactment of national climate regulations is typically driven by broader political, environmental, and international considerations, which are largely beyond the control of individual firms. This is especially true for small and medium-sized enterprises that lack the resources or lobbying power to significantly influence legislative decisions. Although large firms may have some capacity to lobby, our empirical findings actually show that the deterrent effects of climate laws on cross-border M&A are most pronounced for these large firms. This suggests that even if lobbying occurs, it does not shield large firms from regulatory impacts. In addition, national climate policies are frequently shaped by commitments to international agreements, such as the Paris Accord, and by widespread public demand for climate action, which further reduces the possibility of strategic manipulation of law timing for corporate interests. Finally, our difference-in-differences approach controls for country- and year-fixed effects, which capture unobservable factors that could influence both the adoption of climate laws and M&A activity, thereby enhancing the validity of our identification strategy.

2.2 Cross-Border Mergers and Acquisitions

⁸ See e.g., Sawhney (2013), Martin, Muûls, and Wagner (2016), and Eskander and Fankhauser (2020).

We obtain deal-level information on global mergers and acquisitions from the Security Data Company (SDC) Mergers and Corporate Transactions database. We start with all M&A deals announced between 1985 and 2019 and apply several filters to create the final sample following the literature. Our sample excludes LBOs, spin-offs, recapitalizations, self-tender offers, exchange offers, repurchases, and privatizations. Acquisitions involving firms in the financial industry are also excluded. We further require that the acquirer owns less than 50% of the target firm before the bid and owns more than 50% of the target firm after the deal completion, which means we focus on acquisitions of majority interests. Moreover, we only keep completed cross-border deals in our main analysis. These data filters yield a sample of 47,764 cross-border deals. For public firms in our mergers and acquisitions sample, we obtain their stock returns and accounting data from Datastream and Worldscope, respectively.

2.3 Measures of Country Development and Governance

We obtain country-level GDP per capita, annual GDP growth rate, and exchange rates of local currency to US dollars from Penn World Table. The information on bilateral trade is from UN Comtrade. A bilateral import (export) in a given year is calculated as the dollar value of annual imports (exports) in the target country from (to) the acquirer country as a percent of all imports (exports) from (to) all foreign nations.

In addition, we collect data on institutions in each country from International Country Risk Guide (ICRG). Specifically, we measure a country's investment environment with the investment profile subcomponent in the ICRG political risk ratings; following Bekaert, Harvey, Lundblad, and Siegel (2007), we measure the quality of a country's institutions by the sum of three ICRG political risk subcomponents: Corruption, Law and Order, and Bureaucratic Quality.

2.4 Summary Statistics

After removing observations with missing control variables, we obtain a sample of 38,447 country-pair-year observations for 105 unique countries. In the list of countries, 93 and 102 countries serve as acquirer and target countries, respectively. Table IA.2 in the Internet Appendix reports the total number of cross-border acquisitions in our sample between major

target and acquirer country pairs. The United States is the country with the highest number of both inbound and outbound acquisitions.

[Insert Table 1 Here]

Table 1 presents the summary statistics. There is an average of 0.64 deals for each acquirer-target country pair in a year. The mean value is small because there are a large number of country-pair years with zero cross-border deals. Approximately 65% (66%) of the sample are associated with target (acquirer) countries that have adopted climate laws. On average, acquirer countries have higher GDP per capita, better investment profiles, and better institutional quality than target countries. Moreover, deal-level characteristics are comparable to those of the cross-border M&A sample in previous studies. For example, the average cumulative abnormal return of the combined firm is about 3%, in line with the existing evidence that synergy gains from international acquisitions are generally positive but moderate.

3 Climate Laws and Cross-Border Acquisition Activities

We begin our analysis by investigating how climate laws impact the frequency of cross-border mergers and acquisitions. We first present results using our baseline difference-in-differences specification, followed by an estimation of the dynamic effects of climate laws on cross-border acquisition activity. To ensure the robustness of our findings, we conduct a placebo test, demonstrating that our results are unlikely to be driven by chance, and confirm their reliability across various samples, measures, and estimation approaches. Finally, we extend our analysis to examine how national climate laws influence the likelihood of deal withdrawals in cross-border mergers and acquisitions.

3.1 Baseline Results

To examine how climate laws in the target and acquisition countries affect the propensity of firms from one country to acquire firms in another country, we estimate the following multivariate regression:

$$y_{i,j,t} = \alpha + \beta_1 \text{Climate Law}_{i,t} + \beta_2 \text{Climate Law}_{j,t} + \mathbf{X}_{i,j,t-1}\gamma + \tau_t + \tau_{i,j} + \epsilon_{i,j,t}, \quad (1)$$

where $y_{i,j,t}$ is the incidence of cross-border acquisitions between two countries in a given year, measured as the logarithm of one plus the number of cross-border mergers and acquisitions between acquirer country j and target country i in year t . $Climate\ Law_{i,t}$ ($Climate\ Law_{j,t}$) is an indicator that equals one if the target (acquirer) country has adopted a climate law as of year t , and zero otherwise. $\mathbf{X}$ represents a vector of control variables. τ_t and $\tau_{i,j}$ denote year fixed effects and acquirer-target country-pair fixed effects, respectively. Standard errors are clustered at the country-pair and year level.

We include control variables commonly used to explain cross-border merger activities following prior research (e.g., Erel, Liao, and Weisbach, 2012, Bhagwat, Brogaard, and Julio, 2021). First, macroeconomic conditions in both target and acquirer countries can influence the likelihood of cross-border acquisitions. To account for these effects, we incorporate the difference in log GDP per capita between the acquirer and target countries ($\Delta(\log\ GDP\ per\ capita)_{acq-tgt}$) and the difference in their annual real GDP growth rates ($\Delta(\log\ GDP\ Growth)_{acq-tgt}$). Second, we control for the overall business activity between the two countries using the maximum value of bilateral imports and exports ($Max(Import,\ Export)_{acq,tgt}$). Third, recognizing that the relative value of a target firm may be affected by currency fluctuations, we include the difference between the exchange rates of the acquirer's and target's local currencies relative to the US dollar ($\Delta(Exchange\ Rate)_{acq-tgt}$). The regression also controls for country-level differences in investment environment and institutional quality, captured by $\Delta(Investment\ Profile)_{acq-tgt}$ and $\Delta(Quality\ of\ Institution)_{acq-tgt}$, respectively. Finally, to control for the availability of acquisition opportunities, we incorporate the difference in the annual growth rate of domestic acquisition deals between the acquirer and target countries ($\Delta(Growth\ of\ Domestic\ Deals)_{acq-tgt}$).

Our results, presented in Table 2, provide strong evidence that climate laws negatively influence cross-border M&A activity. In the first specification, we regress the incidence of cross-border acquisitions on climate law dummies, year fixed effects, and country fixed effects. Year fixed effects absorb potential time trends in aggregate merger activities, and country fixed effects control for the effects of any time-invariant country-specific factor such as language and legal origin. Column (1) in Table 2 shows the coefficient on $Climate\ Law_{tgt}$ is -0.021 (t -statistic = -2.65), suggesting that the enactment of climate laws in a country reduces the number of cross-border deals targeting firms in the country. As shown in Column (2), the result is similar after accounting for additional controls related to economic development and

institutional quality.

[Insert Table 2 Here]

In our third specification, we replace country fixed effects with country-pair fixed effects to account for any observed or unobserved time-invariant country-pair-specific factors that may affect cross-border merger activities, such as geographic distance between two countries. The results obtained from this preferred specification confirm the negative effects of climate laws in target countries on cross-border merger activities, with a larger impact. Column (3) shows the coefficient on *Climate Law_{tgt}* is -0.025 (*t*-statistic = -2.42), indicating that the passage of climate laws in a country is associated with a 2.5% reduction in the number of inbound cross-border deals.⁹ Given that, on average, each target country receives around 27 acquisition bids per year, this translates to a decline of approximately 0.7 bids per year per country, highlighting the economically meaningful impact of climate regulations. Our results also suggest that climate laws in acquirer countries do not have an impact on cross-border merger activities.

We further distinguish between within-industry and diversifying acquisitions. Within-industry acquisitions refer to deals where the acquirer and target firms share the same primary three-digit SIC code, while diversifying acquisitions involve firms from different industries. Climate regulations can reduce cross-border mergers and acquisitions by increasing operational costs and complexity. However, within-industry acquisitions typically have greater potential to cut costs and improve efficiency by consolidating operations or eliminating inefficiencies, as noted by Guo, Kong, and Masulis (2024). Consequently, we expect these transactions to be less affected by climate laws. Consistent with this expectation, our results in Table IA.3 in the Internet Appendix show that the decrease in within-industry acquisitions is smaller and only marginally significant compared to the more substantial decline observed in diversifying deals.

3.2 Dynamic Effects of Climate Laws

A potential challenge to our identification strategy is the concern that the adoption of climate laws in a country might not be random but could instead be driven by underlying factors

⁹ We are aware of potential concerns on using the “log1plus” method. In Section 4.4., we show that our results are robust to alternative measures of acquisition activities.

that also influence M&A activities. To ensure the validity of our results, we test for parallel trends by examining the dynamic effects of climate law adoption. This approach involves replacing the single law adoption dummy in the regression model for the target country with multiple indicator variables, each representing a specific year relative to the adoption year. By doing so, we can assess whether there are any significant pre-trends in M&A activity prior to the implementation of climate laws, thereby strengthening the credibility of our causal interpretation. Specifically, we estimate the following regression:

$$\begin{aligned}
y_{i,j,t} = & \alpha + \beta_1 \text{Climate Law}_{i,t}^{-5} + \beta_2 \text{Climate Law}_{i,t}^{-4} + \beta_3 \text{Climate Law}_{i,t}^{-3} \\
& + \beta_4 \text{Climate Law}_{i,t}^{-2} + \beta_5 \text{Climate Law}_{i,t}^0 + \cdots + \beta_9 \text{Climate Law}_{i,t}^{+4} \\
& + \delta \text{Climate Law}_{j,t} + \mathbf{X}_{i,j,t-1} \gamma + \tau_t + \tau_{i,j} + \epsilon_{i,j,t},
\end{aligned} \tag{2}$$

where $\text{Climate Law}_{i,t}^{-5}$ is equal to one for years at least five years prior to the target country i 's adoption of the climate law; $\text{Climate Law}_{i,t}^{-4}$, $\text{Climate Law}_{i,t}^{-3}$ and $\text{Climate Law}_{i,t}^{-2}$ are equal to one for the fourth, third, and the second year, respectively, prior to the event; $\text{Climate Law}_{i,t}^0$ is equal to one for the year when the target country i adopts the climate law; $\text{Climate Law}_{i,t}^{+k}$ is equal to one for the k -th year after the adoption, with $k=1,2,3$; $\text{Climate Law}_{i,t}^{+4}$ is equal to one for years at least four years after the event. Other notations are the same as specified in Equation (1).

[Insert Figure 2 Here]

Figure 2 presents the dynamic effects of climate laws on cross-border merger activities, illustrating the coefficients on event-year dummies relative to the adoption year. If the timing of climate law adoption were driven by trends in M&A activity between two countries, we would expect the pre-event year coefficients to be statistically significant. However, as shown in the figure, the coefficients for all pre-event years are not statistically different from zero, indicating no significant differences in cross-border acquisition activity prior to the adoption of climate laws. This finding supports the parallel trends assumption, suggesting that the observed post-adoption decline in acquisitions is not confounded by pre-existing trends. The reduction in cross-border acquisitions becomes apparent only after the adoption of climate laws, with the effect persisting over time. Notably, the coefficient for four or more years after the

adoption remains significantly negative, indicating a long-term impact of climate regulations on cross-border M&A activity.

3.3 Placebo Tests

To further validate our empirical design, we perform placebo tests to assess whether our baseline findings could be driven by chance or omitted factors. If the negative effect of climate laws on cross-border acquisition activities we observe is genuine, assigning artificial adoption years to countries should yield no significant results. For these placebo tests, we randomly allocate an adoption year to each country while preserving the original distribution of climate law adoption years. We generate 1,000 random samples and re-estimate our baseline regression for each sample, focusing on the coefficient of the target-country climate law indicator.

[Insert Figure 3 Here]

Figure 3 displays a histogram of the coefficient estimates from these 1,000 placebo regressions. The distribution of these estimates is centered around zero, with a mean of -0.0003 and a standard error of 0.0005, indicating statistical insignificance of overall results from the placebo tests. This result contrasts sharply with our actual estimate, represented by the red dashed line, which is at 2.7 percentile of the 1000 placebo estimates. The significant difference between the true estimate and the distribution of placebo estimates provides strong evidence that our original findings are not a product of random variation, reinforcing the robustness of our conclusion that climate laws negatively affect cross-border M&A activity.

3.4 Robustness Checks

In this subsection, we perform a series of robustness tests to ensure the reliability of our findings on the impact of climate laws on cross-border mergers and acquisitions (M&A). First, we address concerns about potential sample bias by excluding the United States and the European Union in separate analyses, given their prominence in global M&A activity and unique climate policies. Columns (1) and (2) of Table 3 reveal that the results from these restricted samples remain consistent with our baseline, indicating that our findings are not disproportionately driven by these regions. To further ensure our results are robust, we restrict

the sample to countries with substantial M&A activity, such as OECD, BRICS, and G20 members. As shown in Table IA.4 of the Internet Appendix, our conclusions hold in these alternative samples, suggesting that our results are not driven by countries with limited cross-border deal activity.

[Insert Table 3 Here]

Recent studies (e.g., Baker, Larcker, and Wang, 2022) document that the two-way fixed effect (TWFE) estimates from staggered difference-in-differences (DiD) regressions can be biased if the treatment effects vary over time. This is because TWFE estimates are variance-weighted averages of many 2×2 DiDs, some of which employ already-treated units as control groups. The literature proposes a stacked regression approach to address this issue, where event-specific “clean” observations serve as controls. We follow this suggestion and estimate a stacked regression. We create a cohort consisting of treatment units (country pairs where the target country has adopted climate laws) and clean controls (units not yet affected by the target country’s climate laws within the $[-3, +3]$ event window) for each event. We then stack all cohorts together. Column (3) in Table 3 presents results from the stacked-cohort regression. It shows that the coefficient on *Climate Law_{tgt}* remains negative (-0.059) and statistically significant (t -statistic = -3.46). Notably, the magnitude of this coefficient estimate is over twice that of the coefficient estimated from our baseline specification. Our stacked DiD analysis suggests that climate laws in target countries exert significantly negative impacts on cross-border mergers and acquisitions even after taking into account potential heterogeneous treatment effects.

Lastly, we explore two alternative measures of cross-border acquisition activity.¹⁰ First, we assess the likelihood of cross-border M&As by using a binary indicator for whether any deal occurs between two countries in a given year. The results in Column (4) confirm a significantly negative effect of climate laws on the likelihood of cross-border deals, reinforcing our baseline findings. Second, we consider the volume of cross-border acquisitions, calculated

¹⁰ Our conclusion remains the same when we run regressions with ratio-based measures of acquisition activities between two countries, such as the number of cross-border deals between a given country pair divided by the number of domestic deals in the acquirer country plus the numerator, or the number of cross-border deals divided by the number of all domestic and outbound deals in the acquirer country. Results from these regressions suggest that climate laws reduce cross-border acquisitions relative to domestic deals.

as the logarithm of one plus the total dollar amount of cross-border deals between the acquirer and target countries in a given year.¹¹ Column (5) in Table 3 shows that the estimated coefficient on $Climate\ Law_{tgt}$ from the regression of acquisition volume is -0.106 (t -statistic = -2.53), indicating a 10.6% decrease in the volume of cross-border mergers following the target country's adoption of climate laws.¹² These robustness checks collectively confirm the substantial and persistent negative impact of climate regulations on cross-border M&A activities.

3.5 Likelihood of Deal Withdrawals

To further understand the impact of climate laws on cross-border mergers and acquisitions, we extend our analysis to investigate whether these laws influence the likelihood of deal withdrawals. While our prior results established that the number of completed acquisitions declines following the adoption of climate laws in the target country, it is important to consider the dynamic nature of M&A negotiations, where announced deals can be withdrawn before completion. To explore this, we focus on deals announced prior to the adoption of climate laws but completed or withdrawn afterward. Using a robust propensity score matching methodology, we identify a control group of deals in target countries without climate laws, matched on key economic and institutional characteristics, such as GDP per capita, GDP growth, trade openness, exchange rate stability, investment profile, and institutional quality. We also ensure that matched pairs share the same industry classifications and announcement year to isolate the effect of climate laws on the likelihood of deal withdrawals.

Using a linear probability model, we provide evidence that firms are significantly more likely to withdraw announced acquisition bids when the target country enacts climate-related legislation. Table 4 reports these results, demonstrating the statistically and economically meaningful effects of these laws on deal withdrawal probabilities. Our analysis shows that the

¹¹ Dollar values in this paper are in 2017 constant dollar.

¹² Our conclusions remain the same after eliminating potential impacts of confounding events such as the initiation of takeover laws (Lel and Miller, 2015) or reforms of labor protection laws (Dessaint, Golubov, and Volpin, 2017). The results are presented in Table IA.5 in the Internet Appendix. In addition, one may worry that the adoption of climate laws is associated with the level of policy uncertainty in a country, which can influence cross-border mergers and acquisitions (Bonaime, Gulen, and Ion, 2018). However, using the text-based economic policy uncertainty index available for selected countries, we find that the effects of target countries' climate laws are distinct from that of economic policy uncertainty.

adoption of climate laws by a target country increases the likelihood of deal withdrawals by approximately 19 percentage points, a substantial rise compared to the average pre-adoption probability of around 16%. The coefficient on our primary explanatory variable, *Climate Law*, is positive and significant across all model specifications. Specifically, in Column (1), the coefficient is 0.233, significant at the 1% level, demonstrating a strong link between climate regulations and the propensity to cancel merger deals. This relationship persists in Columns (2) and (3), with slightly attenuated yet still significant coefficients of 0.132 and 0.190, respectively. These models account for various deal attributes, such as deal value, related industry classification, and financial structure (e.g., all-cash offers and friendly mergers), in addition to economic variables like GDP growth and institutional quality.

[Insert Table 4 Here]

Overall, these results provide compelling support for our main argument: climate laws create an environment that disrupts M&A activities. The evidence aligns with our earlier findings that national climate policies significantly reduce the frequency and volume of cross-border mergers and acquisitions. By imposing heightened regulatory burdens and risks, these laws make cross-border investments less attractive and more unpredictable, leading firms to reconsider or withdraw from announced deals. These findings emphasize the pivotal role of regulatory frameworks in shaping global investment behaviors and reaffirm the broader economic impact of climate legislation.

4 Mechanisms

In this section, we explore the mechanisms through which climate laws negatively affect cross-border mergers and acquisitions. Our results suggest that climate regulations introduce substantial barriers, increasing both economic costs and investment uncertainty, which discourage foreign acquirers from engaging in cross-border deals. These barriers manifest through heightened regulatory expenses, strict enforcement practices, rigorous policy requirements, and geopolitical dynamics influencing selective enforcement.

4.1 Economic Channel: Increased Costs and Frictions

Our first set of analysis of the economic mechanisms underlying the negative impact of climate laws on cross-border M&A activity focuses on the idea that climate regulations create substantial operational and compliance costs, thereby reducing the attractiveness of such deals. We explore this channel through a series of empirical tests that assess regulatory exposure, enforcement strength, policy stringency, and the subsequent effects on merger synergies and post-merger performance.

4.1.1 Exposure to Regulatory Burdens

The impact of climate laws on acquisition activities is likely to vary depending on firms' exposure to these regulations, which is heavily influenced by the nature of their business operations. For instance, firms in high-emission industries are more affected by climate laws due to the stringent environmental regulations imposed on these sectors. Greater exposure to climate laws generally implies higher frictions and compliance costs, suggesting that these regulations have a more pronounced effect on acquisitions involving high-exposure firms. To assess this, we classify firms into high- and low-law-exposure groups based on their greenhouse gas emission profiles and estimate the impact of climate laws on each group separately. High-law-exposure firms include those in the mining, manufacturing, transportation, and public utilities sectors, while the remaining firms are categorized as low-law-exposure. In our sample, approximately sixty-two percent of mergers and acquisitions involve target firms with high exposure to climate regulations.

[Insert Table 5 Here]

Table 5 presents the results from regressions examining cross-border acquisition incidence for firms categorized by their exposure to climate laws. In Column (1), the outcome variable is replaced in our baseline regression with one plus the number of cross-border mergers and acquisitions involving high-exposure targets, while Column (2) uses low-exposure targets. The key variable of interest is the indicator for climate laws in the target country, *Climate Law_{tgt}*. While the coefficients on this indicator are negative in both regressions, the effect for high-exposure firms is larger in magnitude and statistically more significant. These findings suggest that climate laws have a more pronounced impact on cross-border acquisitions involving high-law-exposure targets. This evidence supports the economic cost channel, implying that heightened compliance and operational costs in emission-intensive industries reduce their

attractiveness to foreign acquirers following the enactment of climate regulations. However, we acknowledge that this test alone cannot rule out other channels, such as political or strategic factors, that may also affect acquisitions in these high-exposure sectors.

4.1.2 Law Enforcement Strength

The effectiveness of climate laws in shaping corporate acquisition decisions depends on the rigor of their enforcement. Stricter enforcement increases the risk and cost of non-compliance, deterring foreign acquirers who must factor in these regulatory burdens. We test this by interacting the climate law indicator with measures of enforcement strength, including the rule of law, regulatory quality, and corruption control. Specifically, we estimate the following regression:

$$y_{i,j,t} = \alpha + \beta_1 \text{Climate Law}_{i,t} \times \text{Strong Enforcement}_i + \beta_2 \text{Climate Law}_{i,t} + \delta \text{Climate Law}_{j,t} + \mathbf{X}_{i,j,t-1} \gamma + \tau_t + \tau_{i,j} + \epsilon_{i,j,t}, \quad (3)$$

where *Strong Enforcement_i* is an indicator that takes one if the legal enforcement measure in the target country is above the sample median, and zero otherwise. In our analysis, we consider three measures of law enforcement strength. These measures are a) the rule of law from La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998); b) the average of regulation quality, rule of law, and control of corruption scores from Worldwide Governance Indicators; and c) the regulatory enforcement score from the World Justice Project.¹³

[Insert Table 6 Here]

Our variable of interest in this analysis is the interaction term between the target country's climate law indicator and the indicator for strong legal enforcement (*Climate Law_{tgt}* × *Strong Enforcement_{tgt}*). In Column (1) of Table 6, we measure legal enforcement with the rule of law from La Porta Lopez-de-Silanes, Shleifer, and Vishny (1998). The estimated coefficient on the interaction term is negative (-0.057) and statistically significant (*t*-statistic = -2.60). This indicates that the deterrent effect of target country's climate laws is more pronounced in jurisdictions with stringent enforcement. This finding is consistent with the economic cost channel. Similar results are obtained using the other two measures of legal enforcement in

¹³ The data from Worldwide Governance Indicators and the World Justice Project are available after 1996 and 2012 respectively. We take the average of annual values during the periods between 1996 (2012) and 2019 for each country and apply it to all years in the sample. The number of observations varies with different law enforcement measures due to the different coverage of the datasets.

Columns (2) and (3). Notably, the coefficients on *Climate Law_{igt}* alone are insignificant, suggesting that climate laws do not significantly impact cross-border M&A in countries with weak enforcement. This highlights the critical role of regulatory enforcement strength in amplifying the economic impact.

Climate regulations vary widely in both scale and substantive content. Some laws are highly specific and actionable, such as the market-based mechanisms introduced by countries like Finland and New Zealand to manage and reduce greenhouse gas emissions. These represent concrete steps to combat climate change. In contrast, other countries have adopted more general or superficial regulations, such as outlining broad climate strategies or establishing regulatory committees without mandating significant changes.¹⁴ To investigate whether the impact of climate laws on cross-border M&A depends on the substantive nature of the regulations, we categorize these laws as either “cosmetic” or “substantive” and present our findings in Table 7. Our analysis reveals that cosmetic climate laws—such as the formation of climate committees or the introduction of vague national strategies—do not deter cross-border mergers and acquisitions. However, substantive regulations, including carbon taxes and other rigorous environmental policies, significantly reduce cross-border deal activity. These results further emphasize the role of regulatory content in shaping economic outcomes. Nevertheless, we acknowledge that stringent enforcement might also be motivated by political considerations, making it difficult to attribute the effect solely to economic costs.

[Insert Table 7 Here]

4.1.3 Climate Law Stringency

We further investigate the economic channel by examining the stringency of climate policies. Greater stringency implies more demanding regulations, which increase the operational and financial burden on firms. To capture this effect, we utilize the revised environmental policy stringency index developed for OECD countries by Kruse, Dechezleprêtre, Saffar, and Robert (2022).¹⁵ The composite index, which ranges from zero (least stringent) to six (most stringent), is constructed using thirteen policy instruments closely related to climate change. These policies are closely related to climate change. Higher values

¹⁴ Consistent with the view that substantive climate laws have greater impact than cosmetic laws, we find that countries with substantive climate laws have experienced significant reductions in carbon emissions after the laws are implemented, while carbon emissions in countries with cosmetic climate laws do not decrease significantly in the post-regulation period (Figure IA.2 in the Internet Appendix).

¹⁵ The index is available for OECD countries (excluding Colombia, Costa Rica, Latvia, and Lithuania) and six non-OECD countries (Brazil, China, India, Indonesia, Russia, and South Africa). We thank Tobias Kruse for sharing the data with us.

of the index are associated with lower carbon emission intensity, reflecting more rigorous regulatory frameworks.¹⁶ In our analysis, we replace the binary climate law indicator with this continuous stringency measure to provide a more nuanced assessment of the impact of climate laws.

[Insert Table 8 Here]

As presented in Table 8, the coefficients on the stringency index are negative and statistically significant, suggesting that stricter climate laws result in a more substantial decline in cross-border M&A activity. This finding aligns with the economic cost hypothesis: more rigorous regulations increase the expected costs and operational challenges for foreign acquirers. However, as with previous tests, we acknowledge that stringent regulations may also be driven by political or strategic motivations, complicating a purely economic interpretation.

4.1.4 Impact on Merger Synergies and Post-Merger Performance

To provide more direct evidence for the economic cost channel, we analyze the impact of climate laws on merger synergies and post-merger performance. If climate laws increase operational costs and hinder integration, we would expect a reduction in expected synergies and a deterioration in long-term performance. Following previous studies (e.g., Dessaint, Golubov, and Volpin, 2017), we measure expected synergies using combined cumulative abnormal returns (CAR) over a five-day window around M&A announcements. Specifically, the combined CAR is calculated as a weighted average of the cumulative abnormal returns of the acquirer and target firms, with weights based on their market capitalization three days prior to the announcement. The abnormal returns are derived from the market model, using the corresponding country's market index as the benchmark. The estimation window spans from 250 days before to 10 days before the announcement, and we require at least twenty valid observations for inclusion. Because this analysis relies on stock return data, our sample is restricted to deals involving both a public acquirer and a public target.

Column (1) of Table 9 reveals that the passage of climate laws in the target country is associated with a 6.2 percentage point reduction in combined CAR, representing a substantial

¹⁶ The policy instruments include CO₂ trading schemes, renewable energy trading scheme, CO₂ tax, NO_x tax, SO_x tax, diesel fuel tax, the emission limit value (ELV) for NO_x, the ELV for SO_x, the ELV for particulate matter, sulphur content limit for diesel, R&D expenditures on low-carbon energy technologies, support for wind energy technologies, and support for solar energy technologies.

and statistically significant decrease compared to the average CAR of 2.9%. This result is robust after accounting for factors specific to the year, acquirer-target country pair, acquirer's industry, and target's industry. The regression also controls for key deal characteristics relevant to merger synergies, such as deal size, industry similarity between the acquirer and target (based on two-digit SIC codes), whether the payment is entirely in cash, the friendliness of the merger, whether the acquisition is structured as a tender offer, and the presence of competing bidders. In addition, country-level control variables from the baseline regression are included. Overall, the findings suggest that investors anticipate lower value creation from cross-border deals involving targets in countries with stringent climate regulations.

[Insert Table 9 Here]

In Column (2), we observe that the cumulative abnormal returns of acquirer firms do not experience a significant decline following the adoption of climate laws in target countries. This lack of reaction in the equity market suggests that acquiring firms may anticipate a reduction in merger synergies and, as a result, offer lower prices for targets located in countries with stringent climate regulations. Column (3) confirms this hypothesis: we find a significant decrease in offer premiums after the implementation of climate laws. The economic impact is substantial, with offer premiums reduced by 9.8 percentage points, representing 23% of the average offer premiums. This finding indicates that acquirers proactively adjust their valuations downward to account for the anticipated regulatory costs.

Our findings based on stock market reactions and offer premiums indicate that acquirers and investors expect cross-border acquisitions to generate lower value following the adoption of climate laws in target countries. To further evaluate the value created by these acquisitions, we examine changes in the operating performance of acquirers around the transactions. A key challenge in this analysis is that the target firm may not exist as a separate entity post-acquisition. To address this, we focus solely on changes in the operating performance of the acquirers. Specifically, we measure the change in an acquirer's return-on-assets (ROA) by comparing its ROA three years after the acquisition to its ROA in the year before the transaction. To account for industry-specific trends, we adjust for the median ROA of the acquirer's industry peers, defined as firms in the same industry and country. This adjustment ensures that

our performance measure reflects the true impact of the acquisition relative to industry norms.

[Insert Table 10 Here]

Table 10 presents the effects of climate laws on changes in acquirers' operating performance. The analysis incorporates a range of control variables, including firm-level characteristics such as firm size, book-to-market ratio, financial leverage, and cash holdings, as well as deal-level and country-level controls consistent with those used in Table 9. The regressions also account for country-pair, industry, and year fixed effects. The results indicate that climate laws in the target country are associated with a smaller improvement in acquirers' operating performance. Specifically, acquirers that purchase targets in countries with climate laws see a 2.68% lower improvement in profitability within three years post-acquisition compared to those acquiring targets in countries without such laws.¹⁷ This evidence suggests that climate laws hinder acquirers' post-merger performance, likely due to ongoing operational inefficiencies and higher compliance costs.

The combined evidence from these tests provides strong support for the economic cost channel. The substantial reduction in expected synergies, lower offer premiums, and weaker post-merger performance directly illustrate how climate laws increase the financial and operational burden on foreign acquirers. These findings complement the results based on regulatory exposure, enforcement strength, and policy stringency, supporting our view that climate regulations deter cross-border M&A by raising costs and creating integration challenges.

4.2 Political Channel: Selective Enforcement and Geopolitics

Beyond the economic costs of compliance, climate laws may also influence cross-border mergers and acquisitions through political mechanisms, specifically selective enforcement and strategic government intervention. These political factors shape the way regulations are applied and can influence foreign investment behavior significantly.

4.2.1 Selective Enforcement of Climate Laws

¹⁷ In untabulated results, we find that the negative effects of climate laws persist over a longer period of time.

We have consistently observed that the enactment of climate laws in target countries significantly deters cross-border acquisitions by foreign firms, while climate laws in the acquirers' home countries do not exhibit a similar effect. This asymmetry suggests a potential mechanism driven by the selective enforcement of climate regulations. Specifically, national governments may strategically enforce climate laws more rigorously against foreign acquirers compared to domestic firms or even firms from countries with close diplomatic ties. This selective approach can serve various national interests, such as protecting domestic industries from foreign competition or leveraging regulatory power as a geopolitical tool.

Selective enforcement works as a mechanism for our main findings because it introduces uncertainty and increases the expected costs of cross-border transactions, making foreign investments less attractive. If potential foreign acquirers anticipate that compliance with environmental regulations will be enforced more stringently on them than on local companies, they are likely to view these acquisitions as riskier and more expensive. This heightened risk deters potential foreign investors and disrupts cross-border M&A activity.

To test this hypothesis, we use the concept of political affinity, a key indicator of the relationship between two countries. Political affinity is measured based on the similarity of voting patterns in the UN General Assembly, following the framework proposed by Bertrand, Betschinger, and Settles (2016). The affinity measure ranges from -1 to 1, with higher values indicating closer political alignment. We expect that target countries may enforce climate laws less strictly for foreign acquirers from countries with higher political affinity, leading to less pronounced negative effects on M&A activity.

[Insert Table 11 Here]

The results in Table 11 demonstrate that the negative impact of climate laws on cross-border M&A activity is significantly greater when political affinity between the acquirer and target countries is low. Columns (1) and (2) present the findings based on one-year voting data, while Columns (3) and (4) use a three-year voting history. In both cases, the coefficients on the climate law indicator are more negative for acquisitions involving countries with a low political affinity. Specifically, in the low-affinity group, the coefficient on *Climate Law_{tgt}* is -0.044, while it is -0.020 for the high-affinity group. The consistency of these results across different affinity

measures supports the hypothesis that selective enforcement contributes to the deterrent effects of climate regulations on cross-border deals.¹⁸

4.2.2 Effects on Domestically Important Firms

In addition to political affinity, the significance of the target firm to the domestic economy can also influence how climate laws are enforced. For example, governments may exercise stricter regulatory oversight on foreign acquisitions involving large, strategically important firms. This is particularly true for deals where the target company plays a vital role in the national economy, making these transactions more susceptible to government intervention.

Table IA.6 in the Internet Appendix presents evidence supporting this claim. The analysis shows that the reduction in cross-border M&A activity following the implementation of climate laws is primarily driven by large deals. The coefficient on *Climate Law_{tgt}* is -0.023, significant at the 1% level, while the effect is negligible for smaller deals. This pattern suggests that governments may selectively enforce climate laws with greater intensity when the stakes are higher, especially in transactions involving influential domestic firms. These findings highlight the strategic and political dimensions of regulatory enforcement, showing that climate laws' impact on cross-border M&A extends beyond economic considerations to encompass geopolitical and national interest factors.

4.3 Acquirers' Willingness to Bear Climate-Related Regulatory Costs

Our baseline findings suggest that climate laws in target countries deter cross-border M&A activity, primarily through increased regulatory costs and operational challenges. However, the extent of this effect may vary depending on the acquirer's willingness and capacity to absorb these costs. In this section, we explore how certain characteristics of the acquiring firms and the nature of the climate regulations in target countries may mitigate the negative impact on cross-border deals. Specifically, we examine the influence of climate change attitudes and prior experience with climate disasters.

4.3.1 Climate Change Attitudes

¹⁸ Duchin, Farroukh, Harford, and Patel (2024) analyze U.S. domestic merger and acquisition deals and find that politically divergent firms are less likely to merge.

Our first test examines whether acquirers' concerns about climate change influence the extent to which climate laws in target countries deter cross-border M&A activity. The underlying hypothesis is that acquirers who are more aware of the climate crisis and committed to addressing climate change may be more willing to bear the associated regulatory costs. To measure these attitudes, we use data from the World Values Survey, capturing the average perception of climate change seriousness among people in the acquirer's country.¹⁹ We then estimate the following regression:

$$y_{i,j,t} = \alpha + \beta_1 \text{Climate Law}_{i,t} \times \text{High Concerns}_j + \beta_2 \text{Climate Law}_{i,t} + \delta \text{Climate Law}_{j,t} + \mathbf{X}_{i,j,t-1}\gamma + \tau_t + \tau_{i,j} + \epsilon_{i,j,t}, \quad (4)$$

where *High Concerns_j* is an indicator variable that takes one if the climate concern measure in the acquirer country is above the sample median, and zero otherwise. We expect β_1 to be positive.

[Insert Table 12 Here]

The results, presented in Columns (1) and (2) of Table 12, show that the coefficients on *Climate Law_{tgt}* are significantly negative (-0.061 and -0.065), indicating a more than 6% reduction in cross-border deals for acquirers with low climate concerns. This effect is more than two and a half times larger than the baseline estimate, highlighting the substantial deterrent effect of climate laws when acquirers are less environmentally conscious. In contrast, the coefficients on the interaction term ($\hat{\beta}_1$) are positive and statistically significant, suggesting that the negative impact of climate laws is significantly attenuated when the acquirer has greater concern about global climate crisis. This result supports the economic cost channel, as firms with higher concern about climate issues are more willing to bear the regulatory burden, regarding it as part of their corporate responsibility or long-term sustainability strategy. This finding also highlights that climate laws impose unique deterrent effects tied to environmental priorities, distinguishing them from other regulatory deterrents that do not have this dimension.

4.3.2 Climate Disaster Experience

Next, we consider whether recent exposure to significant climate disasters affects

¹⁹ World Values Survey Wave 5 asked the respondents whether they think global warming is very serious, somewhat serious, not very serious or not serious at all. This survey does not provide panel data regarding the relevant question. We therefore apply a constant measure to all years in the sample.

acquirers' willingness to engage in cross-border M&A activities under stringent climate regulations. Our rationale is that such experiences may heighten firms' awareness of climate risks and motivate them to support environmental measures, making them more likely to absorb additional regulatory costs. We examine whether the effects of climate laws vary with acquirers' disaster experiences by estimating the following model:

$$\begin{aligned}
y_{i,j,t} = & \alpha + \beta_1 \text{Climate Law}_{i,t} \times \text{Climate Disasters}_{j,t} + \beta_2 \text{Climate Law}_{i,t} \\
& + \beta_3 \text{Climate Disasters}_{j,t} + \beta_4 \text{Climate Law}_{j,t} + \mathbf{X}_{i,j,t-1} \gamma + \tau_t + \tau_{i,j} \\
& + \epsilon_{i,j,t},
\end{aligned} \tag{5}$$

where $\text{Climate Disasters}_{j,t}$ is an indicator variable that takes one if the acquirer country experienced significant climate disasters within three years before the deal announcement. Climate disasters refer to natural disasters that can be attributable to climate change.²⁰ We only consider significant climate disasters that brought total damage of more than \$100 million. Other notations are the same as specified in Equation (1).

As shown in Columns (3) and (4) of Table 12, the coefficients on Climate Law_{igt} are significantly negative (-0.050 and -0.048), which again confirms our main finding. However, the interaction terms, $\text{Climate Law}_{igt} \times \text{Climate Disasters}_{acq}$, yield positive and significant coefficients (0.029 and 0.032), indicating that the reduction in cross-border M&A activity is mitigated when acquirers have experienced major climate disasters. The evidence aligns with the economic channel, as these firms may be more prepared for climate regulations or may consider compliance costs as a necessary investment in mitigating future risks. In addition, the results further emphasize the unique impact of climate legislation, highlighting that firms' willingness to engage in cross-border M&As is influenced by direct exposure to climate risks, a factor that does not typically apply to other regulatory frameworks.

4.4 Subsidies in Climate Laws

Climate regulations are not uniform; some incorporate mechanisms that reduce the financial burden on firms, such as subsidies or tax incentives for emission reduction. These features are distinct from traditional regulations, which often lack such provisions. This section examines whether the presence of subsidies in climate laws alleviates the deterrent effects on

²⁰ The information on worldwide climate disasters is from EM-DAT. The types of climate disasters include drought, extreme temperature, flood, landslide, storm, and wildfire.

cross-border M&A activity. Subsidies allow firms to develop or adopt new technologies and could spur more mergers and acquisitions.²¹ We further examine how the provision of subsidies or financial incentives within climate laws influences cross-border M&A activity. Climate regulations often increase operational and compliance costs, but subsidies can offset these financial burdens, making acquisitions more viable. To test this, we manually categorize climate laws into two groups: subsidy-free climate laws and subsidy-embedded climate laws. The former indicates climate laws without any financial incentives, while the latter includes laws that provide subsidies for emission reduction efforts.

Our previous findings suggest that the implementation of climate regulations in a country often results in an increase in operating costs for firms. The surge in financial burdens can take various forms, ranging from carbon taxes to the mandatory investments necessary to curtail greenhouse gas emissions. However, it is noteworthy that national governments in some countries are actively taking steps to alleviate the costs imposed on firms. For example, the National Climate Change Policy of Sri Lanka proposes a range of strategic intervention measures to facilitate the transition to a low-carbon, environmentally sustainable economy. Among these measures, the regulation offers financial incentives, tax benefits, and other forms of support to encourage the widespread adoption of climate-resilient technologies and practices in the business sector. We expect that the deal-chilling effect of climate laws is mitigated when such regulations specify subsidies or other benefits for emission reduction efforts.

We test our conjecture by differentiating between subsidy-free and subsidy-embedded climate laws. *Subsidy-embedded Climate Law_{itgt}* is a dummy variable indicating climate laws without financial incentives, while *Subsidy-free Climate Law_{itgt}* indicates laws that include subsidies or similar support measures. The dummy variables for acquirer countries are defined similarly. Column (1) in Table 13 reveals that subsidy-free climate laws significantly reduce cross-border M&A activity, consistent with our earlier findings. However, the coefficients for subsidy-embedded climate laws are not significant, as shown in Columns (2) and (3). This indicates that the adverse effects of climate laws are mitigated when governments offer subsidies. The presence of subsidies provides firms with financial relief, making these laws less burdensome compared to regulations that impose costs without compensation. These findings imply that subsidies effectively alleviate the regulatory costs imposed by climate laws, supporting the economic cost channel. They also emphasize the importance of financial incentives in reducing the negative impact of environmental regulations on cross-border

²¹ Ma, Ouimet, and Simintzi (2025) find that firms with more advanced technologies acquire less tech-savvy firms. The acquired firms subsequently increase technology investment.

investment.

[Insert Table 13 Here]

5 Discussions on Policy Implications

Climate laws play a critical role in global efforts to combat climate change and reduce carbon emissions. Effective enforcement of these regulations is essential, as inadequate or inconsistent climate policies can undermine international progress. If countries implement climate laws with varying levels of stringency, opportunities for regulatory arbitrage and carbon leakage become more pronounced. As a result, countries with lenient or non-existent climate laws may turn into “pollution havens,” attracting firms seeking to evade stricter environmental standards. Therefore, global coordination and stringent enforcement of climate regulations are necessary to prevent such outcomes and ensure meaningful climate action.

However, it is crucial to acknowledge the economic trade-offs associated with implementing climate laws. Our research demonstrates that these regulations can significantly deter cross-border mergers and acquisitions, particularly in high-emission sectors. By increasing operational and compliance costs, climate laws may reduce the potential synergies from these acquisitions, disrupting international capital flows and the efficiency of the global corporate control market. The challenge for policymakers is to balance these economic costs with the long-term environmental benefits. The optimal balance may vary by country, depending on economic structures, environmental priorities, and regulatory landscapes.

Given the urgency of addressing global climate crisis, policymakers should aim to design climate regulations that minimize economic disruption while still achieving environmental goals. One promising approach is to incorporate subsidies or financial incentives within climate laws. For example, offering subsidies for companies that adopt sustainable practices or invest in carbon-reducing technologies can mitigate the financial burden of compliance. This strategy would create a more favorable environment for firms, potentially sustaining cross-border investment while encouraging environmentally responsible behavior.

In addition, countries may explore complementary policies to attract international capital without undermining environmental standards. Options include lowering statutory tax rates for

compliant firms, streamlining regulatory processes, or strengthening domestic financial markets to offer more robust investment opportunities. These measures could help maintain global investment flows while ensuring that environmental objectives are met.

Ultimately, our findings underscore the need for carefully crafted climate regulations that account for both environmental imperatives and economic impacts. By doing so, policymakers can foster a regulatory environment that addresses climate change effectively without excessively hindering international business activities.

6 Conclusion

This paper explores how climate laws influence cross-border mergers and acquisitions (M&A), demonstrating that the adoption of climate regulations in a target country leads to a significant reduction in cross-border deals. This effect is particularly strong for high-emission firms and in jurisdictions with rigorous law enforcement. We further show that substantive and stringent climate regulations exacerbate this decline, indicating that the heightened compliance and operational costs imposed by these laws serve as a major deterrent to foreign acquirers. In addition, geopolitical factors such as political affinity between countries mitigate these negative impacts, supporting the selective enforcement hypothesis, where regulatory burdens are less strictly applied to firms from politically aligned nations.

Our analysis also highlights the unique features of climate laws relative to other regulations in influencing cross-border M&A. For example, we find that acquirers who are more climate-conscious or have experienced climate disasters exhibit a lower sensitivity to these regulations. Furthermore, climate laws embedded with subsidies or financial incentives for emission reduction efforts tend to offset some of the economic costs, thereby lessening their deterrent effect on cross-border acquisitions. These results emphasize that the economic and strategic responses of firms are crucial in understanding the interplay between climate laws and global investment flows.

Our findings carry important policy implications. Policymakers should recognize the economic trade-offs of stringent climate regulations, particularly their impact on foreign investment. To mitigate these deterrent effects while achieving environmental goals,

governments could incorporate financial incentives such as subsidies or tax benefits within climate laws. In addition, international coordination of climate policies is essential to prevent regulatory arbitrage and ensure global efforts to combat climate change are effective. By designing regulations that balance environmental protection with economic incentives, countries can foster sustainable investment and reduce the risk of carbon leakage.

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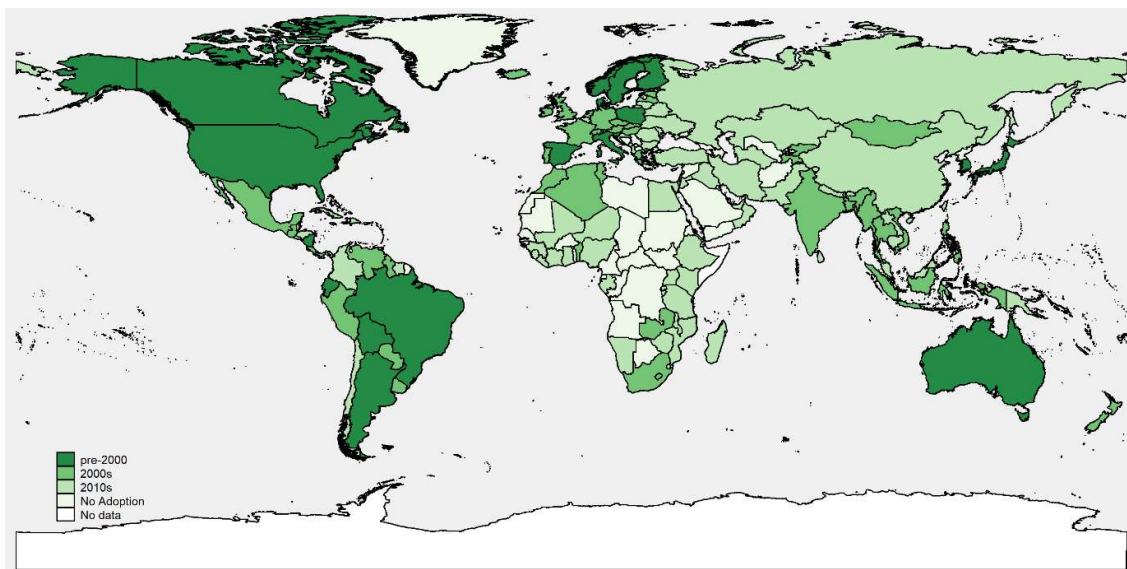


Figure 1 Adoption Time of Climate Laws

This graph illustrates the adoption year of national-level climate change-related laws for countries worldwide. Darker color indicates earlier adoption. Information on climate change laws is collected from ECOLEX, Climate Change Laws of the World, the Climate Policy Database, and the World Bank.

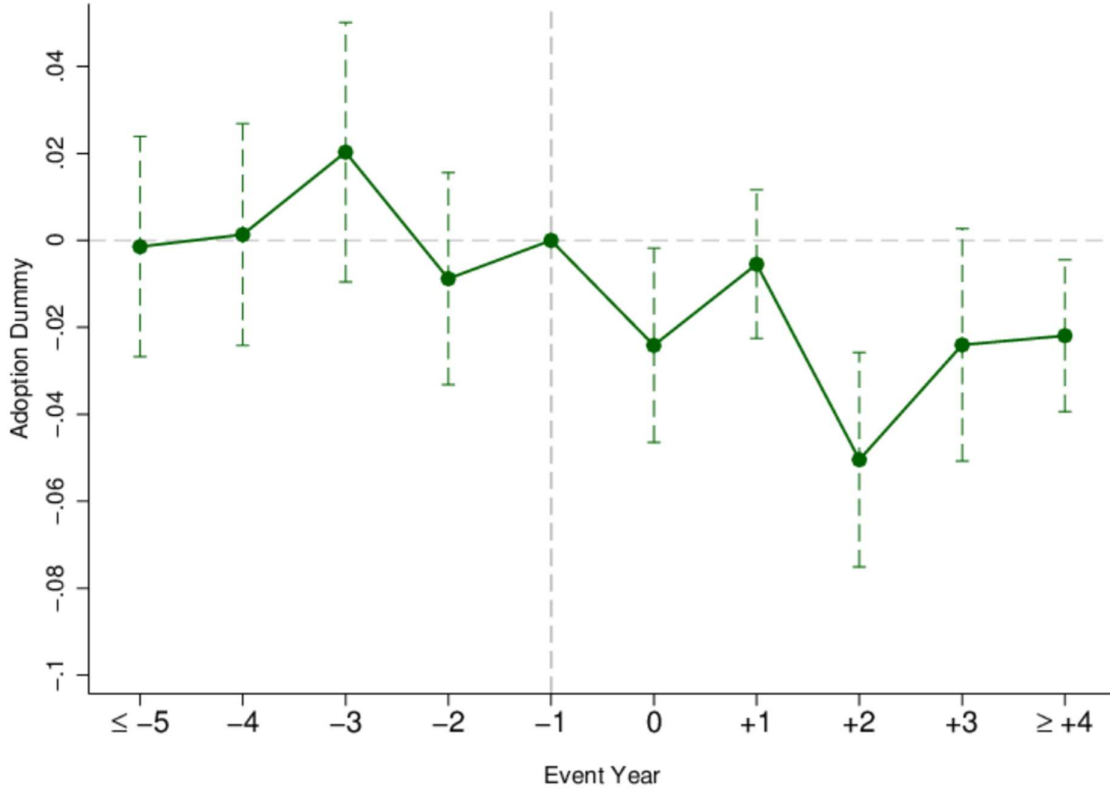


Figure 2 Dynamic Effects of Climate Laws on Cross-Border Merger Activities

This figure demonstrates the responses in cross-border merger activities around the adoption of climate laws in target countries. Specifically, it plots the $\hat{\beta}$ s (dots) and the corresponding 90% confidence intervals (dashed lines) estimated from the following regression:

$$y_{i,j,t} = \alpha + \beta_1 \text{Climate Law}_{i,t}^{-5} + \beta_2 \text{Climate Law}_{i,t}^{-4} + \beta_3 \text{Climate Law}_{i,t}^{-3} + \beta_4 \text{Climate Law}_{i,t}^{-2} + \beta_5 \text{Climate Law}_{i,t}^0 + \dots + \beta_9 \text{Climate Law}_{i,t}^{+4} + \delta \text{Climate Law}_{j,t} + \mathbf{X}_{i,j,t-1} \gamma + \tau_t + \tau_{i,j} + \epsilon_{i,j,t},$$

where i denotes the target country, j denotes the acquirer country, and t denotes year. $y_{i,j,t}$ is the logarithm of one plus the total number of cross-border deals between acquirer country j and target country i in year t . $\text{Climate Law}_{i,t}^{-5}$ is equal to one for years at least five years prior to the target country i 's adoption of the climate law; $\text{Climate Law}_{i,t}^{-4}$, $\text{Climate Law}_{i,t}^{-3}$, and $\text{Climate Law}_{i,t}^{-2}$ are equal to one for the fourth, third, and the second year, respectively, prior to the adoption; $\text{Climate Law}_{i,t}^0$ is equal to one for the year when the target country i adopts the climate law; $\text{Climate Law}_{i,t}^{+k}$ is equal to one for the k -th year after the adoption, with $k=1,2,3$; $\text{Climate Law}_{i,t}^{+4}$ is equal to one for years at least four years after the adoption. $\text{Climate Law}_{j,t}$ is an indicator variable that equals one if the acquirer country j has adopted a climate change-related law in year t , and zero otherwise. $\mathbf{X}$ represents the set of control variables. τ_t and $\tau_{i,j}$ denote year fixed effects and acquirer-target country-pair fixed effects, respectively. Standard errors are clustered at the country-pair and year level. The sample period is from 1985 to 2019.

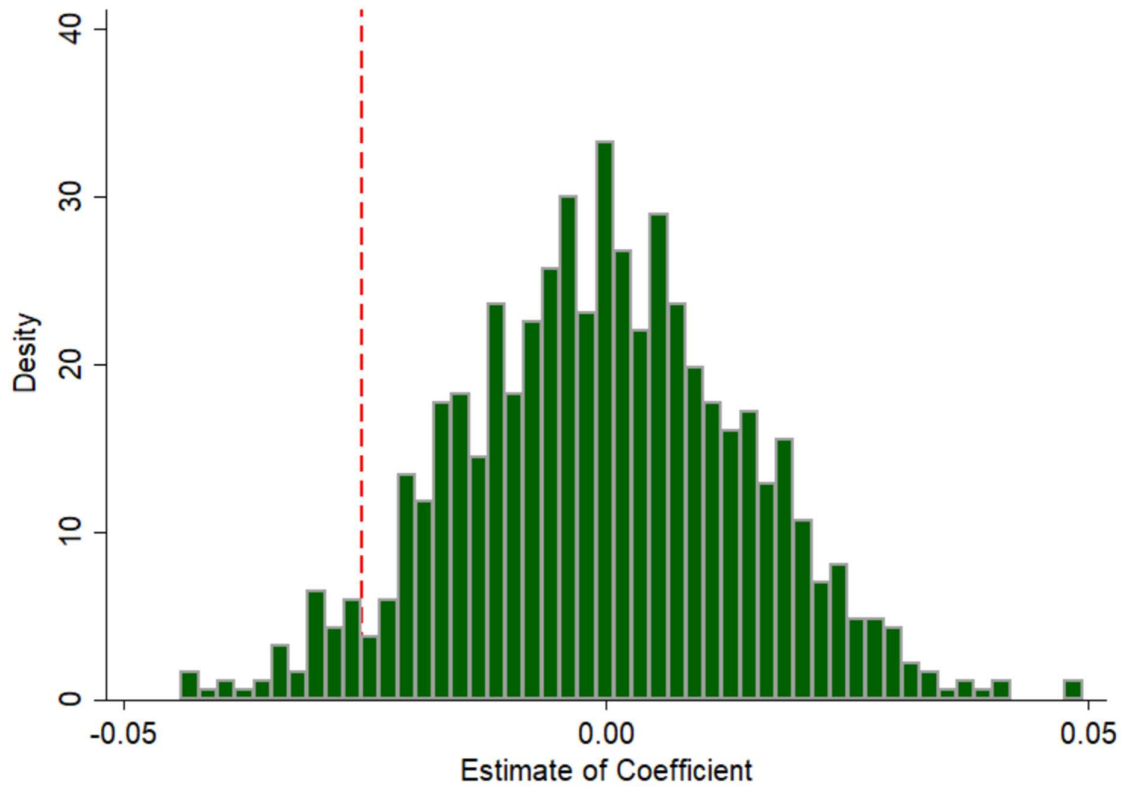


Figure 3 Distribution of Coefficient Estimates from Placebo Tests

This figure plots a histogram of the distribution of the estimated coefficient on the climate law indicator in the target country from 1,000 placebo tests. The regression specification is the same as in Equation (1). The x-axis represents the coefficient estimates from the placebo tests that randomly assign an adoption year to each country in the sample while maintaining the initial distribution of adoption years. The red dashed line represents the true coefficient estimate using the correct adoption time of climate laws. The sample period is from 1985 to 2019.

Table 1 Summary Statistics

This table reports the summary statistics. Country pairs are included if there is at least one cross-border merger between the acquirer country and the target country over the period from 1985 to 2019. Detailed definitions are provided in Appendix Table A.1. Continuous variables are winsorized at the 1% and 99% levels.

	Mean	SD	Q1	Median	Q3
Number of Cross-border Deals	0.643	1.483	0.000	0.000	1.000
Climate Law _{tgt}	0.649	0.477	0.000	1.000	1.000
Climate Law _{acq}	0.664	0.472	0.000	1.000	1.000
$\Delta(\log \text{ GDP per capita})_{\text{acq-tgt}}$	0.148	1.062	-0.429	0.126	0.792
$\Delta(\text{GDP Growth})_{\text{acq-tgt}}$	-0.001	0.039	-0.024	-0.002	0.021
$\text{Max}(\text{Import, Export})_{\text{acq,tgt}}$	0.033	0.053	0.005	0.012	0.036
$\Delta(\text{Exchange Rate})_{\text{acq-tgt}}$	-0.185	1.364	-0.006	0.000	0.005
$\Delta(\text{Investment Profile})_{\text{acq-tgt}}$	0.299	2.339	-1.000	0.083	1.708
$\Delta(\text{Quality of Institution})_{\text{acq-tgt}}$	0.682	4.215	-2.083	0.500	3.917
$\Delta(\text{Growth of Domestic Deals})_{\text{acq-tgt}}$	0.013	1.201	-0.500	0.017	0.571
Climate Law Stringency _{tgt}	1.878	1.127	0.889	1.778	2.833
Climate Law Stringency _{acq}	1.952	1.120	1.000	1.889	2.889
Combined CAR	0.029	0.069	-0.010	0.020	0.062
Offer Premium (%)	42.783	38.989	17.250	32.670	55.340
$\log(\text{Deal Value})$	5.780	2.116	4.304	5.748	7.341
Related Industry	0.667	0.472	0.000	1.000	1.000
All Cash	0.574	0.495	0.000	1.000	1.000
Friendly Merger	0.955	0.207	1.000	1.000	1.000
Tender Offer	0.313	0.464	0.000	0.000	1.000
Competing Bidder	0.054	0.225	0.000	0.000	0.000
Acquirer Size	6.212	2.508	4.566	6.391	8.046
Acquirer B/M	1.764	2.263	0.464	0.856	1.953
Acquirer Leverage	0.189	0.165	0.025	0.167	0.307
Acquirer Cash Holdings	0.195	0.185	0.061	0.129	0.266

Table 2 Climate Laws and Cross-Border Merger Activities: Baseline Results

This table reports the effects of climate laws on cross-border merger activities. The dependent variable is the incidence of cross-border deals between the acquirer and target countries in a given year, defined as the logarithm of one plus the annual number of cross-border deals between the acquirer country and the target country. *Climate Law_{tgt}* (*Climate Law_{acq}*) is a dummy variable that takes one if the target (acquirer) country has adopted a climate change-related law in a given year, and zero otherwise. The control variables include the difference in the acquirer and target countries' log GDP per capita, GDP growth, exchange rates of local currencies to the US dollar, investment profile, quality of institutions, and annual growth rates of the number of domestic acquisitions. The maximum of bilateral imports and exports between the acquirer and target countries is also included as a control variable. Detailed definitions are provided in Appendix Table A.1. Columns (1) and (2) include both year fixed effects and country fixed effects. Column (3) includes year and acquirer-target country-pair fixed effects. The sample period is from 1985 to 2019. *t*-statistics based on standard errors clustered at the country-pair and year level are reported in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

	Log (1+ #Cross-border Deals)		
	(1)	(2)	(3)
Climate Law _{tgt}	-0.021*** (-2.65)	-0.020** (-2.36)	-0.025** (-2.42)
Climate Law _{acq}	0.011 (0.97)	-0.008 (-0.76)	-0.008 (-0.80)
$\Delta(\log \text{ GDP per capita})_{\text{acq-tgt}}$		0.037 (1.31)	0.081*** (2.99)
$\Delta(\text{GDP Growth})_{\text{acq-tgt}}$		0.035 (0.40)	0.005 (0.05)
$\text{Max}(\text{Import, Export})_{\text{acq,tgt}}$		3.116*** (14.68)	1.173*** (2.99)
$\Delta(\text{Exchange Rate})_{\text{acq-tgt}}$		-0.017* (-1.83)	-0.015 (-1.41)
$\Delta(\text{Investment Profile})_{\text{acq-tgt}}$		0.004* (1.85)	0.002 (1.12)
$\Delta(\text{Quality of Institution})_{\text{acq-tgt}}$		-0.000 (-0.18)	-0.001 (-0.52)
$\Delta(\text{Growth of Domestic Deals})_{\text{acq-tgt}}$		-0.003** (-2.57)	-0.003** (-2.11)
Year FE	Yes	Yes	Yes
Acquirer Country FE	Yes	Yes	No
Target Country FE	Yes	Yes	No
Country-pair FE	No	No	Yes
Obs	38,447	38,447	38,447
Adjusted R ²	0.333	0.393	0.608

Table 3 Climate Laws and Cross-Border Merger Activities: Robustness

This table presents results based on alternative samples, an alternative estimation approach, and alternative measures of merger activities. The dependent variable in Columns (1) to (3) is the logarithm of one plus the annual number of cross-border deals between the acquirer country and the target country. The sample in Column (1) excludes deals involving firms from the United States. The sample in Column (2) excludes deals involving firms from the European Union. Column (3) estimates the effects of climate laws on cross-border merger activities using the stack-cohort approach. A cohort consisting of treatment units and clean controls is created for each event, and all cohorts are stacked together for the regression. Treatment units are country pairs where the target country has adopted climate laws, and clean controls refer to units that are not yet affected by climate laws of the target country within the $[-3, +3]$ event window. The dependent variable in Column (4) is an indicator variable that equals one if any cross-border deal occurs between an acquirer country and a target country in a given year, and zero otherwise. The dependent variable in Column (5) is the logarithm of one plus the total dollar amount of cross-border deals between the acquirer country and the target country in a given year. Estimations in these two columns employ the full sample. *Climate Law_{tgt}* (*Climate Law_{acq}*) is a dummy variable that takes one if the target (acquirer) country has adopted a climate change-related law in a given year, and zero otherwise. Control variables are the same as in Table 2. Detailed definitions are provided in Appendix Table A.1. Regressions include year fixed effects and acquirer-target country-pair fixed effects. The sample period is from 1985 to 2019. *t*-statistics based on standard errors clustered at the country-pair and year level are reported in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

	Log (1+ #Cross-border Deals)			I(Cross-border Deals)	Log (1+ \$Cross-border Deals)
	Non-US	Non-EU	Stacked DID	Full Sample	Full Sample
	(1)	(2)	(3)	(4)	(5)
Climate Law _{tgt}	-0.021** (-2.32)	-0.037** (-2.09)	-0.059*** (-3.46)	-0.020** (-2.57)	-0.106** (-2.53)
Climate Law _{acq}	-0.009 (-0.91)	-0.023 (-1.37)	-0.003 (-0.15)	-0.004 (-0.41)	-0.001 (-0.02)
$\Delta(\log \text{ GDP per capita})_{\text{acq-tgt}}$	0.073*** (2.86)	0.095** (2.37)	-0.087 (-0.83)	0.073*** (3.29)	0.358*** (3.46)
$\Delta(\text{GDP Growth})_{\text{acq-tgt}}$	-0.020 (-0.23)	0.015 (0.09)	0.301 (1.45)	0.044 (0.50)	0.377 (0.93)
$\text{Max}(\text{Import, Export})_{\text{acq,tgt}}$	1.020** (2.38)	1.102** (2.37)	0.448 (0.36)	1.033*** (4.50)	4.538*** (3.22)
$\Delta(\text{Exchange Rate})_{\text{acq-tgt}}$	-0.017 (-1.62)	-0.024** (-2.62)	0.137* (1.91)	-0.007 (-0.89)	-0.016 (-0.57)
$\Delta(\text{Investment Profile})_{\text{acq-tgt}}$	0.003 (1.33)	0.000 (0.10)	0.004 (0.74)	0.002 (1.03)	0.004 (0.47)
$\Delta(\text{Quality of Institution})_{\text{acq-tgt}}$	-0.001 (-0.55)	-0.003 (-1.03)	0.004 (1.23)	-0.001 (-0.51)	-0.005 (-0.47)
$\Delta(\text{Growth of Domestic Deals})_{\text{acq-tgt}}$	-0.002* (-1.74)	-0.005* (-1.88)	-0.007*** (-3.65)	-0.003** (-2.36)	-0.012** (-2.09)
Year FE	Yes	Yes	Yes	Yes	Yes
Country-pair FE	Yes	Yes	Yes	Yes	Yes
Obs	35,804	15,316	27,027	38,447	38,447
Adjusted R ²	0.500	0.635	0.614	0.384	0.477

Table 4 Climate Laws and Likelihood of Deal Withdrawals

This table reports the effects of climate laws on the likelihood of deal withdrawals. The sample includes deals that are announced before the adoption date of climate laws in the target country and become complete or withdrawn after the law adoption. For each deal in this sample, we identify a matched deal where the target country has not adopted climate laws using propensity score matching. Deals are matched on the target country's characteristics, including the logarithm of GDP per capita, GDP growth, total imports and exports scaled by GDP, exchange rate, investment profile, quality of institution, and the annual growth rate of the number of domestic deals. The treated and matched deals are further required to share the same target industry, acquirer industry, acquirer country, and announcement year. The dependent variable is a dummy that equals one if a deal is withdrawn, and zero otherwise. *Climate Law_{tgt}* (*Climate Law_{acq}*) is a dummy variable that takes one if the target (acquirer) country has adopted a climate change-related law in a given year, and zero otherwise. Control variables are defined in Appendix Table A.1. Regressions include country and year fixed effects, acquirer firm's industry fixed effects, and target firm's industry fixed effects. Industries are defined at the two-digit SIC codes level. The sample period is from 1985 to 2019. *t*-statistics based on standard errors clustered at the acquirer country and year level are reported in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

	Withdrawal Likelihood		
	(1)	(2)	(3)
Climate Law _{tgt}	0.233*** (4.20)	0.132*** (2.78)	0.190** (2.18)
Climate Law _{acq}	-0.174 (-0.96)	-0.090 (-0.60)	-0.010 (-0.07)
log(Deal Value)		0.051*** (4.73)	0.050*** (3.19)
Related Industry		-0.122 (-0.98)	-0.144 (-1.20)
All Cash		-0.120 (-1.31)	-0.095 (-0.85)
Friendly Merger		-0.519** (-2.19)	-0.595** (-2.26)
Tender Offer		-0.090 (-0.91)	-0.150 (-0.91)
Competing Bidder		0.315 (0.75)	0.283 (0.88)
$\Delta(\log \text{ GDP per capita})_{\text{acq-tgt}}$			1.271* (1.84)
$\Delta(\text{GDP Growth})_{\text{acq-tgt}}$			-1.255 (-0.46)
$\text{Max}(\text{Import, Export})_{\text{acq,tgt}}$			0.296 (0.57)
$\Delta(\text{Exchange Rate})_{\text{acq-tgt}}$			5.232 (1.04)
$\Delta(\text{Investment Profile})_{\text{acq-tgt}}$			0.046 (1.24)
$\Delta(\text{Quality of Institution})_{\text{acq-tgt}}$			-0.079 (-1.00)
$\Delta(\text{Growth of Domestic Deals})_{\text{acq-tgt}}$			0.036 (0.59)
Year FE	Yes	Yes	Yes
Acquirer Country FE	Yes	Yes	Yes
Target Country FE	Yes	Yes	Yes
Acquirer Industry FE	Yes	Yes	Yes
Target Industry FE	Yes	Yes	Yes
Obs	216	216	216
Adjusted R ²	0.116	0.261	0.300

Table 5 Law Exposure

This table presents how firms' exposure to climate laws affects the impacts of these laws on cross-border acquisition activities. In Columns (1) and (2), the dependent variable is the logarithm of one plus the number of cross-border mergers and acquisitions targeting firms with high and low exposure to climate laws, respectively. High-exposure firms refer to companies in mining, manufacturing, and transportation & public utilities industries. Low-exposure firms refer to companies not in these sectors. $Climate\ Law_{tgt}$ ($Climate\ Law_{acq}$) is a dummy variable that takes one if the target (acquirer) country has adopted a climate change-related law in a given year, and zero otherwise. Control variables are the same as in Table 2. Detailed definitions are provided in Appendix Table A.1. Regressions include year fixed effects and acquirer-target country-pair fixed effects. The sample period is from 1985 to 2019. t -statistics based on standard errors clustered at the country-pair and year level are reported in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

	Log (1+ #Cross-border Deals with High-exposure Targets)	Log (1+ #Cross-border Deals with Low-exposure Targets)
	(1)	(2)
Climate Law _{tgt}	-0.021** (-2.29)	-0.010 (-1.54)
Climate Law _{acq}	-0.007 (-0.77)	-0.005 (-0.79)
$\Delta(\log \text{ GDP per capita})_{acq-tgt}$	0.066*** (3.22)	0.027* (1.84)
$\Delta(\text{GDP Growth})_{acq-tgt}$	0.010 (0.13)	-0.003 (-0.07)
Max(Import, Export) _{acq,tgt}	1.098*** (3.49)	0.279 (1.19)
$\Delta(\text{Exchange Rate})_{acq-tgt}$	-0.011 (-1.66)	-0.005 (-0.84)
$\Delta(\text{Investment Profile})_{acq-tgt}$	0.001 (0.70)	0.002 (1.24)
$\Delta(\text{Quality of Institution})_{acq-tgt}$	-0.001 (-0.26)	0.000 (0.28)
$\Delta(\text{Growth of Domestic Deals})_{acq-tgt}$	-0.002* (-1.85)	-0.001 (-0.82)
Year FE	Yes	Yes
Country-pair FE	Yes	Yes
Obs	38,447	38,447
Adjusted R ²	0.534	0.508

Table 6 Law Enforcement

This table presents how the strength of law enforcement affects the impacts of climate laws on cross-border acquisition activities. The dependent variable is the logarithm of one plus the total number of cross-border deals between the acquirer country and the target country. *Climate Law_{tgt}* (*Climate Law_{acq}*) is a dummy variable that takes one if the target (acquirer) country has adopted a climate change-related law in a given year, and zero otherwise. *Strong Enforcement_{tgt}* is an indicator that takes one if the law enforcement measure in the target country is above the sample median, and zero otherwise. In Column (1), the law enforcement measure is the rule of law from La Porta, Lopez-de-Silanes, Shleifer, and Vishny (1998). In Column (2), the law enforcement measure is the average of regulation quality, rule of law, and control of corruption scores from Worldwide Governance Indicators. In Column (3), the law enforcement measure is the regulatory enforcement score from World Justice Project. Control variables are the same as in Table 2. Detailed definitions are provided in Appendix Table A.1. Regressions include year fixed effects and acquirer-target country-pair fixed effects. The sample period is from 1985 to 2019. *t*-statistics based on standard errors clustered at the country-pair and year level are reported in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

	Log (1+ #Cross-border Deals)		
	La Porta et al. (1998) (1)	Worldwide Governance Indicators (2)	World Justice Project (3)
Climate Law _{tgt} × Strong Enforcement _{tgt}	-0.057*** (-2.60)	-0.036** (-2.09)	-0.049*** (-2.68)
Climate Law _{tgt}	0.016 (0.90)	-0.002 (-0.12)	0.003 (0.19)
Climate Law _{acq}	-0.015 (-1.22)	-0.009 (-0.79)	-0.010 (-0.91)
Δ(log GDP per capita) _{acq-tgt}	0.130*** (3.62)	0.094*** (3.39)	0.093*** (3.12)
Δ(GDP Growth) _{acq-tgt}	0.097 (0.87)	0.016 (0.16)	0.027 (0.26)
Max(Import, Export) _{acq,tgt}	1.290*** (2.75)	1.147*** (2.92)	1.276*** (2.93)
Δ(Exchange Rate) _{acq-tgt}	-0.012 (-1.20)	-0.012 (-1.15)	-0.011 (-1.05)
Δ(Investment Profile) _{acq-tgt}	-0.000 (-0.11)	0.002 (0.99)	0.002 (0.94)
Δ(Quality of Institution) _{acq-tgt}	-0.003 (-0.94)	-0.002 (-0.68)	-0.001 (-0.32)
Δ(Growth of Domestic Deals) _{acq-tgt}	-0.004** (-2.08)	-0.003* (-1.89)	-0.003* (-1.78)
Year FE	Yes	Yes	Yes
Country-pair FE	Yes	Yes	Yes
Obs	30,067	38,079	34,888
Adjusted R ²	0.623	0.609	0.610

Table 7 Effects of Different Types of Climate Laws

This table presents how different types of climate laws affect cross-border acquisitions. The dependent variable is the logarithm of one plus the number of cross-border mergers and acquisitions. Column (1) presents the effects of substantive climate laws, such as the implementation of carbon taxes or other specific climate policies. Column (2) reports the effects of cosmetic climate laws, including the establishment of a regulatory committee and the introduction of national climate strategies or plans. *Substantive Climate Law_{tgt}* (*Cosmetic Climate Law_{tgt}*) is a dummy variable that takes one if the target country has adopted a substantive (cosmetic) climate change-related law in a given year, and zero otherwise. *Substantive Climate Law_{acq}* and *Cosmetic Climate Law_{acq}* are defined similarly for acquirer countries. Control variables are the same as in Table 2. Detailed definitions are provided in Appendix Table A.1. Regressions include year fixed effects and acquirer-target country-pair fixed effects. The sample period is from 1985 to 2019. *t*-statistics based on standard errors clustered at the country-pair and year level are reported in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

	Log (1+ #Cross-border Deals)		
	(1)	(2)	(3)
Substantive Climate Law _{tgt}	-0.029*** (-2.65)		-0.034*** (-2.81)
Substantive Climate Law _{acq}	-0.023 (-1.40)		-0.023 (-1.37)
Cosmetic Climate Law _{tgt}		-0.009 (-0.79)	-0.018 (-1.45)
Cosmetic Climate Law _{acq}		0.009 (0.69)	0.003 (0.24)
$\Delta(\log \text{ GDP per capita})_{\text{acq-tgt}}$	0.087*** (3.27)	0.081*** (3.05)	0.080*** (3.07)
$\Delta(\text{GDP Growth})_{\text{acq-tgt}}$	0.003 (0.03)	0.007 (0.07)	0.006 (0.06)
$\text{Max}(\text{Import, Export})_{\text{acq,tgt}}$	1.108*** (2.82)	1.140*** (2.91)	1.122*** (2.86)
$\Delta(\text{Exchange Rate})_{\text{acq-tgt}}$	-0.013 (-1.23)	-0.015 (-1.38)	-0.014 (-1.32)
$\Delta(\text{Investment Profile})_{\text{acq-tgt}}$	0.002 (1.08)	0.003 (1.25)	0.003 (1.19)
$\Delta(\text{Quality of Institution})_{\text{acq-tgt}}$	-0.001 (-0.52)	-0.002 (-0.63)	-0.001 (-0.51)
$\Delta(\text{Growth of Domestic Deals})_{\text{acq-tgt}}$	-0.003** (-2.10)	-0.003** (-2.19)	-0.003** (-2.13)
Year FE	Yes	Yes	Yes
Country-pair FE	Yes	Yes	Yes
Obs	38,447	38,447	38,447
Adjusted R ²	0.643	0.608	0.609

Table 8 Climate Law Stringency and Cross-Border Merger Activities

This table reports the results from regressing cross-border acquisition activities on climate law stringency. The dependent variable is the incidence of cross-border deals between the acquirer and target countries in a given year, defined as the logarithm of one plus the annual number of cross-border deals between the acquirer and target countries. *Climate Law Stringency_{tgt}* (*Climate Law Stringency_{acq}*) is a continuous policy stringency index that measures the stringency of climate policies in the target (acquirer) country. The index is available for OECD countries (excluding Colombia, Costa Rica, Latvia, and Lithuania) and six non-OECD countries (Brazil, China, India, Indonesia, Russia, and South Africa). Control variables are the same as in Table 2. Detailed definitions are provided in Appendix Table A.1. Column (1) includes year and country fixed effects, while Column (2) includes year and acquirer-target country-pair fixed effects. The sample period starts from 1990 due to the availability of the stringency index. *t*-statistics based on standard errors clustered at the country-pair and year level are reported in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

	Log (1+ #Cross-border Deals)	
	(1)	(2)
Climate Law Stringency _{tgt}	-0.030*** (-2.92)	-0.028** (-2.44)
Climate Law Stringency _{acq}	0.010 (0.85)	0.018 (1.43)
$\Delta(\log \text{ GDP per capita})_{\text{acq-tgt}}$	0.055 (1.21)	0.113*** (2.79)
$\Delta(\text{GDP Growth})_{\text{acq-tgt}}$	0.130 (1.05)	0.119 (0.84)
$\text{Max}(\text{Import, Export})_{\text{acq,tgt}}$	4.024*** (11.77)	1.906*** (2.85)
$\Delta(\text{Exchange Rate})_{\text{acq-tgt}}$	0.003 (0.31)	0.009 (0.85)
$\Delta(\text{Investment Profile})_{\text{acq-tgt}}$	0.006** (2.27)	0.004 (1.42)
$\Delta(\text{Quality of Institution})_{\text{acq-tgt}}$	0.003 (0.85)	0.002 (0.57)
$\Delta(\text{Growth of Domestic Deals})_{\text{acq-tgt}}$	-0.003** (-2.31)	-0.003 (-1.61)
Year FE	Yes	Yes
Acquirer Country FE	Yes	No
Target Country FE	Yes	No
Country-pair FE	No	Yes
Obs	22,819	22,819
Adjusted R ²	0.511	0.682

Table 9 Climate Laws and Merger Synergies

This table presents the effects of climate change laws on announcement returns and offer premiums of cross-border acquisitions. The dependent variable in Column (1) is the combined firms' cumulative abnormal returns (CAR) around a five-day window that centers around deal announcements. It is the value-weighted average of cumulative abnormal returns of the acquirer and target firms. Abnormal returns are calculated based on the market model. The dependent variable in Column (2) is the acquirer firms' cumulative abnormal returns. The dependent variable in Column (3) is the offer premiums (in percentage points). It is calculated as the offer price scaled by the target firm's stock price one day prior to the deal announcement. $Climate\ Law_{tgt}$ ($Climate\ Law_{acq}$) is a dummy variable that takes one if the target (acquirer) country has adopted a climate law in the deal announcement year, and zero otherwise. Control variables are defined in Appendix Table A.1. Regressions include year fixed effects, acquirer-target country-pair fixed effects, acquirer firm's industry fixed effects and target firm's industry fixed effects. Industries are defined at the two-digit SIC codes level. The sample period is from 1985 to 2019. t -statistics based on standard errors clustered at the country-pair and year level are reported in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

	Combined CAR (1)	Acquirer CAR (2)	Offer Premium (%) (3)
Climate Law _{tgt}	-0.062*** (-2.65)	-0.026 (-1.26)	-9.779** (-2.31)
Climate Law _{acq}	-0.030 (-0.48)	-0.060** (-2.10)	-2.966 (-0.82)
log(Deal Value)	0.001 (0.45)	-0.002 (-0.78)	-4.043*** (-5.22)
Related Industry	-0.002 (-0.26)	-0.011 (-1.38)	3.010 (1.47)
All Cash	0.007 (0.75)	0.017* (1.94)	0.183 (0.10)
Friendly Merger	-0.025 (-1.21)	-0.013 (-0.67)	0.454 (0.12)
Tender Offer	0.004 (0.55)	0.007 (0.72)	2.975 (1.31)
Competing Bidder	-0.025 (-1.23)	-0.017 (-0.87)	18.743*** (3.10)
$\Delta(\log \text{ GDP per capita})_{acq-tgt}$	-0.137 (-1.25)	-0.196 (-1.48)	14.106 (0.78)
$\Delta(\text{GDP Growth})_{acq-tgt}$	-0.318 (-0.98)	-0.192 (-0.52)	0.118 (0.00)
$\text{Max}(\text{Import, Export})_{acq,tgt}$	-0.350 (-1.36)	-0.084 (-0.36)	23.264 (0.71)
$\Delta(\text{Exchange Rate})_{acq-tgt}$	0.181 (1.52)	0.206 (1.38)	0.137 (0.73)
$\Delta(\text{Investment Profile})_{acq-tgt}$	0.006* (1.81)	0.004 (1.19)	-0.139 (-0.13)
$\Delta(\text{Quality of Institution})_{acq-tgt}$	-0.011* (-1.84)	-0.003 (-0.47)	-0.666 (-0.53)
$\Delta(\text{Growth of Domestic Deals})_{acq-tgt}$	-0.002 (-0.21)	-0.000 (-0.03)	-0.167 (-0.10)
Year FE	Yes	Yes	Yes
Country-pair FE	Yes	Yes	Yes
Acquirer Industry FE	Yes	Yes	Yes
Target Industry FE	Yes	Yes	Yes
Obs	643	643	2,510
Adjusted R ²	0.061	0.041	0.085

Table 10 Climate Laws and Acquirers' Performance Improvement

This table presents the effects of climate change laws on improvement in acquirers' operating performance following the acquisition. The performance change is defined as the acquirer's return-on-assets in year $t+3$ minus its return-on-assets in year $t-1$, where $t=0$ is the effective year of the acquisition. Return-on-assets is the ratio of net income to total assets and is adjusted by its median value in a given country-industry and year. *Climate Law_{tgt}* (*Climate Law_{acq}*) is a dummy variable that takes one if the target (acquirer) country has adopted a climate law in the year of the acquisition, and zero otherwise. Control variables are defined in Appendix Table A.1. Regressions include year fixed effects, acquirer-target country-pair fixed effects, acquirer firm's industry fixed effects, and target firm's industry fixed effects. Industries are defined at the two-digit SIC codes level. The sample period is from 1985 to 2019. t -statistics based on standard errors clustered at the country-pair and year level are reported in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

	$\Delta ROA_{t-1 \rightarrow t+3}$	
	(1)	(2)
Climate Law _{tgt}	-2.759*** (-2.89)	-2.675*** (-2.90)
Climate Law _{acq}	-0.883 (-0.85)	-0.448 (-0.37)
Acquirer Size		-0.335** (-2.26)
Acquirer B/M		-0.023 (-0.16)
Acquirer Leverage		4.551** (2.42)
Acquirer Cash Holdings		3.943* (2.05)
log(Deal Value)		-0.018 (-0.11)
Related Industry		-0.627* (-1.84)
All Cash		0.026 (0.06)
Friendly Merger		1.420 (1.47)
Tender Offer		1.297 (1.18)
Competing Bidder		1.498 (0.65)
$\Delta(\log \text{GDP per capita})_{\text{acq-tgt}}$		0.082 (0.02)
$\Delta(\text{GDP Growth})_{\text{acq-tgt}}$		-4.994 (-0.43)
$\text{Max}(\text{Import, Export})_{\text{acq-tgt}}$		-7.083 (-0.80)
$\Delta(\text{Exchange Rate})_{\text{acq-tgt}}$		-0.032 (-0.75)
$\Delta(\text{Investment Profile})_{\text{acq-tgt}}$		-0.371** (-2.17)
$\Delta(\text{Quality of Institution})_{\text{acq-tgt}}$		0.095 (0.24)
$\Delta(\text{Growth of Domestic Deals})_{\text{acq-tgt}}$		0.664 (1.72)
Year FE	Yes	Yes
Country-pair FE	Yes	Yes
Acquirer Industry FE	Yes	Yes
Target Industry FE	Yes	Yes
Obs	3,768	3,768
Adjusted R ²	0.038	0.048

Table 11 Political Affinity

This table presents how the political affinity between the acquirer and target countries affects the impacts of climate laws on cross-border acquisition activities. The dependent variable is the logarithm of one plus the total number of cross-border deals between the acquirer country and the target country. $Climate\ Law_{tgt}$ ($Climate\ Law_{acq}$) is a dummy variable that takes one if the target (acquirer) country has adopted a climate change-related law in a given year, and zero otherwise. Control variables are the same as in Table 2. Political affinity is measured by the similarity of the voting decisions made by the acquirer and target countries in the UN General Assembly, with higher values indicating closer political relations between two nations. This measure is constructed based on votes in one year (Columns (1) and (2)) or three years (Columns (3) and (4)) prior to the announcement of acquisitions. For each target country, all other countries are ranked based on the political affinity measure in a given year. The odd-numbered (even-numbered) columns present the results using subsamples where the affinity measure between the acquirer country and the target country is below (above) the sample median for a given target country and year. Detailed definitions are provided in Appendix Table A.1. Regressions include year fixed effects and acquirer-target country-pair fixed effects. The sample period is from 1985 to 2019. t -statistics based on standard errors clustered at the country-pair and year level are reported in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

	Log (1+ #Cross-border Deals)			
	1-year UN Votes		3-year UN Votes	
	Low Affinity (1)	High Affinity (2)	Low Affinity (3)	High Affinity (4)
$Climate\ Law_{tgt}$	-0.044** (-2.46)	-0.020 (-1.53)	-0.040** (-2.28)	-0.022* (-1.71)
$Climate\ Law_{acq}$	0.003 (0.16)	-0.015 (-1.15)	0.011 (0.61)	-0.026* (-2.02)
$\Delta(\log\ GDP\ per\ capita)_{acq-tgt}$	0.115*** (2.93)	0.037 (1.13)	0.122*** (3.15)	0.026 (0.89)
$\Delta(GDP\ Growth)_{acq-tgt}$	-0.097 (-0.78)	0.214** (2.09)	-0.086 (-0.70)	0.196* (2.04)
$Max(Import, Export)_{acq,tgt}$	1.387** (2.42)	0.477 (1.24)	1.383** (2.41)	0.333 (0.87)
$\Delta(Exchange\ Rate)_{acq-tgt}$	-0.001 (-0.10)	-0.058** (-2.40)	0.001 (0.12)	-0.061** (-2.54)
$\Delta(Investment\ Profile)_{acq-tgt}$	0.002 (0.64)	0.004 (1.49)	0.003 (0.97)	0.004 (1.38)
$\Delta(Quality\ of\ Institution)_{acq-tgt}$	-0.009** (-2.20)	0.004 (0.97)	-0.012*** (-2.84)	0.005 (1.31)
$\Delta(Growth\ of\ Domestic\ Deals)_{acq-tgt}$	-0.005* (-1.96)	-0.001 (-0.57)	-0.004* (-1.72)	-0.001 (-0.58)
Year FE	Yes	Yes	Yes	Yes
Country-pair FE	Yes	Yes	Yes	Yes
Obs	15,183	20,477	15,173	20,487
Adjusted R ²	0.561	0.644	0.564	0.643

Table 12 Acquirers' Climate Change Attitudes and Experience

This table presents how acquiring firms' attitudes about climate change and their experience of climate disasters affect the relation between climate laws and cross-border acquisition activities. The dependent variable is the logarithm of one plus the annual number of cross-border deals between the acquirer country and the target country. *Climate Law_{tgt}* (*Climate Law_{acq}*) is a dummy variable that takes one if the target (acquirer) country has adopted a climate change-related law in a given year, and zero otherwise. In Columns (1) and (2), *High Concerns_{acq}* is an indicator that equals one if the climate concern measure in the acquirer country is above the sample median. The degree of climate concerns in the acquirer country is measured by people's average perception of the seriousness of global warming using the World Values Survey. In Columns (3) and (4), *Climate Disasters_{acq}* is an indicator that equals one if the acquirer country experienced significant climate disasters with total damage exceeding \$100 million within three years before the deal announcement. Climate disasters include drought, extreme temperature, flood, landslide, storm, and wildfire. Control variables are the same as in Table 2. Detailed definitions are provided in Appendix Table A.1. Regressions include year fixed effects and acquirer-target country-pair fixed effects. The sample period is from 1985 to 2019. *t*-statistics based on standard errors clustered at the country-pair and year level are reported in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

	Log (1+ #Cross-border Deals)			
	Climate Concerns		Climate Disaster Experience	
	(1)	(2)	(3)	(4)
Climate Law _{tgt} ×High Concerns _{acq}	0.039** (2.33)	0.063*** (3.69)		
Climate Law _{tgt} ×Climate Disasters _{acq}			0.029*** (2.65)	0.032*** (2.93)
Climate Law _{tgt}	-0.061*** (-3.80)	-0.065*** (-4.09)	-0.050*** (-4.54)	-0.048*** (-4.13)
Climate Disasters _{acq}			-0.003 (-0.38)	-0.008 (-0.90)
Climate Law _{acq}	0.049** (2.43)	0.027 (1.58)	-0.003 (-0.27)	-0.012 (-1.08)
Δ(log GDP per capita) _{acq-tgt}		0.138*** (4.42)		0.079*** (2.94)
Δ(GDP Growth) _{acq-tgt}		-0.081 (-0.61)		0.005 (0.05)
Max(Import, Export) _{acq,tgt}		1.159** (2.65)		1.187*** (3.03)
Δ(Exchange Rate) _{acq-tgt}		-0.015 (-1.04)		-0.015 (-1.40)
Δ(Investment Profile) _{acq-tgt}		0.002 (0.71)		0.002 (1.10)
Δ(Quality of Institution) _{acq-tgt}		-0.001 (-0.23)		-0.001 (-0.34)
Δ(Growth of Domestic Deals) _{acq-tgt}		-0.001 (-0.76)		-0.003** (-2.21)
Year FE	Yes	Yes	Yes	Yes
Country-pair FE	Yes	Yes	Yes	Yes
Obs	22,765	22,765	38,447	38,447
Adjusted R ²	0.600	0.603	0.607	0.609

Table 13 Subsidies in Climate Laws

This table presents how the effects of climate laws on cross-border acquisitions depend on government subsidies specified in these regulations. The dependent variable is the logarithm of one plus the number of cross-border mergers and acquisitions. *Subsidy-free Climate Law_{tgt}* (*Subsidy-free Climate Law_{acq}*) is a dummy variable that takes one if the target (acquirer) country has adopted climate laws not specifying subsidies in a given year, and zero otherwise. *Subsidy-embedded Climate Law_{tgt}* (*Subsidy-embedded Climate Law_{acq}*) is a dummy variable that takes one if the target (acquirer) country has adopted climate laws specifying subsidies in a given year, and zero otherwise. Control variables are the same as in Table 2. Detailed definitions are provided in Appendix Table A.1. Regressions include year fixed effects and acquirer-target country-pair fixed effects. The sample period is from 1985 to 2019. *t*-statistics based on standard errors clustered at the country-pair and year level are reported in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

	Log(1+#Cross-border Deals)		
	(1)	(2)	(3)
Subsidy-free Climate Law _{tgt}	-0.042*** (-3.63)		-0.044*** (-3.56)
Subsidy-free Climate Law _{acq}	-0.021 (-1.51)		-0.021 (-1.42)
Subsidy-embedded Climate Law _{tgt}		0.004 (0.31)	-0.008 (-0.68)
Subsidy-embedded Climate Law _{acq}		0.007 (0.59)	0.001 (0.11)
$\Delta(\log \text{ GDP per capita})_{\text{acq-tgt}}$	0.085*** (3.16)	0.086*** (3.22)	0.083*** (3.11)
$\Delta(\text{GDP Growth})_{\text{acq-tgt}}$	0.010 (0.10)	0.003 (0.03)	0.009 (0.09)
$\text{Max}(\text{Import, Export})_{\text{acq,tgt}}$	1.124*** (2.89)	1.132*** (2.91)	1.129*** (2.92)
$\Delta(\text{Exchange Rate})_{\text{acq-tgt}}$	-0.012 (-1.18)	-0.014 (-1.31)	-0.013 (-1.23)
$\Delta(\text{Investment Profile})_{\text{acq-tgt}}$	0.002 (1.08)	0.003 (1.14)	0.002 (1.10)
$\Delta(\text{Quality of Institution})_{\text{acq-tgt}}$	-0.001 (-0.53)	-0.002 (-0.62)	-0.001 (-0.50)
$\Delta(\text{Growth of Domestic Deals})_{\text{acq-tgt}}$	-0.003* (-2.04)	-0.003** (-2.17)	-0.003** (-2.06)
Year FE	Yes	Yes	Yes
Country-pair FE	Yes	Yes	Yes
Obs	38,447	38,447	38,447
Adjusted R-squared	0.609	0.608	0.609

Appendix

Table A.1 Variable Definitions

This table describes detailed variable definitions and corresponding data sources.

Variable	Definition	Sources
<i>Cross-border M&A Activities</i>		
$\text{Log}(1 + \# \text{Cross-border Deals}_{ijt})$	Logarithm of one plus the total number of cross-border deals between acquirer country j and target country i in year t	SDC
$\text{Log}(1 + \$ \text{Amount of Cross-border Deals}_{ijt})$	Logarithm of one plus the total dollar amount of cross-border deals between acquirer country j and target country i in year t	SDC
$I(\text{Cross-border Deals}_{ijt})$	A dummy variable that takes one if any cross-border deal occurs between acquirer country j and target country i in year t , and zero otherwise	SDC
<i>Country-level Variables</i>		
Climate Law_{tgt}	A dummy variable that takes one if the target country has adopted climate laws in a given year, and zero otherwise	CCLW, CPD, ECOLEX, World Bank
Climate Law_{acq}	A dummy variable that takes one if the acquirer country has adopted climate laws in a given year, and zero otherwise	CCLW, CPD, ECOLEX, World Bank
$\Delta(\log \text{GDP per capita})_{acq-tgt}$	Difference in log GDP per capita between the acquirer and target countries	Penn World Table
$\Delta(\text{GDP Growth})_{acq-tgt}$	Difference in annual growth rates of real GDP between the acquirer and target countries	Penn World Table
$\text{Max}(\text{Import, Export})_{acq,tgt}$	The maximum of bilateral imports and exports between a country pair, where bilateral import (export) is calculated as the value of imports (exports) by the target country from (to) the acquirer country as a percentage of total imports (exports) by the target country	UN Comtrade
$\Delta(\text{Exchange Rate})_{acq-tgt}$	Difference in exchange rates of local currencies to the US dollar between the acquirer and target countries	Penn World Table
$\Delta(\text{Investment Profile})_{acq-tgt}$	Difference in investment profile between the acquirer and target countries, where the investment profile is a ICRG Political Risk component, and is calculated based on an assessment of three factors affecting the risk to investment: contract viability/expropriation, profits repatriation, and payment delays. Each subcomponent is scored on a scale from zero to four, with a higher score indicating	ICRG

	lower risk.	
$\Delta(\text{Quality of Institution})_{\text{acq-tgt}}$	Difference in the quality of institution between the acquirer and target countries, where the quality of institution is measured by the sum of three ICRG Political Risk subcomponents: Corruption, Law and Order, and Bureaucratic Quality	ICRG
$\Delta(\text{Growth of Domestic Deals})_{\text{acq-tgt}}$	Difference in the annual growth rate of the number of domestic acquisition deals between the acquirer country and the target country	SDC
$\text{Climate Law Stringency}_{\text{tgt}}$	Measure of the stringency of climate policies in the target country based on the environmental policy stringency index proposed by Kruse et al. (2022).	Kruse et al. (2022)
$\text{Climate Law Stringency}_{\text{acq}}$	Measure of the stringency of climate policies in the acquirer country based on the environmental policy stringency index proposed by Kruse et al. (2022).	Kruse et al. (2022)
<i>Deal-level Variables</i>		
Combined CAR	Cumulative abnormal returns of the combined firm over a five-day window around the deal announcement. It is calculated as the weighted average of cumulative abnormal returns of the acquirer and target firms, where the weights are the market capitalization of the acquirer firm and the target firm three days prior to deal announcements. Abnormal returns are calculated from the market model, where returns of the market index of the corresponding country are used as the market return. The estimation window begins two hundred fifty days before deal announcements and ends ten days before deal announcements, where at least twenty valid observations are required for the estimation.	Datastream
Acquirer CAR	Abnormal returns of the acquirer firm over a five-day window around the deal announcement.	Datastream
Offer Premium (%)	Offer price relative to the target firm's stock price one day prior to the deal announcement	SDC
$\text{Log}(\text{Deal Value})$	Logarithm of the dollar value (in millions USD) of acquisition deals	SDC
Related Industry	A dummy variable that equals one if the acquirer and the target share the same two-digit SIC industry, and zero otherwise	SDC
All Cash	A dummy variable that equals one if all the consideration offered by the acquirer to the target is in the form of cash, and zero otherwise	SDC
Friendly Merger	A dummy variable that equals one if SDC classifies the merger as friendly, and zero otherwise	SDC
Tender Offer	A dummy variable that equals one if the acquisition is in the form of a tender offer, and zero otherwise	SDC
Competing Bidder	A dummy variable that equals one if there exists a competing bidder in an acquisition deal, that is, a third party launched an offer for the target while this original bid was pending, and zero otherwise	SDC
<i>Firm-level Variables</i>		

Acquirer Size	Logarithm of book value of the acquirer firm's total assets	Worldscope
Acquirer B/M	Ratio of book value of acquirer firm's total assets to the market value of its total assets	Worldscope
Acquirer Leverage	Ratio of book value of acquirer firm's total debt to the book value of its total assets	Worldscope
Acquirer Cash Holdings	Ratio of cash and short-term investments held by the acquirer firm to the book value of its total assets	Worldscope
ΔROA	The change in an acquirer's return-on-assets from the year before the acquisition to three years following the acquisition. Return-on-assets is the ratio of net income to total assets, which is adjusted by the median value in a given country-industry and year.	Worldscope

Internet Appendix:

The “Chilling” Effect of Climate Laws on Cross-Border Mergers and Acquisitions

Online Posting; Not for Publication

Table IA.1 List of Climate Laws

Panel A of this table lists the first climate law in each country. The information is collected from Climate Change Laws of the World, the Climate Policy Database, ECOLEX, and the World Bank. Panel B of this table shows examples of national climate laws.

Panel A

Country/Region	Year	Title of Climate Law
Albania	2014	Regulation on the Reduction and Stabilization of Discharges of Fluorinated Greenhouse Gases
Algeria	2003	National Plan of Action and Adaptation to Climate Change
Andorra	2014	Andorra’s Adaptation Process to Climate Change (PAACC)
Argentina	1991	Establishment of the National Commission for Global Change of the Terrestrial Climate System
Australia	1989	Ozone Protection and Synthetic Greenhouse Gas Management Act
Austria	2002	Climate Strategy
Bahamas	2005	National Policy for the Adaptation to Climate Change
Bahrain	2007	Establishment of the Joint Committee on Climate Change
Bangladesh	2009	Bangladesh Climate Change Strategy and Action Plan
Barbados	2012	National Climate Change Policy
Belarus	2010	Regulation on Some GHG Emission Reduction Issues
Belgium	2010	National Climate Change Adaptation Strategy
Belize	2014	National Climate Change Policy, Strategy and Action Plan
Benin	2003	Establishment, powers and functioning of the National Committee on Climate Change
Bhutan	2012	National Strategy and Action Plan for Low Carbon Development
Bolivia	1999	Establishment of the Interinstitutional Council on Climate Change
Brazil	1991	National Programme for Energy Efficient Use of Petroleum and Natural Gas Derivatives
Brunei Darussalam	2019	Brunei Darussalam National Climate Change Policy
Bulgaria	2014	Climate Change Mitigation Act
Burundi	2013	National Strategy and Action Plan on Climate Change

Cabo Verde	2017	Implement of the Agreement on Climate Change
Cambodia	2013	Cambodia Climate Change Strategic Plan
Canada	1999	GHG Emission Reduction Trading Pilot
Chile	2014	National Climate Change Adaptation Plan
China	2013	The National Strategy for Climate Change Adaptation
Colombia	2012	National Plan for Climate Change Adaptation
Cook Islands	2013	Climate and Disaster Compatible Development Policy
Costa Rica	2009	National Climate Change Strategy
Côte d'Ivoire	2014	National Climate Change Program
Croatia	2013	Regulation on the Adoption of the Plan for the Air Protection, Protection the Ozone layer and Climate Change Mitigation
Cuba	2017	Tarea Vida Plan to Face Climate Change
Cyprus	2020	Cyprus' Integrated National Energy and Climate Plan
Czechia	2004	National Programme to Abate the Climate Change Impacts
Denmark	1992	The CO2 Tax Act
Dominica	2002	National Climate Change Adaptation Policy
Dominican Republic	2011	Strategic Plan for Climate Change
Ecuador	1999	Establishment of the National Climate Committee
Egypt	2011	Egypt's National Strategy for Adaptation to Climate Change and Disaster Risk Management
El Salvador	2013	The National Climate Change Strategy
Estonia	2000	Pollution Charge Act
Eswatini	2014	National Climate Change Strategy and Action Plan
Ethiopia	2010	Ethiopian Programme of Adaptation to Climate Change
Fiji	2012	National Climate Change Policy
Finland	1990	Amendment of the Act on Fuel Tax
France	2004	Climate Plan France
Gabon	2012	National Climate Plan
Gambia	2016	Climate Change National Policy
Georgia	2021	Georgia's Action Plan for Climate Change Mitigation
Germany	2000	National Climate Protection Program
Ghana	2012	National Climate Change Adaptation Strategy
Greece	2003	National Program for the Reduction of Greenhouse Gas Emissions
Grenada	2007	National Climate Change Policy and Action Plan

Guatemala	2009	Climate Change Policy
Guinea	2019	National Strategy on Climate Change of Guinea
Guyana	2001	Climate Change Action Plan
Haiti	2019	National Policy to Fight Climate Change
Honduras	2010	National Climate Change Strategy
Hungary	2005	Act No. XV of 2005 on Greenhouse Gas Emission Allowance Trading
Iceland	2007	Act no. 65/2007 on the Emission of Greenhouse Gases
India	2008	National Action Plan on Climate Change
Indonesia	2005	Regulation 206/2005 Establishing National Committee for Clean Development Mechanism
Iran	2015	Regulation on Measures Regarding a Common National Program to Reduce Greenhouse Gas Emissions
Iraq	2013	Oil and Gas Corporate Tax
Ireland	2000	National Climate Change Strategy
Israel	2008	The Israeli' Emissions Reduction National Plan
Italy	1998	Provisions on GHG Emissions Reduction
Jamaica	2015	Climate Change Policy Framework for Jamaica
Japan	1998	Act on Promotion of Global Warming Countermeasures
Jordan	2013	National Climate Change Policy of the Hashemite Kingdom of Jordan
Kazakhstan	2012	Regulation on Issuance of Quotas for Emissions of Greenhouse Gases
Kenya	2012	National Climate Change Response Strategy
Kiribati	2013	National Framework for Climate Change and Climate Change Adaptation
Korea	1999	First Comprehensive Action Plan for Climate Change Policy
Kosovo	2014	Strategy on Climate Change
Kyrgyzstan	2007	State Regulation and Policy in the Field of Emission and Absorption of Greenhouse Gases
Laos	2010	National Strategy on Climate Change
Latvia	2004	Tax on Carbon Dioxide
Lesotho	2018	National Climate Change Policy
Liberia	2018	National Policy and Response Strategy on Climate Change
Liechtenstein	2007	Climate Protection Strategy
Lithuania	2012	The Strategy for the National Climate Change Management Policy
Luxembourg	2000	National Strategy to Reduce GHG Emissions
Madagascar	2010	National Climate Change Policy
Malawi	2012	National Climate Change Policy

Malaysia	2010	National Policy on Climate Change
Maldives	2010	Strategic National Action Plan for Disaster Risk Reduction and Climate Change Adaptation
Mali	2011	National Policy on Climate Change
Malta	2009	National Strategy for Policy and Abatement Measures Relating to the Reduction of Greenhouse Gas Emissions
Marshall Islands	2006	Climate Change Strategic Plan
Mauritius	2020	Climate Change Act
Mexico	2007	National Climate Change Strategy
Micronesia	2009	Nationwide Climate Change Policy
Moldova	2014	Climate Change Adaptation Strategy
Mongolia	2000	National Action Programme on Climate Change
Montenegro	2015	National Strategy in the Field of Climate Change
Morocco	2009	National Plan Against Climate Change
Mozambique	2010	National Strategy for Climate Change
Myanmar	2009	National Sustainable Development Strategy
Namibia	2010	National Policy on Climate Change for Namibia
Nauru	2015	Framework for Climate Change Adaptation and Disaster Risk Reduction
Nepal	2011	Climate Change Policy
Netherlands	2007	National Programme for Spatial Adaptation to Climate Change
New Zealand	2002	Climate Change Response Act
Nicaragua	1999	Establishment of the Climate Change Commission
Niger	2012	National Policy on Climate Change
Nigeria	2012	Nigeria Climate Change Policy Response and Strategy
Niue	2009	National Climate Change Policy
Norway	1991	CO2 Tax
Oman	2016	Regulations on Climate Change Management
Pakistan	2012	National Climate Change Policy
Palau	2015	Palau Climate Change Policy
Panama	2007	National Climate Change Policy
Papua New Guinea	2014	National Climate Change Compatible Development Management Policy
Paraguay	2001	National Climate Change Program
Peru	2003	National Strategy on Climate Change
Philippines	2009	The Climate Change Act

Poland	1990	Environmental Protection Act
Portugal	2004	Government Resolution No. 119/2004 on Climate Change National Programme
Romania	2013	National Climate Change Strategy
Russia	2013	Regulation on Greenhouse Gas Emission Reduction
Rwanda	2011	Green Growth and Climate Resilience National Strategy on Climate Change and Low Carbon Development
Saint Lucia	2005	National Climate Change Adaptation Policy
Samoa	2007	National Policy of Combating Climate Change
Seychelles	2009	Seychelles National Climate Change Strategy
Sierra Leone	2015	Climate Change Strategy and Action Plan
Singapore	2016	Climate Action Plan
Slovakia	2004	Act on Trading of Emission Quotas
Slovenia	1996	CO2 Tax Charged for the Use of Fossil Fuels
Solomon Islands	2012	National Climate Change Policy
Somalia	2020	National Climate Change Policy
South Africa	2004	A National Climate Change Response Strategy
Spain	1998	Establishment of the National Climate Council
Sri Lanka	2010	National Climate Change Policy
Suriname	2015	National Climate Change Policy, Strategy and Action Plan
Sweden	1991	Carbon Tax and Related Regulations
Switzerland	2000	CO2 Act
Taiwan	2015	Greenhouse Gas Emission Reduction and Administration Act
Tajikistan	2003	National Action Plan for Climate Change Mitigation
Tanzania	2012	National Climate Change Strategy
Thailand	2007	Establishment of the Greenhouse Gas Management Organization
Timor-Leste	2011	National Programme for the Adaptation to Climate Changes
Tonga	2010	Joint National Action Plan on Climate Change Adaptation and Disaster Risk Management
Trinidad and Tobago	2006	National Environmental Policy
Tunisia	2007	National Sustainable Development Strategy
Turkey	2010	National Climate Change Strategy
Turkmenistan	2012	National Climate Change Strategy
Tuvalu	2012	Te Kaniva: Tuvalu National Climate Change Policy
Uganda	2015	National Climate Change Policy

Ukraine	2011	Tax Code of Ukraine Amendments of 2011
United Arab Emirates	2015	UAE Green Growth Strategy
United Kingdom	2000	UK Climate Change Programme
United States	1990	Clean Air Act Amendments of 1990
Uruguay	2005	Environmental Impact Assessment Uruguay
Vanuatu	2015	Vanuatu Climate Change and Disaster Risk Reduction Policy
Venezuela	2006	Organic Law of Environment No 5833
Viet Nam	2008	National Target Programme to Respond to Climate Change
Zambia	2006	Zambia Vision 2030
Zimbabwe	2015	National Climate Change Response Strategy

Panel B

Country	Summary of First National Climate Law
China	The Chinese government released its first National Climate Change Adaptation Plan in 2013. Not only does the Plan provide clear guidelines and principles for climate change adaptation, but it also proposes specific adaptation objectives. The Plan was replaced by the National Strategy on Climate Adaptation 2035 published in 2022.
Finland	The 1990 Amendment of the Act on Fuel Tax in Finland introduced a carbon tax of EUR1.12 (USD1.41) per tonne of CO2 equivalent. As a result, Finland became the first country worldwide to implement a carbon tax. The carbon tax law in Finland was amended several times, and in 2021 the carbon tax in Finland was EUR62 (USD73) per ton of CO2 equivalent.
Mexico	The National Climate Change Strategy in Mexico was introduced in 2007. The goal of the Strategy is to reduce emissions by 30% by 2020 with respect to the business-as-usual scenario, and by 50% by 2050, as compared with emissions in 2000. To facilitate the reduction of greenhouse gas emissions, the Strategy sets out multiple measures such as reducing power consumption intensity and accelerating energy transition towards green energy sources.
New Zealand	Climate Change Response Act 2002 in New Zealand established a national inventory agency to record and report greenhouse gas emissions. According to this act, any corporate that fails to provide the required information to the inventory agency is liable on conviction to a fine up to NZD30,000. The 2008 Amendment to this Act launched the Emissions Trading Scheme (ETS) in New Zealand.
United States	The Clean Air Act Amendments of 1990 in the U.S. required electric utilities to monitor and report their CO2 emissions to the federal Environmental Protection Agency (EPA). Utilities are also required to make such information available to the general public. In addition, the Amendment introduced a market-based cap and trade program, where the program imposes a permanent cap on the total amount of SO2 that electric power plants nationwide may emit. The Amendment also encouraged development and sale of alternative fuels such as renewable fuels that do not produce carbon dioxide.

Table IA.2 Number of Cross-Border Mergers by Country Pair of Top Target and Acquirer Countries

This table presents the total number of cross-border acquisition deals from 1985 to 2019 by country pair of top target and acquirer countries. The columns represent the top 20 target countries in terms of the total number of inbound mergers and acquisitions. For each of the top target countries, we identify the top 20 acquirer countries based on the total number of cross-border deals. The rows list countries that are among the top 20 acquirer countries for at least one of the top target countries. The data filters used to create our test sample are described in Section 3.2.

Acquirer Country	Top Target Countries																			
	AUS	BRA	CAN	CHE	CHN	DEU	DNK	ESP	FRA	GBR	HKG	IND	ITA	MEX	NLD	NOR	NZL	SGP	SWE	USA
Argentina (ARG)	0	24	0	0	0	1	0	1	0	0	0	0	2	1	0	0	0	0	0	9
Australia (AUS)		29	133	8	43	41	10	16	29	204	23	20	11	9	20	12	233	51	20	529
Austria (AUT)	3	4	4	7	1	36	1	7	8	17	0	4	7	0	6	1	2	1	7	27
Bahamas (BHS)	0	0	0	0	0	0	0	1	0	0	0	2	0	1	0	4	0	0	0	13
Belgium (BEL)	11	9	13	4	6	27	5	16	66	59	2	4	10	4	36	4	1	2	4	95
Brazil (BRA)	8		14	0	1	2	0	6	4	14	1	0	5	4	3	3	0	0	0	41
Canada (CAN)	204	82		23	51	69	10	36	83	272	19	15	20	207	39	17	34	6	42	2621
Chile (CHL)	2	32	6	0	1	1	1	2	0	1	0	0	0	5	1	0	0	0	0	11
China (CHN)	106	11	55	14		60	7	17	33	45	179	4	34	9	20	4	10	50	10	182
Colombia (COL)	0	4	4	0	0	0	0	0	0	0	0	0	0	6	1	0	0	0	0	10
Cyprus (CYP)	1	0	0	1	0	3	2	1	0	7	0	1	2	0	0	5	0	1	1	5
Denmark (DNK)	9	8	9	16	4	26		11	20	64	4	5	9	5	23	26	1	5	51	82
Finland (FIN)	7	7	9	6	8	42	22	3	21	39	3	7	11	1	20	35	2	3	98	91
France (FRA)	49	68	81	31	34	111	15	122		331	9	33	84	5	52	18	7	11	32	508
Germany (DEU)	51	23	36	47	16		20	53	105	237	5	45	45	6	51	25	6	7	45	434
Greece (GRC)	1	0	1	0	1	4	0	7	1	10	3	0	8	1	2	3	0	0	1	23
Hong Kong (HKG)	65	11	24	4	634	17	7	4	12	49		7	5	2	7	1	6	33	5	111
Iceland (ISL)	0	0	4	0	2	2	4	1	6	11	0	0	0	0	2	0	0	0	3	9
India (IND)	32	12	21	12	5	34	3	12	23	107	3		16	3	14	2	2	26	5	258
Indonesia (IDN)	6	0	1	0	7	0	0	0	1	5	2	0	1	0	0	0	0	13	0	5
Ireland (IRL)	28	11	23	2	7	26	6	11	26	363	1	6	7	7	43	3	2	2	11	283
Israel (ISR)	3	5	13	9	3	17	4	9	14	31	2	3	11	3	9	3	2	1	1	241
Italy (ITA)	15	38	16	17	8	59	3	67	94	94	1	10		7	25	6	0	3	10	139
Japan (JPN)	108	31	45	25	82	76	12	29	50	170	34	48	36	4	26	6	15	70	17	859
Luxembourg (LUX)	3	4	13	3	3	9	1	8	22	17	1	2	20	1	12	5	0	2	7	45
Malaysia (MYS)	52	1	11	3	40	10	1	1	1	36	29	20	5	0	10	3	10	112	1	34

Acquirer Country	Top Target Countries																			
	AUS	BRA	CAN	CHE	CHN	DEU	DNK	ESP	FRA	GBR	HKG	IND	ITA	MEX	NLD	NOR	NZL	SGP	SWE	USA
Mexico (MEX)	2	32	10	1	0	3	0	16	3	2	0	1	0		1	2	0	1	0	75
Netherlands (NLD)	37	19	39	11	11	59	12	40	51	167	2	13	36	3		14	7	5	26	272
New Zealand (NZL)	105	2	9	1	3	2	1	2	3	15	1	0	1	1	2	0		1	0	33
Norway (NOR)	11	14	14	6	1	22	68	16	22	71	1	6	4	0	10		2	9	155	81
Philippines (PHL)	10	1	2	0	6	2	0	3	0	6	3	1	0	5	0	1	2	6	1	18
Poland (POL)	0	2	5	1	1	19	3	7	1	4	0	1	3	0	2	1	0	1	3	4
Portugal (PRT)	0	32	0	0	1	5	0	36	7	4	0	1	1	0	0	1	0	0	1	3
Singapore (SGP)	132	6	7	9	139	11	3	2	5	63	60	23	4	1	8	8	20		4	110
South Africa (ZAF)	76	4	19	7	1	8	1	1	4	100	4	4	4	0	7	0	5	5	1	63
South Korea (KOR)	7	4	12	2	56	9	1	1	5	12	14	12	2	0	2	3	1	7	1	107
Spain (ESP)	13	63	8	5	6	27	2		60	60	1	7	49	23	13	3	0	1	7	102
Sweden (SWE)	28	9	24	27	10	82	107	34	68	186	5	13	31	5	54	134	2	9		272
Switzerland (CHE)	46	16	44		14	67	8	14	53	86	3	16	37	0	25	10	5	4	19	313
Taiwan (TWN)	0	2	7	2	77	11	2	0	2	10	12	1	2	2	3	1	0	13	1	75
Thailand (THA)	15	1	2	0	7	3	0	1	6	10	4	3	1	0	2	2	5	16	0	13
U.A.E (ARE)	4	1	8	0	1	4	1	3	0	15	0	11	2	1	5	0	1	4	0	7
U.K. (GBR)	468	71	332	82	66	511	102	235	515		60	75	203	25	381	121	54	55	191	3249
United States (USA)	607	242	1768	148	218	615	98	152	496	2154	114	174	201	157	254	119	91	77	208	

Table IA.3 Differential Effects on Within-industry vs. Cross-industry Acquisitions

This table presents the effects of climate laws on within- and cross-industry acquisition activities. In Columns (1) and (2), the dependent variable is the logarithm of one plus the number of within-industry and cross-industry cross-border deals, respectively. Within-industry deals refer to acquisitions in which the acquirer and the target belong to the same three-digit SIC industry. *Climate Law_{tgt}* (*Climate Law_{acq}*) is a dummy variable that takes one if the target (acquirer) country has adopted a climate change-related law in a given year, and zero otherwise. Control variables are the same as in Table 2. Detailed definitions are provided in Appendix Table A.1. Regressions include year fixed effects and acquirer-target country-pair fixed effects. The sample period is from 1985 to 2019. *t*-statistics based on standard errors clustered at the country-pair and year level are reported in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

	Log (1+ #Within-industry Cross-border Deals)	Log (1+ #Cross-industry Cross-border Deals)
	(1)	(2)
Climate Law _{tgt}	-0.013* (-1.68)	-0.020** (-2.56)
Climate Law _{acq}	-0.003 (-0.37)	-0.008 (-1.03)
$\Delta(\log \text{ GDP per capita})_{\text{acq-tgt}}$	0.045** (2.42)	0.048** (2.39)
$\Delta(\text{GDP Growth})_{\text{acq-tgt}}$	-0.015 (-0.25)	-0.000 (-0.01)
$\text{Max}(\text{Import, Export})_{\text{acq,tgt}}$	0.713** (2.63)	0.727** (2.56)
$\Delta(\text{Exchange Rate})_{\text{acq-tgt}}$	-0.008 (-1.34)	-0.010 (-1.30)
$\Delta(\text{Investment Profile})_{\text{acq-tgt}}$	0.002 (1.33)	0.001 (0.52)
$\Delta(\text{Quality of Institution})_{\text{acq-tgt}}$	-0.001 (-0.58)	0.000 (0.03)
$\Delta(\text{Growth of Domestic Deals})_{\text{acq-tgt}}$	-0.001 (-0.84)	-0.002** (-2.46)
Year FE	Yes	Yes
Country-pair FE	Yes	Yes
Obs	38,447	38,447
Adjusted R ²	0.517	0.527

Table IA.4 Alternative Samples

This table presents results based on alternative samples. The sample in Column (1) only includes deals that involve firms from the OECD countries and the BRICS countries. The sample in Column (2) only includes deals that involve firms from the Group of Twenty (G20). The dependent variable is the logarithm of one plus the annual number of cross-border deals between the acquirer country and the target country. *Climate Law_{tgt}* (*Climate Law_{acq}*) is a dummy variable that takes one if the target (acquirer) country has adopted a climate change-related law in a given year, and zero otherwise. Control variables are the same as in Table 2. Detailed definitions are provided in Appendix Table A.1. Regressions include year fixed effects and acquirer-target country-pair fixed effects. The sample period is from 1985 to 2019. *t*-statistics based on standard errors clustered at the country-pair and year level are reported in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

	Log (1+ #Cross-border Deals)	
	OECD and BRICS (1)	G20 (2)
Climate Law _{tgt}	-0.061*** (-3.70)	-0.047*** (-3.04)
Climate Law _{acq}	-0.014 (-0.92)	-0.012 (-0.70)
$\Delta(\log \text{ GDP per capita})_{\text{acq-tgt}}$	0.098** (2.63)	0.100** (2.53)
$\Delta(\text{GDP Growth})_{\text{acq-tgt}}$	0.034 (0.26)	-0.011 (-0.08)
Max(Import, Export) _{acq,tgt}	1.931*** (3.15)	2.063*** (3.01)
$\Delta(\text{Exchange Rate})_{\text{acq-tgt}}$	-0.062 (-0.71)	0.001 (0.05)
$\Delta(\text{Investment Profile})_{\text{acq-tgt}}$	0.005* (1.80)	0.006* (1.91)
$\Delta(\text{Quality of Institution})_{\text{acq-tgt}}$	0.002 (0.45)	-0.000 (-0.04)
$\Delta(\text{Growth of Domestic Deals})_{\text{acq-tgt}}$	-0.003 (-1.45)	-0.002 (-1.03)
Year FE	Yes	Yes
Country-pair FE	Yes	Yes
Obs	23,323	20,237
Adjusted R ²	0.680	0.683

Table IA.5 Climate Laws and Cross-Border Merger Activities: Excluding Confounding Events

This table presents the effects of climate laws on cross-border merger activities after eliminating the impacts of confounding events. The dependent variable is the incidence of cross-border deals between the acquirer and target countries in a given year, which is defined as the logarithm of one plus the annual number of cross-border deals between the acquirer country and the target country. $Climate\ Law_{tgt}$ ($Climate\ Law_{acq}$) is a dummy variable that takes one if the target (acquirer) country has adopted a climate change-related law in a given year, and zero otherwise. Control variables are the same as in Table 2. Detailed definitions are provided in Appendix Table A.1. Observations are excluded from the regressions if the target country initiated takeover laws or experienced labor reforms in the $[-2, +2]$ event window around its adoption of climate laws. Information about takeover laws and labor reforms is from Lel and Miller (2015) and Simintzi, Vig, and Volpin (2015), respectively. Columns (1) and (2) include year fixed effects and country fixed effects, while Column (3) includes year fixed effects and acquirer-target country-pair fixed effects. The sample period is from 1985 to 2019. t -statistics based on standard errors clustered at the country-pair and year level are reported in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

	Log (1+ #Cross-border Deals)		
	(1)	(2)	(3)
Climate Law _{tgt}	-0.029*** (-3.24)	-0.029*** (-3.08)	-0.027** (-2.48)
Climate Law _{acq}	0.008 (0.70)	-0.012 (-1.15)	-0.007 (-0.62)
$\Delta(\log \text{ GDP per capita})_{acq-tgt}$		0.016 (0.56)	0.059** (2.19)
$\Delta(\text{GDP Growth})_{acq-tgt}$		-0.003 (-0.03)	-0.055 (-0.56)
Max(Import, Export) _{acq,tgt}		2.935*** (13.92)	1.064** (2.62)
$\Delta(\text{Exchange Rate})_{acq-tgt}$		-0.018* (-1.87)	-0.016 (-1.52)
$\Delta(\text{Investment Profile})_{acq-tgt}$		0.003 (1.46)	0.002 (0.80)
$\Delta(\text{Quality of Institution})_{acq-tgt}$		-0.002 (-0.69)	-0.004 (-1.36)
$\Delta(\text{Growth of Domestic Deals})_{acq-tgt}$		-0.002 (-1.64)	-0.002 (-1.38)
Year FE	Yes	Yes	Yes
Acquirer Country FE	Yes	Yes	No
Target Country FE	Yes	Yes	No
Country-pair FE	No	No	Yes
Obs	31,863	31,863	31,863
Adjusted R ²	0.290	0.355	0.564

Table IA.6 Differential Effects of Climate Laws on Large and Small Deals

This table presents how the impacts of climate laws on cross-border acquisition activities are influenced by the possibility of government discretions as measured by deal size. In Columns (1) and (2), the dependent variable is the logarithm of one plus the number of cross-border mergers and acquisitions calculated based on large and small deals, respectively. Large (small) deals refer to acquisitions whose deal value is above (below) the median value of all cross-border acquisitions in a given target country and year. $Climate\ Law_{tgt}$ ($Climate\ Law_{acq}$) is a dummy variable that takes one if the target (acquirer) country has adopted a climate change-related law in a given year, and zero otherwise. Control variables are the same as in Table 2. Detailed definitions are provided in Appendix Table A.1. Regressions include year fixed effects and acquirer-target country-pair fixed effects. The sample period is from 1985 to 2019. t -statistics based on standard errors clustered at the country-pair and year level are reported in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

	Log (1+ #Large Cross- border Deals)	Log (1+ #Small Cross- border Deals)
	(1)	(2)
Climate Law _{tgt}	-0.023*** (-3.02)	-0.007 (-1.04)
Climate Law _{acq}	-0.000 (-0.01)	-0.009 (-1.34)
$\Delta(\log \text{ GDP per capita})_{acq-tgt}$	0.052** (2.49)	0.041*** (2.96)
$\Delta(\text{GDP Growth})_{acq-tgt}$	0.049 (0.73)	-0.052 (-0.94)
Max(Import, Export) _{acq,tgt}	0.829** (2.59)	0.636*** (2.83)
$\Delta(\text{Exchange Rate})_{acq-tgt}$	-0.005 (-0.91)	-0.012* (-1.72)
$\Delta(\text{Investment Profile})_{acq-tgt}$	0.001 (0.61)	0.002 (1.48)
$\Delta(\text{Quality of Institution})_{acq-tgt}$	-0.001 (-0.63)	-0.000 (-0.20)
$\Delta(\text{Growth of Domestic Deals})_{acq-tgt}$	-0.001 (-1.50)	-0.002* (-1.75)
Year FE	Yes	Yes
Country-pair FE	Yes	Yes
Obs	38,447	38,447
Adjusted R ²	0.527	0.482

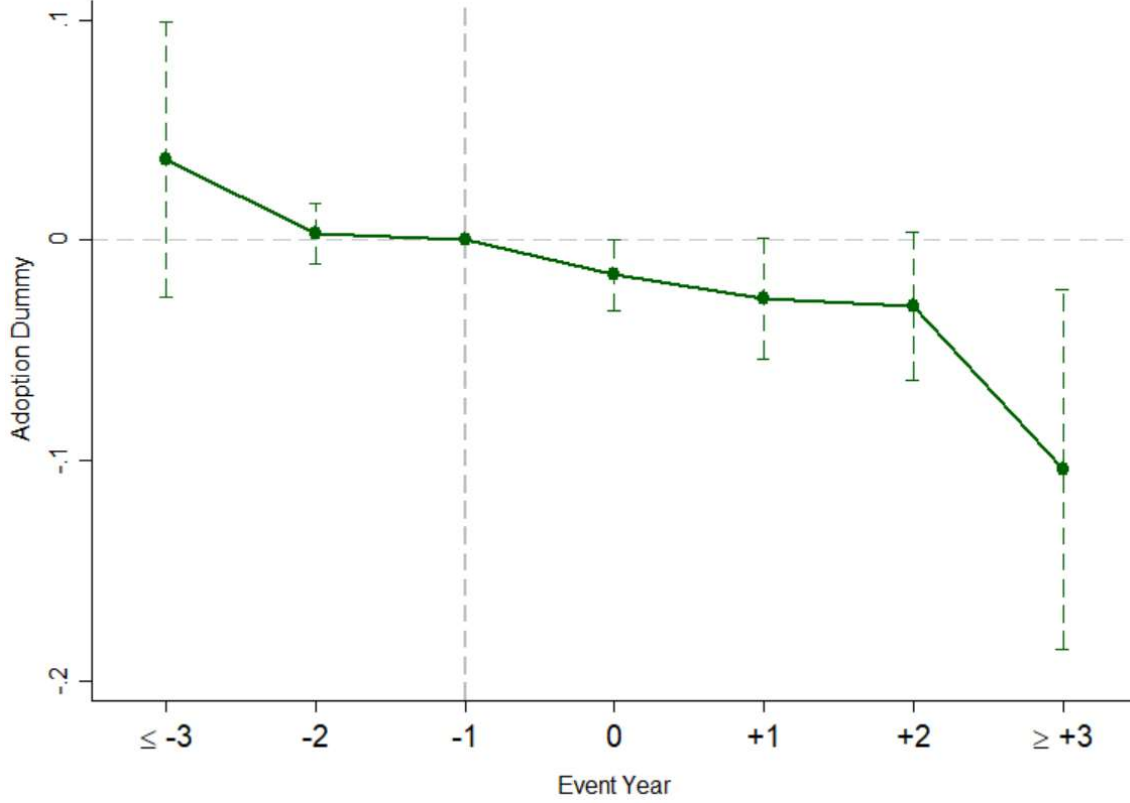
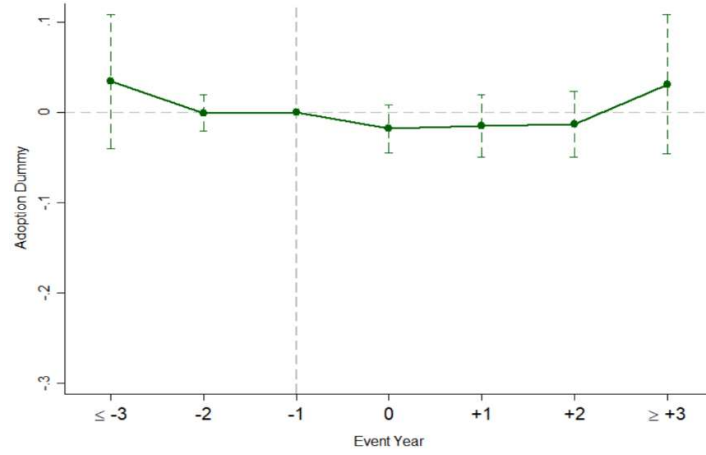


Figure IA.1 Dynamic Effects of Climate Laws on Carbon Emissions

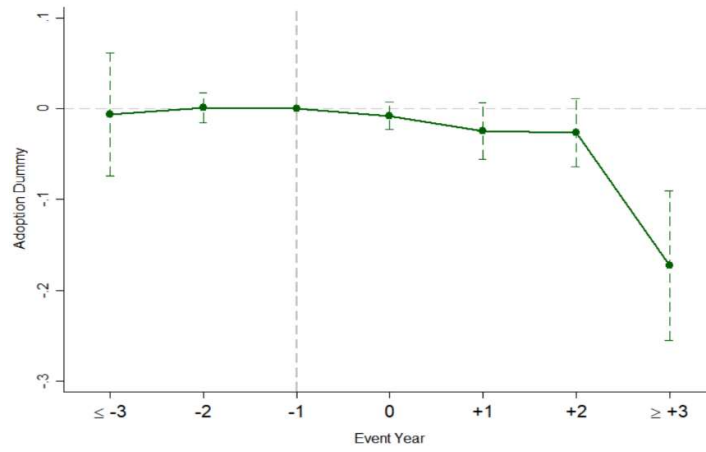
This figure demonstrates the responses in country-level CO₂ emissions around the adoption of climate laws. Specifically, it plots the $\hat{\beta}$ s (dots) and the corresponding 90% confidence intervals (dashed lines) estimated from the following regression:

$$y_{i,t} = \alpha + \beta_1 \text{Climate Law}_{i,t}^{-3} + \beta_2 \text{Climate Law}_{i,t}^{-2} + \beta_3 \text{Climate Law}_{i,t}^0 + \beta_4 \text{Climate Law}_{i,t}^{+1} + \beta_5 \text{Climate Law}_{i,t}^{+2} + \beta_6 \text{Climate Law}_{i,t}^{+3} + \mathbf{X}_{i,t-1}\gamma + \tau_t + \tau_i + \epsilon_{i,t},$$

where i denotes country and t denotes year. $y_{i,t}$ is the logarithm of CO₂ emissions in country i and year t . $\text{Climate Law}_{i,t}^{-3}$ is equal to one for years at least three years prior to country i 's adoption of the climate law; $\text{Climate Law}_{i,t}^{-2}$ is equal to one for the second year prior to the adoption; $\text{Climate Law}_{i,t}^0$ is equal to one for the year when country i adopts the climate law; $\text{Climate Law}_{i,t}^{+1}$ and $\text{Climate Law}_{i,t}^{+2}$ are equal to one for the first and the second year after the adoption, respectively. $\text{Climate Law}_{i,t}^{+3}$ is equal to one for years at least three years after the adoption. $\mathbf{X}$ represents the set of control variables, which include GDP per capita, squared GDP per capita, growth rate of GDP, total population, and the difference between total exports and total imports scaled by GDP. τ_t and τ_i denote year fixed effects and country fixed effects, respectively. Standard errors are clustered at the country level. The sample period is from 1985 to 2019. The data on CO₂ emissions is from the Our World in Data database.



(a) Effects of Cosmetic Climate Laws



(b) Effects of Substantive Climate Laws

Figure IA.2 Dynamic Effects of Different Types of Climate Laws on Carbon Emissions

This figure demonstrates the responses in country-level CO₂ emissions around the adoption of different types of climate laws. Specifically, it plots the $\hat{\beta}$ s (dots) and the corresponding 90% confidence intervals (dashed lines) estimated from the following regression:

$$y_{i,t} = \alpha + \beta_1 \text{Climate Law}_{i,t}^{-3} + \beta_2 \text{Climate Law}_{i,t}^{-2} + \beta_3 \text{Climate Law}_{i,t}^0 + \beta_4 \text{Climate Law}_{i,t}^{+1} + \beta_5 \text{Climate Law}_{i,t}^{+2} + \beta_6 \text{Climate Law}_{i,t}^{+3} + \mathbf{X}_{i,t-1}\gamma + \tau_t + \tau_i + \epsilon_{i,t},$$

where i denotes country and t denotes year. $y_{i,t}$ is the logarithm of CO₂ emissions in country i and year t . $\text{Climate Law}_{i,t}^{-3}$ is equal to one for years at least three years prior to country i 's adoption of the climate law; $\text{Climate Law}_{i,t}^{-2}$ is equal to one for the second year prior to the adoption; $\text{Climate Law}_{i,t}^0$ is equal to one for the year when country i adopts the climate law; $\text{Climate Law}_{i,t}^{+1}$ and $\text{Climate Law}_{i,t}^{+2}$ are equal to one for the first and the second year after the adoption, respectively. $\text{Climate Law}_{i,t}^{+3}$ is equal to one for years at least three years after the adoption. Subfigure (a) plots the effects of cosmetic climate laws, including the establishment of a regulatory committee and the introduction of national climate strategies or plans. Subfigure (b) displays the effects of substantive climate laws, such as the implementation of carbon taxes or other specific climate policies. $\mathbf{X}$ represents the set of control variables, which include GDP per capita, squared GDP per capita, growth rate of GDP, total population, and the difference between total exports and total imports scaled by GDP. τ_t and τ_i denote year and country fixed effects, respectively. Standard errors are clustered at the country level. The sample period is from 1985 to 2019. Carbon emission data is from the Our World in Data database.