

In the Eye of the Beholder: Institutions, Political Risk, and Emerging-Market Multinational Corporations*

Weiyi Shi[†]

Boliang Zhu[‡]

October 29, 2018

Abstract

Does institutional proximity make emerging-market multinational corporations (EMMNCs) from authoritarian countries favor politically risky environments abroad? We argue that the strategies firms employ to cope with political risks in authoritarian countries are often, due to a lack of institutionalized political access and credible commitments in those countries, extra-institutional; they require the accumulation of country-specific knowledge and political capital, and thus, are not easily transferable. Therefore, we expect that EMMNCs from authoritarian countries do not favor other autocracies and are sensitive to political risks in host countries. To substantiate our argument, we provide evidence from a vignette and a conjoint experiment based on Chinese multinationals and dyadic investment data. Our study adds nuance to the claim in the institutional distance literature that multinationals prefer host countries that are institutionally similar to their home country, and provides new insight into our understanding of the risk preferences of Chinese investors.

Key Words: Political Risk, Regime Type, Institutional Distance, Emerging-Market Multinational Corporations, Survey Experiments, China

*Author order is alphabetical and both authors contribute equally to the article. Earlier versions of the article were presented at the annual meetings of the American Political Science Association and the annual UC Conference on International Cooperation. We thank Yaoyao Dai, Qing Deng, and our team in China for excellent research assistance.

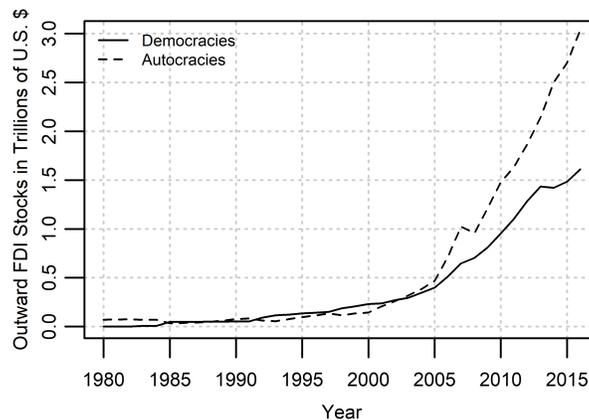
[†]Assistant Professor, School of Global Policy and Strategy, University of California, San Diego, La Jolla, CA 92093; w3shi@ucsd.edu.

[‡]Assistant Professor, Department of Political Science, Pennsylvania State University, University Park, PA 16802; bxz14@psu.edu.

1 Introduction

Since the beginning of the 21st century, the dynamics of global capital flows have changed significantly. Increasingly, global capital *originates* from developing and nondemocratic countries. According to the 2014 World Investment Report of the United Nations Conference on Trade and Development (UNCTAD), in 2013 developing and transition economies together invested \$553 billion, or 39% of global foreign direct investment (FDI) outflows, compared with only 12% at the beginning of the 2000s (UNCTAD 2014, vii). A substantial proportion of the outward FDI from developing countries comes from authoritarian countries and it continues to grow quickly. Since 2003 outward FDI stocks from developing autocracies have exceeded those from developing democracies, as shown in Figure 1.

Figure 1: Outward FDI Stocks from Developing Countries by Regime Type



Note: Data come from UNCTAD.

Our knowledge about these new multinational corporations (MNCs) from developing autocracies and their investment preferences and behaviors remains extremely limited. How do emerging-market multinational corporations' (EMMNCs) respond to political risks? Does capital from an authoritarian country favor other autocracies? A growing literature focusing on MNCs' home-country embeddedness and preference for institutional proximity suggests that, unlike traditional MNCs from advanced economies, EMMNCs' ownership advantages arise from their familiarity and experience with weak institutional environments at home (e.g., Athreye and Kapur 2009; Cuervo-Cazurra and Genc 2008; Holburn and Zelner 2010; Morck, Yeung and Zhao 2008). EMMNCs, having grown up in "tough

neighborhoods” themselves, are good at navigating risky business environments and thus invest disproportionately in countries with weak institutions.

Following this logic, we should expect that investors from autocracies specialize in destinations with similar institutional environments. That is, they should prefer to invest in other autocracies, where their experiences and abilities of coping with familiar weak institutional environments allow them greater success than in institutionally unfamiliar democracies. However, there have been few empirical tests for how institutional proximity influences EMMNCs’ preferences for investment destinations. Existing evidence on EMMNCs’ investment patterns is mainly drawn from *aggregate* FDI flow data, where the interactions of firm-, industry-, and country-level characteristics jointly determine the outcome. It thus provides little insight into how EMMNCs react to actual political risks.

Contrary to claims in the institutional proximity literature, we argue that experience with authoritarian institutions at home does not necessarily make investors favor other autocracies. In an autocracy, the means through which investors cope with political risks or gain policy influence are often *extra-institutional* (e.g., relying on political connections to enforce contracts or seek policy change). Amassing this political capital takes time. Deploying it for risk mitigation requires intimate knowledge of the political landscape specific to one’s home country. This sort of political capital and knowledge cannot be transferred easily from home to other countries and loses value in other institutional contexts. Further, firms’ home experience in an authoritarian country makes them highly aware of the uncertainties and limitations of extra-institutional strategies in risk mitigation. This is because the risk of politicians renegeing on *ex ante* agreements is high in an autocracy due to the lack of institutional constraints on leaders’ power. Therefore, we expect investors from autocracies to show no preference for other autocracies, and to remain sensitive to political risks in both democracies and autocracies.

To test our argument, we leverage both experimental and observational data. First, we use a vignette experiment embedded in an original firm survey conducted in China to assess Chinese investors’ responses to hypothetical business scenarios that vary along two dimensions—policy volatility¹ and political regime type. We focus on policy instability because this is a dimension of political risk that

¹In this paper, we use the following terms—policy volatility, policy instability, and policy uncertainty—interchangeably. They are all used to describe policy risk that arises from a lack of checks and balances on policy making.

remains a primary concern for foreign investors (Büthe and Milner 2008; Henisz and Zelner 2010; Jensen 2003; Kobrin 1984), but also because it occurs in both autocracies and democracies, arising primarily from a lack of checks and balances on policy-making and the process of political contestation (Henisz 2000*b*; Holburn and Zelner 2010; Kenyon and Naoi 2010; Knack and Keefer 1995). Our results show that Chinese MNCs have no preference for autocracy regardless of the level of policy uncertainty. In fact, when policy uncertainty is high, Chinese investors show a slight preference for entering a democratic country. These investors, however, are highly sensitive to the risk of policy uncertainty regardless of the host country's regime type.

Second, we use a conjoint experiment that allows us to estimate simultaneously the causal effects of different components of political and economic risks (Hainmueller, Hopkins and Yamamoto 2014). The conjoint analysis shows consistently that political regime type does not have a strong effect on Chinese investors' assessment of business environments. Chinese investors are sensitive to both economic and political risks ranging from policy instability to asset expropriation.

Finally, to assess the external validity of our experimental findings, we turn to bilateral FDI data collected by the UNCTAD. Using a sample of developing authoritarian capital exporters during 2001–2012, we find consistent evidence that direct investments from autocracies pour disproportionately to democracies and are significantly less likely to flow to countries with high political risk.

Our paper makes several contributions to the literature. First, our study provides a more nuanced understanding of the relationship between political risks and EMMNCs. The recent institutional distance/proximity literature suggests that EMMNCs' embeddedness in home institutions make them favor investing in countries with weak institutions and high political risk (e.g., Cuervo-Cazurra and Genc 2008; Holburn and Zelner 2010; Morck, Yeung and Zhao 2008). But firms' strategies for coping with political risks vary across institutional settings and by transferability, and this has been overlooked in the literature. We show here that political capabilities and strategies developed in one authoritarian country have little utility in others. In reality, EMMNCs from authoritarian countries favor democracies and are deterred by political risks in foreign markets. Institutional proximity provides few benefits for MNCs from authoritarian countries attempting to navigate politically risky business environments in other autocracies.

Our results also shed light on the behavior of Chinese investors. Since China adopted the “Go Out” policy in 2001 and the “One Belt One Road” initiative in 2013, Chinese firms have undertaken an unprecedented level of direct investment abroad. In 2016 China was ranked the second largest global investor after the United States (UNCTAD 2017, 14). Recent empirical studies, based mainly on aggregate FDI flow data, show that Chinese investment pours into countries with weak institutions and high political risk (Buckley, Clegg, Cross, Liu, Voss and Zheng 2007; Kolstad and Wiig 2012; Ramasamy, Yeung and Laforet 2012). Our firm-level experimental evidence suggests that Chinese investors, at least those that are privately owned, are sensitive to both economic and political risks in destination countries. This finding suggests that the correlation between political risk and Chinese FDI is driven neither by institutional proximity nor by risk-prone preferences.²

This study also adds in two ways to the debate about whether democracies or autocracies are better at attracting foreign investment (e.g., Ahlquist 2006; Jensen 2003, 2006; Li and Resnick 2003; Moon 2015; Oneal 1994; Resnick 2001). First, the argument for a democratic advantage has relied primarily on cross-national analyses of *aggregate* FDI data, but flow or stock data provides little insight into firms’ nuanced responses to institutional features.³ We contribute direct evidence from firm executives. Second, we take into account the heterogeneous sources of global capital. Given the surge of foreign investment from emerging markets, it is important to evaluate these investors in their own right since they may exhibit distinct preferences for institutional environments from their Western counterparts. We show that, at least from the perspective of privately owned Chinese investors, democracies are preferred by investors from authoritarian countries, although our results also suggest that regime type *per se* matters less than specific policy environments (see also Biglaiser and Staats 2010).

The paper proceeds as follows. In the next section, we briefly review the existing literature and present our argument. We then discuss the experimental design and the China Outward Direct Investment Survey. After that, we present empirical results about Chinese investors’ risk preferences

²It could be that opportunities for monopoly rent extraction drive certain Chinese investors into countries with rich natural resources (Wright and Zhu 2018), which tend to have poor institutions and high political risk (Jensen and Johnston 2011), or that financial backing from their state allows certain investors (e.g., state-owned enterprises (SOEs)) to take extra risks (Shi 2015). The rise of Chinese outward FDI coincides with the commodity boom that began with the new century. If Chinese FDI is mainly resource-seeking and these investments are primarily made by SOEs, we should observe a positive correlation between political risk and Chinese FDI.

³With aggregate data, size of investment and choice of destination are the only possible dependent variables.

and investment decisions in different business environments. Next, we turn to bilateral FDI data to examine the generalizability and external validity of our experimental results, and the paper concludes with a discussion of the limitations of this study and possible future research opportunities.

2 Institutions, Political Risk, and EMMNCs

Political economy theories of FDI start with the premise that footloose capital becomes relatively immobile after investment, and thus can become a hostage to the host government (Vernon 1971, 1980). Foreign investors are therefore vulnerable to political risks and favor countries with strong internal and external institutional constraints on the opportunistic and predatory behavior of host governments (e.g., Busse and Hefeker 2007; Büthe and Milner 2008; Henisz 2000*b*; Jensen 2003, 2006; Kerner 2009; Li and Resnick 2003; Neumayer and Spess 2005).

Mainstream theories of FDI are mainly based on the experience of MNCs from *advanced* countries. Recent studies on EMMNCs tend to suggest that they are more tolerant of political risk and invest disproportionately in countries with poor institutions (e.g., Child and Rodrigues 2005; Cuervo-Cazurra and Genc 2008; Holburn and Zelner 2010). This presents a puzzle to our conventional understanding of MNCs. For example, Cuervo-Cazurra and Genc (2008) find that MNCs from developing countries are more prevalent in those with political instability, poor regulatory quality, and weak control of corruption. Habib and Zurawicki (2002) show that the absolute level of corruption distance between the home and host countries has a strong negative impact on FDI inflows. China's emerging outward FDI epitomizes this puzzle. A growing—but still small—literature studying the determinants of Chinese outward FDI suggests that Chinese firms are attracted to politically risky destinations. Buckley et al. (2007) find that political risks in host countries are positively and strongly associated with Chinese FDI. Kolstad and Wiig (2012) show that Chinese investors are particularly attracted to countries rich in natural resources but with poor institutions.

The literature increasingly attributes MNCs' choice of investment destinations and market entry mode to the institutional distance/proximity between the MNC's home and the host country (e.g., Beazer and Blake 2018; Dean and Shenkar 2002; Eden and Miller 2004; Kostova and Zaheer 1999).

Because the institutional environment shapes firms' organizational practices, the transferability of these practices from the home to the host country depends on the similarity between these two institutional environments (Kostova 1999). The more dissimilar the MNC's home and the host country's institutions, the more "liability of foreignness" the MNC faces in the host country (Eden and Miller 2004; Kostova 1999).

Building on the institutional distance/proximity literature, some scholars have argued that EMMNCs' embeddedness in home countries make them favor conducting business in similarly weak institutional environments abroad (Cuervo-Cazurra and Genc 2008; Holburn and Zelner 2010; Morck, Yeung and Zhao 2008). Firms in emerging markets need to deal with unpredictable government policies, corrupt government officials, cumbersome administrative procedures, weak rule of law, and so on. Over time, they develop sophisticated means of coping with political risks and learn how to thrive in poor institutional environments. These political capabilities are transformed into ownership advantages for firms doing business in developing and transition countries with similar institutional environments. EMMNCs are thus attracted to politically risky destinations.

Yet empirical scrutiny of institutional proximity and EMMNCs' choice of investment location is limited and the existing empirical evidence is drawn primarily from aggregate FDI data—outcome variables resulting from the interactions of firm-, industry-, and country-level parameters. Therefore, they provide little insight into how EMMNCs actually perceive and respond to political risks in host countries. In this study, we address this issue by asking firm executives directly about their preferences for different business environments. The existing literature also overlooks the heterogeneity of institutions. The knowledge and political capabilities that firms acquire may be context-specific and lose value in another institutional environment.

3 Institutional Proximity and Risk Mitigation in Authoritarian Countries

To what extent does institutional proximity help EMMNCs cope with political risks in host countries? We argue that experience with authoritarian institutions in one's home country has limited benefits in

another autocracy. This is because, in the absence of institutionalized access to policy-making and leaders' abilities to make credible commitments, the strategies that firms employ to mitigate risks in an autocracy are often *extra-institutional*. That is, firms seek protection or policy influence through cultivating political connections. Yet political connections built in one country are inherently non-transferable to other institutional contexts. Further, building political connections requires an accumulation of highly country-specific knowledge and political capital that does not transfer easily. This accumulation is only possible with extensive experience in the host country.

Investors' strategies to cope with political risks depend on the institutional environment. We note two institutional features that set autocracies apart from democracies in shaping investors' risk mitigation strategies: (1) firms lack institutionalized access to policy-making in an autocracy; (2) autocratic leaders cannot make credible commitments in the absence of institutional constraints.

First, electoral competition, representation, and wide political participation in democracies provide institutionalized avenues for firms to demand influence on government policy. In the United States for example, lobbying the legislature and the bureaucracy is a constitutionally protected right of organizations and individuals.⁴ Interest groups spend billions of dollars a year on professional lobbyists in addition to campaign contributions. Private sector actors can usually influence public policy decisions in democratic regimes through legal, transparent, and institutionalized means (Jensen 2008). In contrast, power in an autocracy is concentrated in the hands of one political leader or a small ruling clique and political participation is limited (Bueno de Mesquita, Smith, Siverson and Morrow 2003; Geddes 2003; Linz 2000). Societal interests such as private businesses have few institutionalized channels to influence the actions of the government.⁵

Second, democracies and autocracies differ in terms of the credibility of their commitments. When firms succeed in influencing policy in a democracy, there are institutional mechanisms to effect and enforce the desired outcomes. Politicians in a democracy are constrained by checks and balances, transparency, and electoral accountability (Henisz 2000a; Jensen 2003; Tsebelis 1995). It is thus

⁴See, for instance, the precedent by *Citizens United v. FEC*, 558 U.S. 310 (2010).

⁵Note that we do not argue that firms in authoritarian countries do not lobby at all. Rather, we posit that firms in authoritarian countries lobby less and depend more on extra-institutional strategies to cope with political risks than their counterparts in democracies because of the lack of institutionalized access to policy-making processes and credible commitments in those countries.

difficult and costly to renege on a policy bargain in a democracy. For example, when the United States government increased scrutiny over user data stored in clouds, Microsoft sued the government in federal court for contravening the fourth amendment. In an autocracy, however, political leaders are relatively unconstrained and their policy commitments therefore lack credibility to private investors (North and Weingast 1989; Olson 1993). Even in stable autocracies with a long-time horizons (e.g., “stationary bandits” (Olson 1993)), the lack of institutional constraints on leaders’ power weakens the credibility of policy commitments (Li and Resnick 2003, 187).⁶

Consequently, the strategies that firms employ to cope with political risks in an autocracy are often extra-institutional. Instead of lobbying the government or seeking legal recourse, in an autocracy investors choose to mitigate political risks by build political connections (Dickson 2003; Hellman, Jones and Kaufmann 2003; Kang 2002; Tsai 2007). These connections can take the form of familial and personal ties or patronage networks where firms offer political loyalty in exchange for protection by the regime.

Political connections are pivotal for firms to influence policy and obtain favorable treatments in an authoritarian country (Ang and Jia 2014; Fisman 2001; Kennedy 2005). For example, under the Marcos regime in the Philippines, businesspeople with close links to his family obtained market monopolies and controlled key economic industries (Kang 2002, 140). In China, private firms rely on personal contract or political connections to secure property rights and they are eager to demonstrate loyalty to the government for material benefits (Chen and Dickson 2010; Kung and Ma 2018; Tsai 2007). In weak institutional environments, political connections help firms lower effective tax rates (Adhikari, Derashid and Zhang 2006), evade workplace safety oversight (Fisman and Wang 2015), get privileged access to bank financing (Malesky and Taussig 2009), obtain preferential benefits in the process of going public (Francis, Hasan and Sun 2009), and become more profitable (Li, Liu, Zhang and Ma 2007; Truex 2014).

⁶The recent literature suggests that the political institutions authoritarian countries establish to build support coalitions and share power could serve as credible constraints on autocratic leaders (e.g., Boix and Svulik 2013; Gandhi 2008; Gehlbach and Keefer 2012; Magaloni 2008; Svulik 2012; Wright 2008). However, whether constraints are effective hinges crucially on the distribution of power between the leader and the support coalition (Boix and Svulik 2013; Svulik 2012). When power is consolidated in the hands of the autocrat, political institutions do not provide effective constraints on the leader’s behavior. Our argument focuses on the broad distinction between authoritarian and democratic countries. Authoritarian leaders in general face fewer institutional constraints than their democratic counterparts.

Even if an investor has built connections successfully in the home country, however, it is difficult for her to do the same in other autocracies, for a few reasons. First, political connections are not transferrable across countries because they are tied to specific leaders or government officials. Second, building personal ties and political networks requires significant knowledge of the political landscape in the country and massive time and resources. Compared to pursuing transparent and institutionalized solutions, it takes an enormous amount of on-the-ground intelligence to know exactly who is in charge and how to break into political networks. For example, hiring former government officials as CEOs or senior executives is a common way to build political connections and is a strategy utilized in autocracies as well as democracies (Ang and Jia 2014; Fisman and Wang 2015), but being able to recruit the right people takes substantial in-country knowledge. Third, the experience of having built connections successfully in one autocracy does not necessarily help investors cultivating ties in another autocracy. The application of extra-institutional strategies is context-specific and depends on each country's idiosyncratic political landscape. This landscape not only varies by country, but also by regime and by individual leader. Even within the same country, when authoritarian leaders are replaced, existing political connections and networks are often destroyed, introducing significant uncertainty to firms' operations (Malesky and Samphantharak 2008). Sometimes, even a rumor about a political leader's health can dampen the returns of firms that are tied to that leader (Fisman 2001).

A firm's experience in an authoritarian home country can make it more aware of the uncertainty and limitations inherent in extra-institutional risk mitigation strategies. The risk of government officials reneging on these agreements is high due to the lack of checks and balances on their power. In the absence of a strong tradition of the rule of law, the agreed upon contracts or treatments that a firm obtains through personal ties or political networks are typically unenforceable in court. Although investors from an authoritarian country may be familiar with similar institutional settings in other autocracies—whether it is a rubber-stamping legislature, a spineless judiciary, or a corrupt bureaucracy—this familiarity can heighten their sensitivity to the uncertainty and risk embedded in authoritarian regimes. This heightened sensitivity in turn shapes investors' preferences toward the institutional environment of the host country.

Thus, we argue that the benefits of institutional proximity to investors are limited when both the

home and host countries lack credible institutions. Even if the two sets of institutions are risky in a similar way (e.g., both are autocracies), this proximity does not help investors mitigate political risks because effective mitigation relies on many country-specific, extra institutional factors. Furthermore, home experience can heighten investors' sensitivity to similar political risks abroad in the absence of credible institutions. Therefore, we hypothesize that:

H1: Investors from an autocracy show no preference for other autocracies.

H2: Investors from an autocracy are sensitive to political risks in both democracies and autocracies.

4 Research Design

To test our hypotheses about institutional proximity and EMMNCs, we adopt an experimental vignette design. In the experiment, we manipulate two dimensions of market characteristics in a foreign developing country—political regime type and level of policy uncertainty. We focus on policy uncertainty because this is a dimension of political risk that remains a primary concern for foreign investors (Henisz and Zelner 2010). It occurs across political systems and is most likely manipulated with institutional knowledge since policy (un)certainty stems from veto points in the political system (Henisz 2000*b*; Holburn and Zelner 2010; Knack and Keefer 1995). Although political regime type and policy (un)certainty are conceptually distinct, their effects on investors are difficult to measure independently using observational data.⁷ The experimental vignette approach allows us to construct hypothetical but realistic scenarios whose characteristics can be manipulated along key attributes of interest (Aguinis and Bradley 2014; Alexander and Becker 1978). The vignettes are described as follows:

“Country X is a middle income developing country with a population of 30 million. For the past three years its economy has grown at 4.5% per year on average. The leader of this country is/is not democratically elected. In the past few years, the country’s currency, fiscal, taxation, and tariff

⁷Since institutions are designed to shape human interaction including the behavior of political leaders (North 1990; North and Weingast 1989), they are likely to be confounded with political risks. Because of competitive elections, checks and balances, and the freedom of speech and association inherent in democracies (Dahl 1971), democratic leaders typically face more political constraints than their autocratic counterparts, and thus, they are less likely to engage in opportunistic or predatory behavior. Therefore, it is possible that political regime type is a confounder of political risks including policy uncertainty. We thus use an experimental vignette design to address the confounding issue.

policies have been stable/adjusted frequently.”

The 2×2 factorial design yields four distinct business environments: a democratic government with policy stability (V1), an autocratic government with policy stability (V2), a democratic government with policy instability (V3), and an autocratic government with policy instability (V4). In the vignettes, we do not use a real country name that may prime respondents to think about one particular institutional environment. The country is described as a developing country because China itself is a developing country and we want to maximize the institutional proximity that Chinese respondents perceive between their home and the hypothetical destination country. We keep the narrative concise so that respondents will be attentive to the characteristics of the business environment in the vignette. We expect that all other omitted information should only increase the variance in estimates due to complete randomization.⁸

Firm executives were randomly assigned one of the four vignettes. After reading the vignette, they were first prompted to rate, *from the perspective of their firms*, the attractiveness of the business environment in Country X on a scale from 1 (very bad) to 5 (very good). They were then asked to choose one of the following options to indicate whether their firm would invest in the described market and through which mode of market entry : (1) wholly owned subsidiary, (2) majority-owned joint venture (shareholding exceeds 50%), (3) minority-owned joint venture (shareholding is between 10% and 50%), (4) equity investment (shareholding is less than 10%), (5) would not invest, or (9) cannot answer.

The vignette experiment was embedded in the 2014 module of the China Outward Direct Investment Survey (CODIS). China provides a good case to test our hypotheses. First, China is an authoritarian country. China’s recent surge as a global investor allows us to examine whether investors from poor institutional environments prefer destinations with similar institutions. In the past, the literature focused mainly on multinationals from advanced democracies, because these firms made up the majority of the global capital flow. Second, based on findings from existing observational studies, China is also a case where we most expect to find supportive evidence for the value of institutional proxim-

⁸ANOVA analysis of differences of means suggests that all pre-treatment covariates are largely balanced across treatment groups. See Appendix V.

ity in mitigating political risk. Recent studies suggest that Chinese multinationals are different from their Western counterparts and they tend to be attracted to politically risky destinations (Buckley et al. 2007; Kolstad and Wiig 2012). One proposed explanation for the positive correlation between political risk and Chinese FDI is that their embeddedness in an authoritarian country with weak institutions given them ownership advantages when operating in similar institutional environments (Buckley et al. 2007; Morck, Yeung and Zhao 2008). However, existing empirical evidence is based exclusively on aggregate FDI data, which provides little insight into how firms react to political risks. We need to examine how Chinese investors perceive similar institutional environments at the micro level. Third, China is by far the most important origin country for EMMNCs. In 2016, FDI originating from China accounted for nearly 50% of the total FDI outflow from developing economies.⁹ Thus, it is important to understand the behavior of Chinese investors in itself.

The CODIS project is an annual national business survey conducted by the authors. We collaborate with the China Council for the Promotion of Investment and Trade (CCPIT) and Tsinghua University to implement the survey. The 2014 module was fielded between June and August 2014. CCPIT's local councils were responsible for recruiting from a list of randomly selected firms, stratified by industry, ownership, size, and overseas investment status. To increase the response rate, local councils were also permitted to recruit firms from their jurisdictions that were not on the list. The survey received responses from 601 firms, of which 134 had already invested abroad. Although the surveyed firms are a mix of randomly-drawn and convenience samples, sample distributions are generally close to those reported in the latest economic census data (see Tables A and B in Appendix I). Firms in the sample are spread over 17 of China's 31 provinces. The majority (74%) are manufacturing firms, representing most manufacturing industries at the two-digit level (see Table B in Appendix I). 23% are from the service sector. Within this category, most (77%) are in the wholesale sector. The remaining 3% of firms are from the primary sector. On average, the firms in the sample have a sales value of 845.64 million (RMB), employ 807 workers, and are 13.5 years old. Tables C and D in Appendix I present descriptive statistics for the firms and the respondents' positions in the sample, respectively.

⁹Authors' calculation based on UNCTAD FDI statistics, <http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics.aspx>, accessed April 20, 2018.

5 Empirical Analysis

We examine two outcome variables from the vignette experiment: perceived attractiveness of the business environments and market entry decision regarding the hypothetical markets. Note that all results presented in the paper are unweighted. Results with post-stratification weights are consistent and are presented in Appendix II.

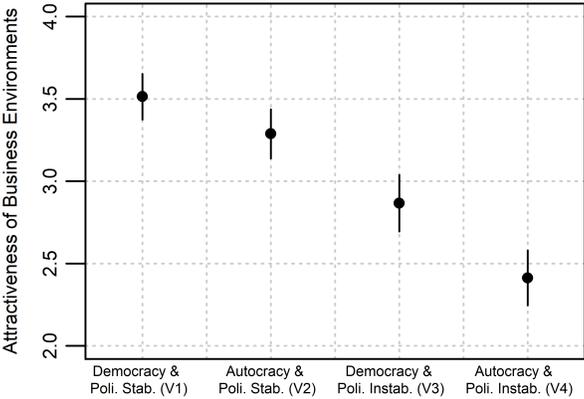
We first examine how firm executives perceive the business scenarios described in the four vignettes. Figure 2 plots the mean attractiveness scores of the four treatment groups by pooling all firms in the sample.¹⁰ Recall that, in our experimental design, Vignette 1 represents a democracy with policy stability, Vignette 2 an autocracy with policy stability, Vignette 3 a democracy with policy instability, and Vignette 4 an autocracy with policy instability. It is easy to see that a foreign market with a democratic government and stable policies (Vignette 1) is viewed as the most attractive with a mean score of 3.51. Replacing the regime treatment with a non-democratic government (Vignette 2) decreases the perceived attractiveness of the host country to 3.29. The difference in the ratings is 0.22, statistically significant at the 5% level.¹¹ In addition, the results show that firm executives view an authoritarian government with policy certainty (Vignette 2) more favorably than a democratic government with unpredictable policies (Vignette 3). The difference in the mean attractiveness scores between Vignettes 2 and 3 amounts to 0.42 and is statistically significant at the 1% level. An authoritarian government with an uncertain policy environment (Vignette 4) is considered the least attractive.

If we average respondents' ratings of the business environments by regime type—democracy (Vignettes 1 and 3) versus non-democracy (Vignettes 2 and 4), the mean attractiveness score is 3.22 for democracy and 2.85 for autocracy. Firm executives prefer democracy, with a difference of 0.37 in mean attractiveness scores across the two groups. The difference is statistically significant at the 1% level. This result suggests that institutional proximity does not make Chinese firms favor a foreign market with a non-democratically elected government. Comparing foreign markets with policy certainty (Vignettes 1 and 2) and those with policy uncertainty (Vignettes 3 and 4), the mean attractiveness

¹⁰All responding firms, including both domestic-oriented and overseas investors, were asked to answer the question. Domestic-oriented firms serve as a comparison to overseas investors.

¹¹Significance levels in the paper are calculated from two-tailed *t* tests.

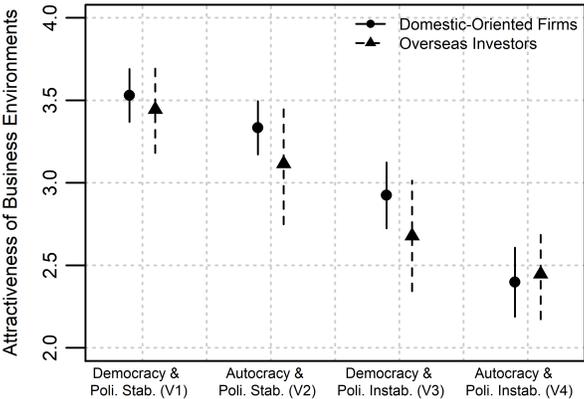
Figure 2: Attractiveness of Business Environments (Pooled)



Note: Plots of mean attractiveness scores by treatment groups. Vertical lines are 95% confidence intervals.

score is 3.41 for policy certainty and 2.63 for policy uncertainty. Respondents prefer policy certainty by a difference of 0.78 ($p=0.00$) in mean attractiveness scores. This is double the difference found between respondents’ attitudes toward democracy versus autocracy. These results suggest that, while both political regimes and policy certainty matter to Chinese firms, the latter is much more important in firms’ assessments of business environments.

Figure 3: Attractiveness of Business Environments (Domestic-Oriented Firms vs. Overseas Investors)



Note: Plots of mean attractiveness scores by treatment groups. Vertical lines are 95% confidence intervals.

Figure 2 shows pooled responses from overseas investors and domestic-oriented firms. One may

be concerned that firms with only domestic operations and no actual experiences with overseas investments have an unrealistic view of the relative attractiveness of business environments in foreign countries. To address this concern, we plot the mean attractiveness scores separately for the two subgroups (overseas investors versus domestic-oriented firms) in Figure 3. These results confirm that Chinese investors have no preference for autocracy and that policy stability matters more to their risk perception than regime type. Both overseas investors and domestic-oriented firms view a democracy with policy certainty the most attractive and an autocracy with policy uncertainty the least attractive. For overseas investors, if we average the ratings by regime type, democracies are preferred over autocracies by a difference of 0.34 ($p=0.05$). If we pool the vignettes by the level of policy uncertainty, the margin is 0.74 ($p=0.00$). In other words, Chinese overseas investors strongly prefer a foreign market with policy certainty to a one with policy uncertainty, regardless of the country's regime type.

It appears that domestic-oriented firms view both a democracy with uncertain policies (Vignette 2) and an autocracy with predictable policies (Vignette 3) more positively than overseas investors, but the differences are not statistically significant. More important, our results show that when the level of policy certainty is held constant, political regime does not make a significant difference to overseas investors, though democracy is slightly preferred. It matters to domestic-oriented firms, especially when the business environments are characterized by policy volatility. That is, domestic-oriented firms prefer democracies over autocracies when policy is unstable. If we hold political regime type constant, policy certainty is strongly preferred by both overseas investors and domestically oriented firms.

Our results reveal that policy certainty is a much more important factor than political regime in firms' assessments of business environments. Even in business environments with high policy uncertainty, in which home-country experience is most valuable in coping with political risk if institutional proximity indeed bring benefits, we find that democracy is still preferred, though the difference in the ratings is only statistically significant for domestic-oriented firms. These findings suggest that institutional proximity does not make Chinese investors favor other authoritarian countries. Our results also indicate that, at least among our sample of predominantly private Chinese firms, Chinese investors do not seek or welcome risk. They view policy volatility negatively and consider non-democratic

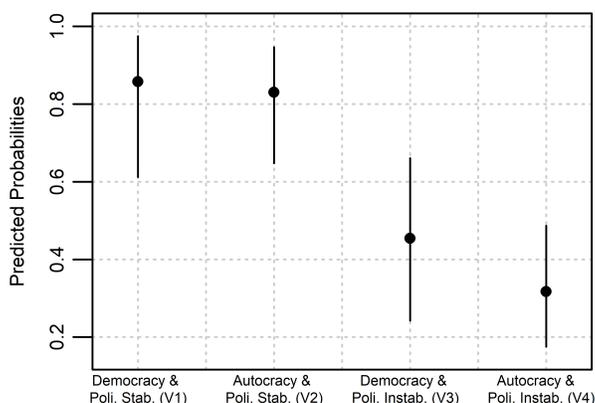
governments to be no more intrinsically attractive than democracies.

5.1 Political Regime, Policy Uncertainty, and Market Entry Decision

In this section, we go beyond risk perception and explore how political regime and policy uncertainty affect firms' market entry decisions. In the survey, after viewing the vignettes, firm executives were asked to choose one of the following options to indicate their market entry decision: (1) wholly owned subsidiary, (2) majority ownership (shareholding exceeds 50%), (3) minority ownership (shareholding is between 10% and 50%), (4) equity investment (shareholding is less than 10%), (5) would not invest, or (9) cannot answer.

We are primarily interested in firms' decisions about entering foreign markets characterized by different political regimes and levels of policy uncertainty. Therefore, we create a dummy variable for entry by collapsing the first four categories.¹² Figure 4 plots the probabilities of entry into the foreign markets described in the four vignettes.¹³ We focus on overseas investors only because responses from domestic-oriented firms may be noisy given that they lack actual experience investing abroad.

Figure 4: Probability of Market Entry (Overseas Investors)



Note: Plots of the probabilities of market entry by treatment groups. Vertical lines are 95% confidence intervals.

These results are consistent with findings on the firm executives' perception of the business en-

¹²Option (9)—“cannot answer” is treated as a missing value in the analysis.

¹³The predicted probabilities are simulated from a probit model to ensure the confidence intervals are in the range of 0 to 1. Table F in Append II shows the regression results.

vironments in the previous section. Chinese investors are significantly more likely to enter foreign markets with policy certainty than those with unpredictable policy changes. When policy uncertainty level is low, the probability of Chinese investors entering foreign markets with a democratic government or a non-democratic government is 0.86 and 0.83, respectively. The probability of entering a foreign market in Vignette 3 (a democracy with policy uncertainty) is 0.45 and the probability of entry for Vignette 4 (an autocracy with policy uncertainty) is only 0.32. In our experimental setting, the probability of firms electing to enter a host country with an uncertain policy environment is significantly lower than their entering a predictable policy environment, regardless of the political regime in that country. When policy uncertainty is high, Chinese investors actually prefer democracies over autocracies by 13 percentage points, though the difference is not statistically significant.¹⁴

It is reassuring that our findings for the perceived attractiveness of business environments are consistent with our findings for market entry decisions. Experimental designs have an advantage over observational studies in their ability to identify causal effects, but their external validity is often questioned. It is unclear to what extent respondents' reactions to hypothetical scenarios are generalizable to their reactions in the real world. Our design is subject to the same critique. We do, however, incorporate two response variables—perception and entry—in our design that guide respondents through two different levels of cognitive engagement. The consistency across these two variables at least underscores the logical coherence among the firms' responses. To further check the robustness of our findings, we replicated the vignette experiment in the 2015 module of CODIS and obtained the same results among 81 overseas investors (see Appendix III).

Taking the results in Figures 1–3 together, we find that policy uncertainty plays a much more important role than political regime in Chinese firm executives' assessment of business environments and in their investment decisions. Chinese investors are highly sensitive to policy risks in both democracies and autocracies. They show no preference for investing in other autocracies, in spite of their greater institutional proximity to China.

¹⁴The difference becomes statistically significant at the 10% level with post-stratification weights. See Table F in Appendix II.

5.2 Conjoint Analysis

So far we have focused on two features of business environments—political regime type and levels of policy uncertainty—and employed a 2×2 factorial design to address the confounding issue. The results have shown that the institutional proximity matters little in shaping Chinese investors' preferences. However, it is possible that institutional proximity can moderate investors' response to other dimensions of political risks and economic risks. In order to examine whether that is the case and provide a robustness check on our results from the 2×2 factorial design, we turn to conjoint analysis.

Like the risk of policy uncertainty, other risks such as macroeconomic instability, risk of expropriation, and corruption are similarly confounded with political institutions. Conjoint analysis deals with this confounding issue. A conjoint experiment allows the vignettes to vary along multiple attributes and enables us to estimate the causal effects of multiple treatment components simultaneously (Hainmueller, Hopkins and Yamamoto 2014). In our conjoint analysis, we include two economic attributes: macroeconomic conditions (unstable versus stable) and 5-year average growth rate (negative, little, moderate, and high), one regime attribute (democratically-elected versus non-democratically elected government), and four political risk attributes: expropriation risk (almost none versus some), demand for unofficial payments (seldom versus frequent), policy consistency (low, moderate, and high), and risk of armed violence (low, moderate, and high). The design for the conjoint experiment is illustrated below.

“Companies assess the economic and political risks in a foreign country when making an investment. Different countries have different risk profiles. We want to know how these economic and political risks affect investors' assessment of business environments. Please evaluate, from the perspective of your company, the following business scenarios.”

Table 1: Illustration of Business Environments in the Conjoint Experiment

	Country [A] is a developing country and open to foreign investment	Country [B] is a developing country and open to foreign investment
Macroeconomic Conditions	Stable and Little Volatility in Growth Rates	Stable and Little Volatility in Growth Rates
5-Year Economic Growth Rate	Moderate	Negative
Selection of Government Leader	Democratically Elected	Non-Democratically Elected
Demand for Unofficial payments	Seldom	Frequent
Policy Consistency	Moderate	High
Risk of Armed Violence	Low	Low

“If your company were going to invest in these two countries, which one is more attractive?”¹⁵

1. Country A

2. Country B

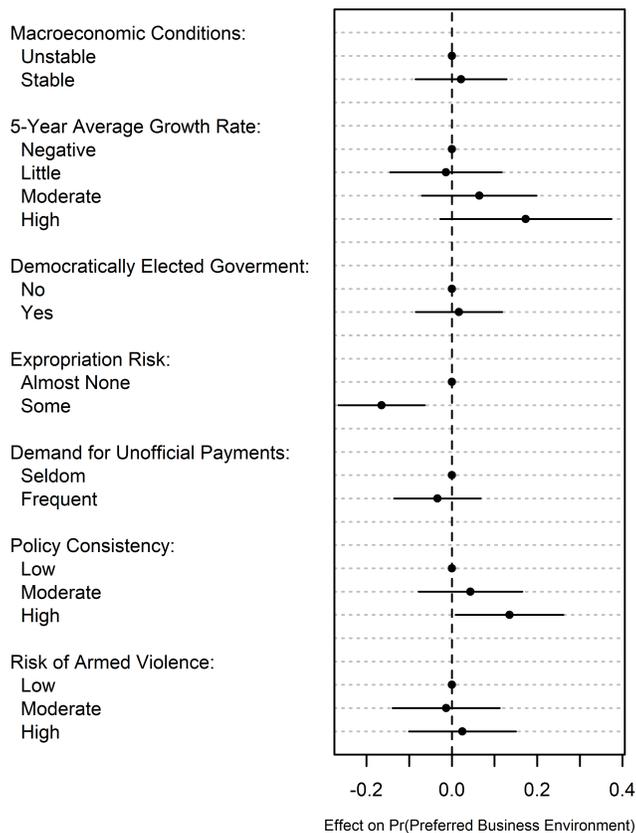
In the conjoint experiment, we randomized the order of the attributes to avoid an order effect. To make the investment profiles realistic, we eliminated the possibility of a high economic growth rate if the country had unstable macroeconomic conditions or a high risk of armed conflict. Each firm executive was asked to assess four pairs of business environment profiles. The conjoint experiment was embedded in the 2015 CODIS. We obtained responses from 81 firms that had already invested abroad.¹⁶ Following Hainmueller, Hopkins and Yamamoto (2014), we estimate average marginal component effects (AMCEs). The AMCE represents the marginal effect of each attribute value on its probability of being preferred for investment, calculated over all possible combinations of the other risk attributes. We estimate a linear probability model in which the outcome variable is dichotomous—1 if the business environment profile is preferred by the respondent, otherwise 0.

Figure 5 plots the results. Our main results remain consistent and robust when we introduce multiple dimensions of political and economic risk. Political regime type does not strongly affect Chinese investors’ preferences for business environments and investors do not show preferences for other autocracies, but actually slightly prefer democracies. Policy uncertainty factors significantly into Chinese

¹⁵The two business scenarios in Table 1 are for illustrative purposes. In the conjoint experiment, each respondent was presented four pairs of randomly generated business profiles.

¹⁶The 2015 CODIS has a small sample size with 256 responses. Among them, 81 firms reported that they had invested abroad, which is about 32%.

Figure 5: Effects of Risk Attributes on Probability of Being Preferred for Investment



Note: Plot of estimates from an ordinary least squares (OLS) regression of the probability of being preferred investment destination. The horizontal lines are 95% confidence intervals.

investors' choices of investment destinations. Chinese investors strongly favor a foreign market with high policy consistency.

The results also show that the chance of expropriation has a strong negative effect on the probability of firm executives choosing a business environment. Government officials' frequent demands for unofficial payments reduce the attractiveness of the business environment, but the marginal effect is not statistically significant.¹⁷ Chinese investors are also less likely to choose foreign markets with unstable macroeconomic conditions and more likely to enter foreign markets with high average economic growth rates. The latter is statistically significant at the 10% level. One surprising finding is that the risk of armed conflict does not affect Chinese investors' preferences for business environ-

¹⁷Using a larger sample of Chinese investors, Zhu and Shi (Forthcoming) show that government officials' frequent demand for unofficial payments leads to a significantly less favorable rating of the business environments in destinations.

ments. There are two plausible explanations. First, Chinese investors are the newcomers and still lack experience operating in various foreign markets. The absence of armed civil violence in their home country may lead Chinese investors to underestimate the risk in foreign countries. Second, the finding could reflect the fact that armed civil conflicts are often localized and limited to certain geographic locations and thus have little impact on investors' decision to enter the market. For example, Maher (2015) shows that civil war even creates conditions that facilitate FDI inflows in Colombia's oil industry because armed forces' attacks on left-wing guerrillas, expropriation of oil-rich land, and displacement of civilians serve the interest of the oil industry.

In summary, our empirical results from the vignette and conjoint experiments reveal that institutional proximity does not make Chinese investors favor other authoritarian countries over democracies; instead, they show a slight preference for democracies. Our results also illustrate that Chinese investors are highly sensitive to policy uncertainty and other political risks. A foreign market with policy volatility, regardless of whether it is a democratic or autocratic country, leads to significantly less favorable perceptions of the business environment and results in a lower probability of market entry.

5.3 Bilateral FDI

Because our experimental evidence is based on Chinese firms, one may wonder to what extent our findings are generalizable to investors from other authoritarian countries. To address this question, we turn to bilateral FDI data from UNCTAD. If the preferences of investors from other authoritarian countries are similar as Chinese multinationals', we should expect that FDI from authoritarian countries will not flow disproportionately to authoritarian countries and that it will correlate negatively with political risks in destination countries. Note that FDI flows are an outcome variable that results from the interactions of the firm-, industry-, and country-level parameters. Thus, our approach is subject to the same critique discussed above about observational studies using aggregate data. We are not examining the risk preferences *per se* of investors from autocracies, but the observable implications of these preferences.

We estimate a gravity model of FDI. The dependent variable is bilateral FDI stocks originating

from developing authoritarian countries for the period 2001–2012.¹⁸ The bilateral FDI data are collected mainly from national sources with technical assistance from UNCTAD; in cases where data are not available from host countries, UNCTAD uses data from partner countries (mirror data).¹⁹ We take the fifth root of the variable to deal with the skewed distribution.²⁰ In all models, we include a lagged dependent variable, bilateral geographic distance, origin and destination countries' GDP, GDP per capita, trade openness, economic growth rates, resource endowments, whether the dyad has a colonial tie or common official language, and whether they have signed a preferential trade agreement (PTA) or bilateral investment treaty (BIT).²¹ Table 2 presents the results.

Model 1 of Table 2 includes a democracy dummy of host countries as the independent variable. Its coefficient is positive and significant at the 5% level. This result suggests that FDI from authoritarian countries flows more to democracies than to autocracies. In Model 2, we include a composite measure of political risk from the PRS Group's International Country Risk Guide (ICRG). This variable ranges from 0 (highest risk) to 100 (lowest risk).²² We see that the variable—absence of political risk—has a positive and significant coefficient, suggesting that FDI from authoritarian countries pours more into countries with lower political risk. Model 3 replaces the composite political risk measure with another variable from ICRG measuring a country's investment profile. It is the sum of three sub-components: contract viability/expropriation, profits repatriation, and payment delays.²³ The results are consistent with those in Model 2. Countries with low investment risk, compared to those with high risk, receive more FDI from authoritarian countries. In Models 4 and 5, we include both democracy and political/investment risk in the same equation. Both variables—democracy and absence of political/investment risk—correlate positively and strongly with FDI from authoritarian countries.

The results in Table 2 suggest that FDI from authoritarian countries flows disproportionately to democracies and to countries with low political risk. These results are consistent with our previous

¹⁸Countries are coded as an autocracy if their polity score is less than 7.

¹⁹James Zhang. 2014. "Bilateral FDI Statistics." <http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx>, accessed May 31, 2018.

²⁰A fifth root transformation yields an approximately normal distribution. It works better than a cube root or log transformation. See Appendix IV.

²¹The data on GDP, GDP per capita, trade openness, and economic growth rates are from the World Bank's *World Development Indicators*. Bilateral distance data come from CEPII (Mayer and Zignago 2011).

²²It is rescaled to range from 0 to 1 for the readability of coefficients.

²³It ranges from 1 (highest risk) to 12 (lowest risk).

Table 2: Regime Type, Political Risk, and FDI from Authoritarian Countries

	(1)	(2)	(3)	(4)	(5)
Democracy (Dest.)	0.16** (0.07)			0.20** (0.09)	0.19** (0.09)
Absence of Political Risk		1.02** (0.42)		0.84** (0.42)	
Absence of Investment Risk			0.08*** (0.02)		0.08*** (0.02)
Lagged DV	0.50*** (0.01)	0.49*** (0.01)	0.49*** (0.01)	0.48*** (0.01)	0.48*** (0.01)
Distance	-0.56*** (0.06)	-0.63*** (0.07)	-0.63*** (0.07)	-0.64*** (0.07)	-0.64*** (0.07)
GDP (Origin, log)	0.43*** (0.13)	0.44*** (0.14)	0.48*** (0.14)	0.45*** (0.14)	0.49*** (0.14)
GDP (Dest., log)	0.76*** (0.25)	0.77*** (0.27)	0.79*** (0.27)	0.81*** (0.27)	0.83*** (0.27)
GDP per Capita (Origin, log)	-0.22* (0.12)	-0.20 (0.13)	-0.21 (0.13)	-0.20 (0.14)	-0.22 (0.14)
GDP per Capita (Dest., log)	-0.77*** (0.25)	-0.78*** (0.27)	-0.84*** (0.27)	-0.83*** (0.27)	-0.88*** (0.27)
Openness (Origin, log)	0.01 (0.07)	0.02 (0.07)	0.00 (0.07)	0.02 (0.07)	0.00 (0.07)
Openness (Dest., log)	-0.04 (0.09)	0.00 (0.09)	0.01 (0.09)	0.01 (0.10)	0.02 (0.09)
5-Year Growth Rate (Dest.)	1.30** (0.60)	0.83 (0.70)	0.77 (0.68)	0.99 (0.70)	0.89 (0.69)
5-Year Growth Rate (Origin)	0.68* (0.40)	0.55 (0.42)	0.37 (0.42)	0.54 (0.42)	0.37 (0.42)
Oil & Gas (Dest.)	0.03** (0.01)	0.03*** (0.01)	0.03*** (0.01)	0.03*** (0.01)	0.03*** (0.01)
Oil & Gas (Origin)	-0.00 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)	-0.01 (0.01)
Colonial Tie	0.44*** (0.08)	0.45*** (0.09)	0.44*** (0.09)	0.46*** (0.09)	0.45*** (0.09)
Contiguous	0.21*** (0.06)	0.21*** (0.07)	0.21*** (0.07)	0.21*** (0.07)	0.21*** (0.07)
Common Language	0.15*** (0.05)	0.13** (0.06)	0.13** (0.06)	0.13** (0.06)	0.13** (0.06)
BIT	0.06* (0.04)	0.08* (0.04)	0.08* (0.04)	0.08* (0.04)	0.08* (0.04)
PTA	0.09** (0.04)	0.09** (0.04)	0.09** (0.04)	0.09** (0.04)	0.09** (0.04)
Constant	-17.74*** (3.33)	-20.56*** (4.06)	-21.19*** (4.01)	-21.41*** (4.10)	-22.24*** (4.06)
N	10,300	9,001	9,001	8,987	8,987
Number of Dyads	1,422	1,201	1,201	1,201	1,201
Origin FEs	Yes	Yes	Yes	Yes	Yes
Destination FEs	Yes	Yes	Yes	Yes	Yes

Note: All models include origin and destination country fixed effects; their coefficients are not reported. AR(1) standard errors in parentheses. * significant at 10%; ** significant at 5%; *** significant at 1%.

findings from the two experiments: investors from an authoritarian country show no preferences for other authoritarian countries and they remain sensitive to political risks. Although the regression analysis does not examine firms' preferences, the results provide some evidence that institutional proximity does not lead firms from authoritarian countries to choose weak institutional environments abroad.

6 Conclusion

In the past decade the landscape of the global economy has changed significantly. More and more, capital now originates from emerging markets. With China in the lead, EMMNCs are increasingly important in world markets. However, the behavior of this crop of MNCs is not well understood. Do investors from an authoritarian country really favor weak institutional environments abroad because of institutional proximity?

We argue that institutional embeddedness in an authoritarian country does not translate into ownership advantages in similar foreign markets. This is because strategies used to cope with political risks in an autocracy are often extra-institutional, and require the accumulation of country-specific knowledge and political capital that are not easily transferred between autocracies. Instead, home-country experience may in fact heighten their aversion to similar political risks in other authoritarian countries. As a result, EMMNCs remain sensitive to political risks in both democracies and autocracies.

To test these arguments, we use a vignette and a conjoint experiment embedded in an original survey of Chinese firms. We find that Chinese investors do not show preferences for other autocracies; instead, they slightly prefer democracies. Our results also show that Chinese investors are deterred by both economic and political risks. To address the generalizability of our findings, we turn to bilateral FDI data and find consistent evidence that FDI from authoritarian countries do not favor other autocracies and flows disproportionately to countries with low political risk.

Although we have shown that investors from an authoritarian country have no preferences for other autocracies, it might be the case that these investors have a competitive advantage over their Western counterparts operating in weak institutional environments. To confirm this would require a cross-national survey of investors from both advanced democracies and autocracies. But even if we were

able to implement such a multi-country survey, the results could suffer from an anchoring problem because investors from different countries may have different understandings of political risks. Our results from bilateral FDI provide some preliminary evidence that this may not be the case. If investors from authoritarian countries do perceive themselves to have competitive advantages over their Western counterparts in weak institutional environments, we would expect that in equilibrium they specialize and invest disproportionately in these risky destinations. Our results, however, show the opposite. FDI from authoritarian countries is invested more in democracies and countries with low political risk.

One implication of our argument is that institutionalized strategies for risk mitigation should be more transferrable, and because these strategies are procedural with well-defined, consistent rules, they should therefore create competitive advantages for MNCs operating in similar institutional environments. The findings in one recent study seem consistent with our expectation. Beazer and Blake (2018) show that investors from countries with judicial independence are more likely to invest in countries with a similar institutional feature because they have already invested resources, developed relevant capacities, and are familiar with how they can protect their interests via independent courts. Future studies could utilize experimental designs to further explore the transferability of institutionalized risk-mitigating strategies.

A limitation of our study is that it is based on investors from one country. Although we provide evidence from bilateral FDI data to address generalizability, the analysis does not examine firms' risk preferences directly, but the observable implications of their risk preferences. Thus, it is important to replicate our study in other authoritarian countries to further understand the relationship between institutional proximity and EMMNCs' risk preferences.

References

- Adhikari, Ajay, Chek Derashid and Hao Zhang. 2006. "Public policy, political connections, and effective tax rates: Longitudinal evidence from Malaysia." *Journal of Accounting and Public Policy* 25(5):574–595.
- Aguinis, Herman and Kyle J. Bradley. 2014. "Best Practice Recommendations for Designing and Implementing Experimental Vignette Methodology Studies." *Organizational Research Methods* 17(4):351–371.
- Ahlquist, John S. 2006. "Economic Policy, Institutions, and Capital Flows: Portfolio and Direct Investment Flows in Developing Countries." *International Studies Quarterly* 50(3):681–704.
- Alexander, Cheryl S. and Henry Jay Becker. 1978. "The Use of Vignettes in Survey Research." *Public Opinion Quarterly* 42(1):93–104.
- Ang, Yuen Yuen and Nan Jia. 2014. "Perverse Complementarity: Political Connections and the Use of Courts among Private Firms in China." *The Journal of Politics* 76(02):318–332.
- Athreye, Suma and Sandeep Kapur. 2009. "Introduction: The Internationalization of Chinese and Indian Firms Trends, Motivations and Strategy." *Industrial and Corporate Change* 18(2):209–221.
- Beazer, Quintin H. and Daniel J. Blake. 2018. "The Conditional Nature of Political Risk: How Home Institutions Influence the Location of Foreign Direct Investment." *American Journal of Political Science* 62(2):470–485.
- Biglaiser, Glen and Joseph L. Staats. 2010. "Do Political Institutions Affect Foreign Direct Investment? A Survey of U.S. Corporations in Latin America." *Political Research Quarterly* 63(3):508–522.
- Boix, Carles and Milan W. Svobik. 2013. "The Foundations of Limited Authoritarian Government: Institutions, Commitment, and Power-Sharing in Dictatorships." *The Journal of Politics* 75(02):300–316.
- Buckley, Peter J, L Jeremy Clegg, Adam R Cross, Xin Liu, Hinrich Voss and Ping Zheng. 2007. "The Determinants of Chinese Outward Foreign Direct Investment." *Journal of International Business Studies* 38(4):499–518.
- Bueno de Mesquita, Bruce, Alastair Smith, Randolph M. Siverson and James D. Morrow. 2003. *The Logic of Political Survival*. Cambridge, Mass.: MIT Press.
- Busse, Matthias and Carsten Hefeker. 2007. "Political Risk, Institutions and Foreign Direct Investment." *European Journal of Political Economy* 23(2):397–415.
- Büthe, Tim and Helen V. Milner. 2008. "The Politics of Foreign Direct Investment into Developing Countries: Increasing FDI through International Trade Agreements?" *American Journal of Political Science* 52(4):741–762.
- Chen, Jie and Bruce J. Dickson. 2010. *Allies of the State: China's Private Entrepreneurs and Democratic Change*. Cambridge, M.A.: Harvard University Press.

- Child, John and Suzana B Rodrigues. 2005. "The Internationalization of Chinese Firms: A Case for Theoretical Extension?" *Management and Organization Review* 1(3):381–410.
- Cuervo-Cazurra, Alvaro and Mehmet Genc. 2008. "Transforming Disadvantages into Advantages: Developing-Country MNEs in the Least Developed Countries." *Journal of International Business Studies* 39(6):957–979.
- Dahl, Robert A. 1971. *Polyarchy: Participation and Opposition*. New Haven, CT: Yale University Press.
- Dean, Xu and Oded Shenkar. 2002. "Institutional Distance and the Multinational Enterprise." *The Academy of Management Review* 27(4):608–618.
- Dickson, Bruce J. 2003. *Red Capitalists in China: The Party, Private Entrepreneurs, and Prospects for Political Change*. New York: Cambridge University Press.
- Eden, Lorraine and Stewart R Miller. 2004. "Distance Matters: Liability of Foreignness, Institutional Distance and Ownership Strategy." *Advances in International Management* 16:187–221.
- Fisman, Raymond. 2001. "Estimating the Value of Political Connections." *The American Economic Review* 91(4):1095–1102.
- Fisman, Raymond and Yongxiang Wang. 2015. "The Mortality Cost of Political Connections." *The Review of Economic Studies* 82(4):1346–1382.
- Francis, Bill B., Iftekhar Hasan and Xian Sun. 2009. "Political connections and the process of going public: Evidence from China." *Journal of International Money and Finance* 28(4):696–719.
- Gandhi, Jennifer. 2008. *Political Institutions under Dictatorship*. New York, NY: Cambridge University Press.
- Geddes, Barbara. 2003. *Paradigms and Sand Castles: Theory Building and Research Design in Comparative Politics*. Ann Arbor, MI: University of Michigan Press.
- Gehlbach, Scott and Philip Keefer. 2012. "Private Investment and the Institutionalization of Collective Action in Autocracies: Ruling Parties and Legislatures." *The Journal of Politics* 74(02):621–635.
- Habib, Mohsin and Leon Zurawicki. 2002. "Corruption and Foreign Direct Investment." *Journal of International Business Studies* 33(2):291–307.
- Hainmueller, Jens, Daniel J. Hopkins and Teppei Yamamoto. 2014. "Causal Inference in Conjoint Analysis: Understanding Multidimensional Choices via Stated Preference Experiments." *Political Analysis* 22(1):1–30.
- Hellman, Joel S., Geraint Jones and Daniel Kaufmann. 2003. "Seize the State, Seize the Day: State Capture and Influence in Transition Economies." *Journal of Comparative Economics* 31(4):751–773.
- Henisz, Witold J. 2000a. "The Institutional Environment for Economic Growth." *Economics and Politics* 12(1):1–31.

- Henisz, Witold J. 2000b. "The Institutional Environment for Multinational Investment." *The Journal of Law, Economics, & Organization* 16(2):334–364.
- Henisz, Witold J. and Bennet A. Zelner. 2010. "The Hidden Risks in Emerging Markets." *Harvard Business Review* 88(April):88–95.
- Holburn, Guy L. F. and Bennet A. Zelner. 2010. "Political Capabilities, Policy Risk, and International Investment Strategy: Evidence from the Global Electric Power Generation Industry." *Strategic Management Journal* 31(12):1290–1315.
- Jensen, Nathan M. 2003. "Democratic Governance and Multinational Corporations: Political Regimes and Inflows of Foreign Direct Investment." *International Organization* 57(03):587–616.
- Jensen, Nathan M. 2006. *Nation-States and the Multinational Corporation: A Political Economy of Foreign Direct Investment*. Princeton, N.J.: Princeton University Press.
- Jensen, Nathan M. 2008. "Political Risk, Democratic Institutions, and Foreign Direct Investment." *The Journal of Politics* 70(04):1040–1052.
- Jensen, Nathan M. and Noel P. Johnston. 2011. "Political Risk, Reputation, and the Resource Curse." *Comparative Political Studies* 44(6):662–688.
- Kang, David C. 2002. *Crony Capitalism: Corruption and Development in South Korea and the Philippines*. New York: Cambridge University Press.
- Kennedy, Scott. 2005. *The Business of Lobbying in China*. Cambridge, M.A.: Harvard University Press.
- Kenyon, Thomas and Megumi Naoi. 2010. "Policy Uncertainty in Hybrid Regimes: Evidence From Firm-Level Surveys." *Comparative Political Studies* 43(4):486–510.
- Kerner, Andrew. 2009. "Why Should I Believe You? The Costs and Consequences of Bilateral Investment Treaties." *International Studies Quarterly* 53(1):73–102.
- Knack, Stephen and Philip Keefer. 1995. "Institutions and Economic Performance: Cross-Country Tests Using Alternative Institutional Measures." *Economics & Politics* 7(3):207–227.
- Kobrin, Stephen J. 1984. "Expropriation as an Attempt to Control Foreign Firms in LDCs: Trends from 1960 to 1979." *International Studies Quarterly* 28(3):329–348.
- Kolstad, Ivar and Arne Wiig. 2012. "What Determines Chinese Outward FDI?" *Journal of World Business* 47(1):26–34.
- Kostova, Tatiana. 1999. "Transnational Transfer of Strategic Organizational Practices: A Contextual Perspective." *The Academy of Management Review* 24(2):308–324.
- Kostova, Tatiana and Srilata Zaheer. 1999. "Organizational Legitimacy under Conditions of Complexity: The Case of the Multinational Enterprise." *Academy of Management review* 24(1):64–81.
- Kung, James Kaising and Chicheng Ma. 2018. "Friends with Benefits: How Political Connections Help to Sustain Private Enterprise Growth in China." *Economica* 85(337):41–74.

- Li, Hongbin, Pak Wai Liu, Junsen Zhang and Ning Ma. 2007. "Economic Returns to Communist Party Membership: Evidence From Urban Chinese Twins*." *The Economic Journal* 117(523):1504–1520.
- Li, Quan and Adam Resnick. 2003. "Reversal of Fortunes: Democratic Institutions and Foreign Direct Investment Inflows to Developing Countries." *International Organization* 57(01):175–211.
- Linz, Juan J. 2000. *Totalitarian and Authoritarian Regimes*. Boulder, CO: Lynne Rienner Publishers.
- Magaloni, Beatriz. 2008. "Credible Power-Sharing and the Longevity of Authoritarian Rule." *Comparative Political Studies* 41(4/5):715–741.
- Maher, David. 2015. "The Fatal Attraction of Civil War Economies: Foreign Direct Investment and Political Violence, A Case Study of Colombia." *International Studies Review* 17(2):217–248.
- Malesky, Edmund J. and Krislert Samphantharak. 2008. "Predictable Corruption and Firm Investment: Evidence from a Natural Experiment and Survey of Cambodian Entrepreneurs." *Quarterly Journal of Political Science* 3(3):227–267.
- Malesky, Edmund J. and Markus Taussig. 2009. "Where Is Credit Due? Legal Institutions, Connections, and the Efficiency of Bank Lending in Vietnam." *The Journal of Law, Economics, and Organization* 25(2):535–578.
- Mayer, Thierry and Soledad Zignago. 2011. "Notes on CEPII's Distances Measures: The GeoDist Database." *CEPII Working Paper* 2011-25. Available at: www.cepii.fr/PDF_PUB/wp/2011/wp2011-25.pdf.
- Moon, Chungshik. 2015. "Foreign Direct Investment, Commitment Institutions, and Time Horizon: How Some Autocrats Do Better than Others." *International Studies Quarterly* 59(2):344–356.
- Morck, Randall, Bernard Yeung and Minyuan Zhao. 2008. "Perspectives on China's Outward Foreign Direct Investment." *Journal of International Business Studies* 39(3):337–350.
- Neumayer, Eric and Laura Spess. 2005. "Do Bilateral Investment Treaties Increase Foreign Direct Investment to Developing Countries?" *World Development* 33(10):1567–1585.
- North, Douglass C. 1990. *Institutions, Institutional Change, and Economic Performance*. New York: Cambridge University Press.
- North, Douglass C. and Barry R. Weingast. 1989. "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England." *The Journal of Economic History* 49(04):803–832.
- Olson, Mancur. 1993. "Dictatorship, Democracy, and Development." *The American Political Science Review* 87(3):567–576.
- Oneal, John R. 1994. "The Affinity of Foreign Investors for Authoritarian Regimes." *Political Research Quarterly* 47(3):565–588.
- Ramasamy, Bala, Matthew Yeung and Sylvie Laforet. 2012. "China's Outward Foreign Direct Investment: Location Choice and Firm Ownership." *Journal of World Business* 47(1):17–25.

- Resnick, Adam L. 2001. "Investors, Turbulence, and Transition: Democratic Transition and Foreign Direct Investment in Nineteen Developing Countries." *International Interactions* 27(4):381–398.
- Shi, Weiyi. 2015. *The Political Economy of China's Outward Direct Investment* Ph.d. thesis. University of California, San Diego.
- Svolik, Milan W. 2012. *The Politics of Authoritarian Rule*. New York: Cambridge University Press.
- Truex, Rory. 2014. "The Returns to Office in A "Rubber Stamp" Parliament." *American Political Science Review* 108(02):235–251.
- Tsai, Kellee S. 2007. *Capitalism without Democracy: The Private Sector in Contemporary China*. Ithaca, N.Y.: Cornell University Press.
- Tsebelis, George. 1995. "Decision Making in Political Systems: Veto Players in Presidentialism, Parliamentarism, Multicameralism and Multipartyism." *British Journal of Political Science* 25(3):289–325.
- UNCTAD. 2014. *Investment by South TNCs Reached a Record Level: Acquiring Developed Country Foreign Affiliates in the Developing World*. New York: United Nations.
- UNCTAD. 2017. *Investment and the Digital Economy*. New York: United Nations.
- Vernon, Raymond. 1971. *Sovereignty at Bay: The Multinational Spread of U.S. Enterprises*. New York: Basic Books.
- Vernon, Raymond. 1980. *The Obsolescing Bargain: A Key Factor in Political Risk*. Houston, T.X.: Center for International Business.
- Wright, Joseph. 2008. "Do Authoritarian Institutions Constrain? How Legislatures Affect Economic Growth and Investment." *American Journal of Political Science* 52(2):322–343.
- Wright, Joseph and Boliang Zhu. 2018. "Monopoly Rents and Foreign Direct Investment in Fixed Assets." *International Studies Quarterly* 62(2):341–356.
- Zhu, Boliang and Weiyi Shi. Forthcoming. "Greasing the Wheels of Commerce? Corruption and Foreign Investment." *The Journal of Politics* . Available at SSRN: <http://dx.doi.org/10.2139/ssrn.3014400>.

Online Appendix

I Survey Sampling and Implementation

China Outward Direct Investment Survey (CODIS) is a firm-level survey designed and conducted by the authors. The CCPIT's headquarters in Beijing and its provincial branches provided the institutional and logistical platform for survey distribution. A team of research assistants operated out of the agency's headquarters to manage the survey's daily operations.

The sampling frame consisted of three parts: the universe of firms in China's Industrial Census (non-listed firms), firms listed on the Shanghai and Shenzhen Exchanges, and firms logged in China's Outward Direct Investment Registry published by the Ministry of Commerce (which is used to identify actual overseas investors). After pooling these sources and eliminating overlapping firms, we drew a random sample of 4,000 firms stratified by industry (at the two-digit level), ownership, size, and overseas investment status. We oversampled state-owned enterprises (SOEs) and larger firms to adjust for the low response rate among these firms. Firms that had already invested overseas were also oversampled to ensure we had enough observations to analyze responses on certain survey questions that pertain only to overseas investors. To increase the response rate, local councils were permitted to recruit from their jurisdictions firms that were not on the list. The 2014 survey achieved 601 responses in total.

The survey was conducted using online and paper versions identical in content. The online mode was distributed through Qualtrics. The paper mode was printed and randomized prior to packing and shipping to provincial offices. The branch officer simply distributed paper surveys from the top of the pack to ensure proper randomization. Responses to paper surveys account for 29% of total responses. After surveys were returned, the research assistant team screened responses and followed up with firms for mistakes or missing information.

Table A: Distribution of Firms in the 2014 CODIS vs. Economic Census

		Survey Sample	3 rd Economic Census
Sector	Agriculture	1%	NA
	Mining	2%	1%
	Manufacturing	74%	21%
	Wholesale	18%	26%
	Other	5%	51%
Ownership	State-Owned Enterprises (SOEs)	7%	1%
	Collectively-Owned Enterprises (COEs)	4%	2%
	Foreign Invested Firms	13%	2%
	Private Firms	76%	68%
Region	East	70%	55%
	Central	13%	20%
	West	14%	18%
	Northeast	3%	7%

Note: Economic census data are compiled from the 3rd National Economic Census Main Data Report, published in 2014 and available at <http://www.stats.gov.cn>. The report does not include agriculture as a separate sector.

Table B: Distribution of Firms in the 2014 CODIS vs. Economic Census (Manufacturing)

Ind. Code	Industry Name	3 rd Economic Census		Survey Sample	
		Estabs (1,000)	% of Total	Estabs	% of Total
13	Agro-food processing	104	4.62	29	6.52
14	Food manufacturing	47	2.09	19	4.27
15	Wine, soft drinks and refined tea manufacturing	38	1.69	8	1.80
16	Tobacco	0.4	0.02	2	0.45
17	Textile	108	4.79	34	7.64
18	Garment and apparel	121	5.37	15	3.37
19	Leather, fur, feather and related products and footwear	56	2.49	7	1.57
20	Wood processing and wood, bamboo, and rattan products	70	3.11	7	1.57
21	Furniture manufacturing	46	2.04	7	1.57
22	Paper, pulp, and paper products	54	2.40	3	0.67
23	Printing and recorded media	67	2.97	4	0.90
24	Culture, education, sports, and entertainment products	75	3.33	27	6.07
25	Petroleum processing, coking, and nuclear fuel processing	7	0.31	2	0.45
26	Chemical materials and chemical products	102	4.53	31	6.97
27	Pharmaceutical	19	0.84	10	2.25
28	Chemical fiber manufacturing	6	0.27	1	0.22
29	Rubber and plastic products	139	6.17	18	4.04
30	Non-metallic mineral products	213	9.46	16	3.60
31	Ferrous metal smelting and rolling processing	37	1.64	11	2.47
32	Non-ferrous metal smelting and processing	26	1.15	2	0.45
33	Fabricated metal products	191	8.48	37	8.31
34	General equipment	217	9.63	31	6.97
35	Specialty equipment	143	6.35	41	9.21
36	Automobile	54	2.40	28	6.29
37	Railways, shipping, aerospace and other transportation equipment	26	1.15	8	1.80
38	Electrical machinery and equipment	138	6.13	33	7.42
39	Computer, telecommunications and other electronic equipment	73	3.24	9	2.02
40	Instruments manufacturing	30	1.33	5	1.12
41	Other manufacturing	23	1.02	0	0.00
42	Recycling	9	0.40	0	0.00
43	Metal products, machinery, and equipment repair	13	0.58	0	0.00
Total		2,252.40	100.00	445	100.00

Table C: Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
Overseas Investors	572	0.23	0.42	0	1
SOEs	601	0.07	0.26	0	1
Private	601	0.80	0.40	0	1
Foreign	601	0.13	0.34	0	1
Employees (log)	569	5.22	1.83	0	10.00
Sales 2013 (log)	541	9.07	2.15	0.92	15.53
ATFP	510	2.89	1.49	-5.73	8.76
Primary	601	0.03	0.17	0	1
Manufacturing	601	0.74	0.44	0	1
Services	601	0.23	0.42	0	1

Table D: Respondents' Positions

Full Sample					
	Obs	Mean	Std. Dev.	Min	Max
COEs/GMs	601	0.10	0.30	0	1
Department Directors	601	0.37	0.48	0	1
Specialists	601	0.32	0.47	0	1
Missing	601	0.21	0.41	0	1
Overseas Investors					
COEs/GMs	134	0.12	0.33	0	1
Department Directors	134	0.40	0.49	0	1
Specialists	134	0.27	0.44	0	1
Missing	134	0.21	0.41	0	1

II Results with and without Poststratification Weights

The surveyed firms in the 2014 CODIS are a mix of randomly-drawn and convenience samples. Tables A and B in Appendix I show that sample distributions (industry, ownership, and geography) are generally close to those reported in the latest economic census data. To further address the sample's representativeness, we re-do the analyses with post-stratification weights. The weights are raked based on two strata: industry (mining, manufacturing,¹ wholesale, and other services) and ownership (state-owned, foreign, and other).² We present unweighted and weighted results side by side in Table E. Note that the weighted sample does not include firms in the agricultural sector because the third economic census does not report data for this sector.

Table E: Attractiveness of Business Environments (OLS)

	Unweighted			Weighted		
	(1)	(2)	(3)	(4)	(5)	(6)
	Pooled	Overseas Investors	Domestic Firms	Pooled	Overseas Investors	Domestic Firms
Democracy & Policy Stability (V1)	1.10*** (0.11)	1.00*** (0.22)	1.13*** (0.13)	1.21*** (0.16)	1.35*** (0.21)	1.18*** (0.20)
Autocracy & Policy Stability (V2)	0.88*** (0.11)	0.67*** (0.22)	0.94*** (0.13)	1.04*** (0.15)	0.98*** (0.28)	1.06*** (0.19)
Democracy & Policy Instability (V3)	0.45*** (0.12)	0.23 (0.21)	0.53*** (0.14)	0.53*** (0.17)	0.20 (0.26)	0.67*** (0.21)
Constant	2.41*** (0.08)	2.45*** (0.14)	2.40*** (0.10)	2.33*** (0.12)	2.33*** (0.13)	2.33*** (0.16)
N	517	119	398	512	118	394
R ²	0.18	0.18	0.18	0.20	0.28	0.18

Note: Standard errors in parentheses; * significant at 10%; ** significant at 5%; *** significant at 1%.

Models 1–3 in Table E report the unweighted results that are visualized in Figures 2 and 3. Models 4–6 show the results with post-stratification weights. We see that the unweighted and weighted results are essentially the same. Chinese investors consider a democracy with policy stability the most attractive and an autocracy with policy instability the least attractive. If we hold the level of policy volatility constant, democracy is always preferred over autocracy. Finally, policy risk plays a much more important role than regime type in firm executives' assessment of business environments.

¹Manufacturing is further disaggregated at the two-digit level. Some two-digit industries are combined due to a small number of observations in these industries.

²Large weights are trimmed such that all weights fall within the range of 0.3 to 3.

Table F shows our repeated analysis of firms’ market entry decisions in Figure 4 with post-stratification weights. The results with and without post-stratification weights are largely the same. The only difference is that the coefficient of Vignette 3 (a democracy with policy instability) was not significant in Model 1 but becomes statistically significant at the 10% level in Model 2. That means that when policy uncertainty is high, Chinese investors would still rather enter a democracy than an autocracy.

Table F: Market Entry (Probit)

	(1)	(2)
	Unweighted	Weighted
Democracy & Policy Stability (V1)	1.64*** (0.46)	2.12*** (0.48)
Autocracy & Policy Stability (V2)	1.48*** (0.38)	2.06*** (0.47)
Democracy & Policy Instability (V3)	0.36 (0.36)	0.76* (0.43)
Constant	-0.49** (0.23)	-0.78*** (0.25)
N	93	92
Pseudo R^2	0.31	0.31

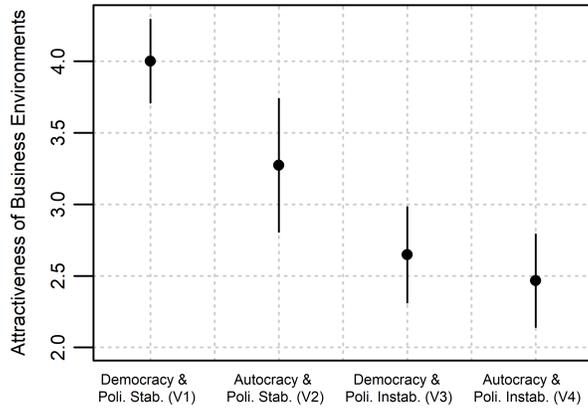
Note: Standard errors in parentheses; * significant at 10%; ** significant at 5%; *** significant at 1%.

III Replication of the Vignette Experiment

To examine whether firm executives hold consistent preferences, we replicated our vignette experiment in the 2015 module of CODIS. In the replication experiment, we used the exact same wording about political regime type and levels of political uncertainty and the same answer options regarding the attractiveness of the business environments and market entry decisions. The baseline conditions in the hypothetical country were described slightly differently. “Country [X] is a middle-income developing country with a population of 30 million. This country is politically stable, has good infrastructure and a relatively large domestic market, and is open to foreign investors. Over the past three years, the average annual economic growth rate in this country is 4.5%. The leader of this country *is/is not* democratically elected. In the past few years, the country’s currency, fiscal, taxation, and tariff

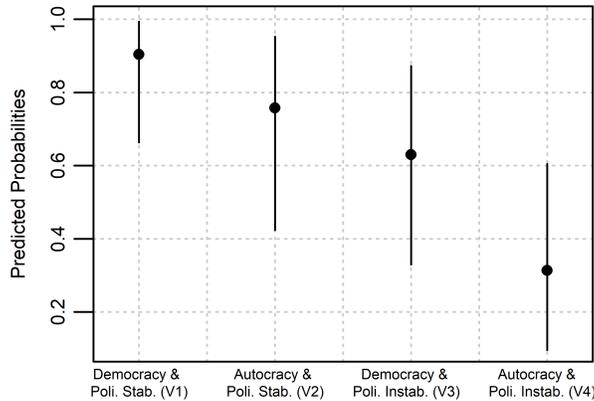
policies have been *stable/adjusted frequently*.”

Figure A: Attractiveness of Business Environments (Replication Experiment)



Note: Plots of mean attractiveness scores by treatment groups. Vertical lines are 95% confidence intervals.

Figure B: Probability of Market Entry (Replication Experiment)



Note: Plots of the probabilities of market entry by treatment groups. Vertical lines are 95% confidence intervals.

Figure A shows the attractiveness scores across the treatment groups for overseas investors and Figure B presents the probabilities of market entry.³ The results are consistent with those in Figures 2 and 3 in the paper. Firm executives consider a democracy with policy stability the most attractive and an autocracy with policy instability the least attractive. Chinese investors continue to show no preference for autocracies and high sensitivity to policy risk. When the level of policy uncertainty

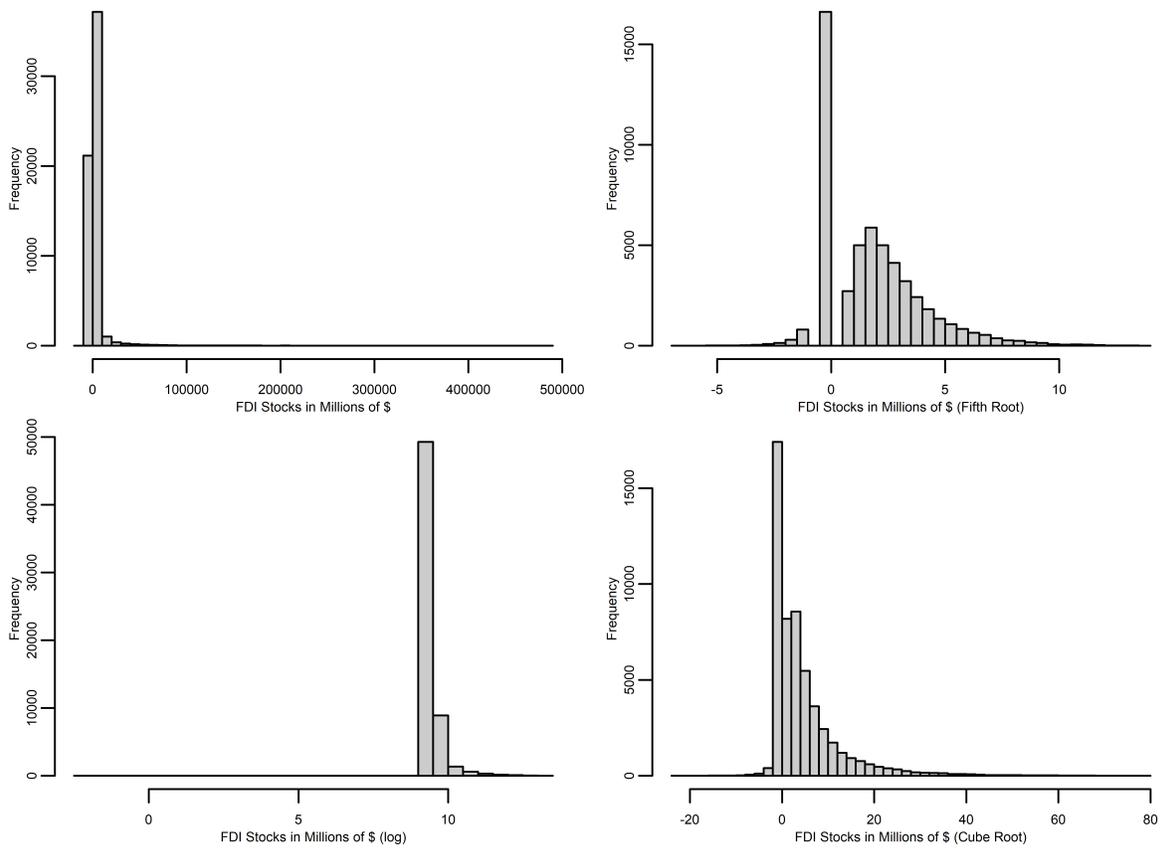
³Table I in Appendix V shows that pre-treatment covariates are balanced across the four groups.

is high, these investors are more likely to enter a democracy than an autocracy, as shown in Figure B. These results give us confidence that firm executives have consistent preferences about different business environments.

IV Transformation of the FDI Stock Variable

FDI stock data have a highly skewed distribution (see the top-left panel of Figure C), which can make the empirical results sensitive to extreme values or outliers. In Table 2, we take the fifth root of the FDI stock variable to adjust for its skewed distribution. The fifth root transformation has two advantages: first, it yields an approximately normal distribution (see the top-right panel of Figure C); second, it can handle negative values because bilateral FDI stocks are negative in cases where debt to parent companies is larger than accumulated FDI. Another commonly used method to address a skewed distribution is to take the natural logarithm of the variable by adding a minimal positive constant to make all values positive. In this case, the logarithm transformation does not work well (see the bottom-left panel). The fifth root also deals with the skewness better than the cube root (see the bottom-right panel).

Figure C: Transformations of the FDI Stock Variable



V Covariate Balance Checks

Table G: Sample Balance Check (ANOVA): Full Sample

	Group 1		Group 2		Group 3		Group 4		F-Stat	$P > F$	N
	Mean	N	Mean	N	Mean	N	Mean	N			
Sales 2013 (log)	8.82 (0.17)	149	9.15 (0.19)	141	9.19 (0.20)	119	9.08 (0.19)	130	0.94	0.42	539
Employees (log)	5.05 (0.14)	157	5.18 (0.16)	149	5.27 (0.17)	126	5.35 (0.16)	133	0.90	0.44	565
ATFP	2.78 (0.14)	139	3.04 (0.12)	130	2.92 (0.12)	115	2.83 (0.14)	122	0.80	0.50	506
SOEs	0.04 (0.02)	165	0.11 (0.02)	159	0.10 (0.03)	131	0.05 (0.02)	146	2.91	0.03	601
Private	0.80 (0.03)	165	0.78 (0.03)	159	0.79 (0.04)	131	0.84 (0.03)	146	0.20	0.90	601
Foreign	0.16 (0.03)	165	0.11 (0.03)	159	0.11 (0.03)	131	0.12 (0.03)	146	0.78	0.51	601
Primary	0.03 (0.01)	165	0.03 (0.01)	159	0.04 (0.02)	131	0.04 (0.02)	146	0.15	0.93	601
Manufacturing	0.75 (0.03)	165	0.68 (0.04)	159	0.74 (0.04)	131	0.75 (0.04)	146	1.99	0.11	601
Service	0.22 (0.03)	165	0.29 (0.04)	159	0.22 (0.04)	131	0.21 (0.03)	146	2.05	0.11	601

Note: Standard errors in parentheses.

Table H: Sample Balance Check (ANOVA): Overseas Investors

	Group 1		Group 2		Group 3		Group 4		F-Stat	$P > F$	N
	Mean	N	Mean	N	Mean	N	Mean	N			
Sales 2013 (log)	9.83 (0.38)	30	10.71 (0.36)	30	10.56 (0.41)	25	10.24 (0.27)	37	1.18	0.32	122
Employees (log)	5.28 (0.38)	31	6.19 (0.30)	31	6.16 (0.35)	29	6.30 (0.21)	39	2.36	0.07	130
ATFP	3.08 (0.23)	26	3.45 (0.28)	27	3.29 (0.26)	24	3.07 (0.22)	37	0.56	0.65	114
SOEs	0.00	33	0.13 (0.06)	31	0.10 (0.06)	30	0.00	40	3.16	0.03	134
Private	0.85 (0.06)	33	0.81 (0.07)	31	0.87 (0.06)	30	0.93 (0.04)	40	0.73	0.53	134
Foreign	0.15 (0.06)	33	0.06 (0.04)	31	0.03 (0.03)	30	0.08 (0.04)	40	1.06	0.37	134
Primary	0.00	33	0.03 (0.03)	31	0.03 (0.03)	30	0.08 (0.04)	40	0.96	0.42	134
Manufacturing	0.82 (0.07)	33	0.61 (0.09)	31	0.67 (0.09)	30	0.83 (0.06)	40	2.02	0.11	134
Service	0.18 (0.07)	33	0.35 (0.09)	31	0.30 (0.09)	30	0.10 (0.05)	40	2.73	0.05	134

Note: Standard errors in parentheses.

Table I: Sample Balance Check (ANOVA): Replication Experiment

	Group 1		Group 2		Group 3		Group 4		F-Stat	$P > F$	N
	Mean	N	Mean	N	Mean	N	Mean	N			
Sales 2014 (log)	10.43 (0.77)	17	9.40 (0.98)	15	11.00 (0.57)	17	10.60 (0.91)	20	0.62	0.60	69
Employees (log)	6.30 (0.59)	18	6.06 (0.69)	16	6.07 (0.57)	20	5.55 (0.66)	21	0.27	0.85	75
ATFP	2.66 (0.27)	17	2.38 (0.83)	15	3.28 (0.42)	17	2.98 (0.39)	16	0.60	0.62	65
SOEs	0.33 (0.11)	18	0.38 (0.13)	16	0.30 (0.11)	20	0.32 (0.10)	22	0.08	0.97	76
Private	0.56 (0.12)	18	0.56 (0.13)	16	0.60 (0.11)	20	0.64 (0.10)	22	0.11	0.96	76
Foreign	0.11 (0.08)	18	0.06 (0.06)	16	0.10 (0.07)	20	0.05 (0.05)	22	0.25	0.86	76
Primary	0.06 (0.06)	18	0.06 (0.06)	16	0.10 (0.07)	20	0.14 (0.08)	21	0.35	0.79	75
Manufacturing	0.50 (0.12)	18	0.44 (0.13)	16	0.65 (0.11)	20	0.52 (0.11)	21	0.57	0.63	75
Service	0.44 (0.12)	18	0.50 (0.13)	16	0.25 (0.10)	20	0.33 (0.11)	21	0.96	0.42	75

Note: Standard errors in parentheses.