

Long-Arm Deterrence: Judicial Reach and Multinational Corporations in Authoritarian Regimes

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Abstract

Domestic judiciaries help convey state interests and preferences. In this article, we argue that a state's integration into the global governance and economic order incorporates extraterritorial subjects into the set of actors that the domestic judiciary can influence beyond its sovereign boundaries. Therefore, the effect of domestic court proceedings can reach foreign jurisdictions, even if foreign countries do not change their own policies. Specifically, we take advantage of the expansion of the Foreign Corrupt Practices Act (FCPA) jurisdiction as an exogenous instrument in limiting multinational corporations' (MNCs) corrupt exchanges with state-owned enterprises in authoritarian regimes. Using a new dataset on MNC lawsuit activities in China, we show that the new legal restraints have a long-arm deterrent effect by decreasing the litigation advantages of MNCs that form joint venture partnerships with state-owned enterprises. Judgments by an independent U.S. judiciary can affect the rulings of a dependent Chinese judiciary. Moreover, by employing a difference-in-differences design, we find that the extraterritorial deterrent effect leads to worse investment performance for U.S.-listed firms operating in China's state-dominated sectors. This article advances our understanding of foreign direct investment in authoritarian regimes, MNCs' risk-mitigation strategies, and the interactions between domestic and transnational legal institutions.

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1 Introduction

Do judicial rulings in a country's domestic courts affect extraterritorial jurisdictions? States sometimes conduct policy-making through judicial channels, especially in common law countries. Conventional research has focused on how court rulings may affect regulation and create new policies in domestic settings. However, little research has directly examined the far-reaching impact of domestic court rulings on foreign policy outcomes in terms of regulating the behavior of subjects in foreign jurisdictions.¹

Several recent incidents demonstrate the ability of domestic courts to assert national interests when foreign actors and jurisdictions are involved. For example, a Chinese local court issued an injunction order that bars a U.S. technology-patent company from litigating in an Indian court in order to collect licensing fees from a Chinese smartphone-maker. However, the U.S. firm still won a ruling in an Indian court that prohibits enforcement of the Chinese injunction order.² This incident demonstrates the increasingly contentious use of domestic judiciaries in geopolitical struggles, which is often played out in great power politics. Large economies' exertion of extraterritorial jurisdiction has become a toolkit in achieving international goals and become a source of diplomatic tensions.

In this article, we argue that domestic judiciaries can be an effective mechanism of expressing state interests and preferences. A sovereign state's integration into the global governance regime and connections with the global economic order provide the government with jurisdictions over an expansive set of transnational actors, including multinational corporations (MNCs) in foreign countries. In this way, the state's domestic judicia-

¹Notably, Kaczmarek and Newman (2011) find that domestic law in powerful states can affect policy implementation in other countries.

²See a recent news article on a patent dispute at <https://www.scmp.com/tech/article/3128009/china-tests-long-arm-its-law-xiaomi-and-huaweis-international-patent-battles>. Accessed on April 5, 2021.

ries have the potential to influence the conduct of actors operating in foreign territories, thereby extending the reach of domestic judicial rulings beyond a nation state's sovereign boundary.

We examine how a transnational channel can exert a sovereign state's policy influence. We focus on the Foreign Corrupt Practices Act (FCPA), a U.S. statute that sanctions corporate bribery in non-U.S. territories by entities with deemed connections with the United States. We argue that multinational corporations originating from signatory countries to the OECD (Organisation for Economic Co-operation and Development) Anti-Bribery Convention are under the influence of U.S. court decisions over the FCPA. In particular, the expansion of the FCPA's jurisdiction to target corrupt exchanges with state-owned enterprises (SOEs) affects MNCs' engagement with SOEs in state-dominated economies.

We take advantage of a U.S. appellate court ruling in 2014 that expanded the definition of "instrumentality" of a government and ruled that employees of SOEs are considered "foreign officials" under the FCPA. The ruling provided the legal basis for U.S. regulators to enforce the law against firms striking corrupt arrangements with SOEs in foreign countries. Using an original dataset on MNC lawsuit activities in China, we find that the new legal constraints significantly decrease the litigation advantages of MNCs that form joint venture partnerships with SOEs. The U.S. court ruling may not have been intended to directly interfere with MNCs' business operations or regulate the relationship between MNCs and SOEs in foreign markets. Nonetheless, the results imply that the enactment of new policies through domestic judicial channels may have extraterritorial effects for foreign jurisdictions due to the affected subjects' connections to the global anti-corruption regime. Moreover, we conduct a difference-in-differences analysis to examine the investment performance of China-based firms with listings in the U.S. stock markets. We similarly find that U.S.-listed firms operating in China's SOE-dominated sectors suffer financially from the expansion of FCPA oversight, through their connections to the U.S. financial system.

This article engages with an emerging stream of literature on the interactions between domestic and transnational legal orders (Farrell and Newman 2019; Halliday and Shaffer 2015; Shaffer 2012). Recent scholarship suggests that domestic institution and laws may have impacts beyond the law-making nation-state, through mechanisms such as a state's own institutional capacity and utilization of global interdependence (Farrell and Newman 2014; Bach and Newman 2007). Most relatedly, Kaczmarek and Newman (2011) find that extraterritorial enforcement of the FCPA leads to the implementation of foreign bribery regulations in the target countries.

This article provides evidence of an even more powerful mechanism: domestic jurisdictions can affect the behavior of extraterritorial actors, even if foreign countries do not change their own policies. Judgments by an independent U.S. judiciary shape the conduct and ruling outcomes of a much less independent Chinese judiciary. The results showcase the far-reaching international consequences of extraterritorial judicial effects. The judiciary of a country where state-ownership of the economy is much less prevalent helps regulate MNCs' interactions with SOEs in a heavily state-dominated economy. The results also imply that powerful states that are deeply-embedded in global governance regimes can impose their national objectives and preferences through affecting actors and institutions outside of their sovereign borders.

2 Transnational Legal Regimes and Judicial Reach

Existing research on cronyist state-business relations in authoritarian regimes highlights the various corrupt arrangements that private firms make with state authorities (Diwan, Keefer and Schiffbauer 2020; Naughton and Tsai 2015). A noticeable feature across institutional contexts is the importance of establishing partnerships with state-owned enterprises, especially in highly regulated or protected sectors where regime insiders like SOEs play a dominant role. Chen and Xu (2021) argue that establishing joint venture

partnerships with authoritarian regime insiders can effectively commit the authoritarian state to protecting foreign investors' interests. Therefore, multinational corporations that form joint venture partnerships with state-owned enterprises are more likely to obtain substantial amounts of monetary remedies in host authoritarian courts.

Meanwhile, in response to the increasingly important role of state-controlled firms in the global economy, more regulatory scrutiny has been placed on such actors' state affiliations. The main concern is that states' support for private firms violates the principals of a free market economy in the global marketplace. State-owned firms from developing countries with cronyist capitalist models of development have been accused of utilizing their connections with home governments in market competitions, which could create an unlevel playing field for other competitors with no such state sponsorship.

Building upon the findings of Chen and Xu (2021), we argue that enhanced judicial scrutiny over MNCs' political ties and business dealings with SOEs will decrease state-connected MNCs' litigation advantages in authoritarian courts. The U.S. judiciary, by issuing rulings over a U.S. law with foreign jurisdictions, exercises a form of extraterritorial regulation over foreign subjects. In this way, independent judiciaries may generate extraterritorial effects for dependent authoritarian judiciaries that are susceptible to undue political influence.

3 Exogenous Judicial Intervention

In 2011, Joel Esquenazi and Carlos Rodriguez, two senior executives at Terra Telecommunications, a long-distance telecommunications carrier based in Miami, were convicted by a jury in the Southern District of Florida for violating the U.S. FCPA and were sentenced to jail for 15 and 7 years, respectively. The two persons were found guilty of making bribe payments to officials of a Haitian SOE, Telecommunications D'Haiti, in exchange for a variety of business advantages. Esquenazi and Rodriguez then appealed to the U.S.

Eleventh Circuit Court of Appeals. In 2014, however, the Court of Appeals affirmed their convictions by rejecting the defendants' argument for a limited definition of "foreign officials" under the FCPA. The Court ruled instead that a state-controlled enterprise (e.g., through majority ownership) is an instrumentality of a foreign government such that SOE employees are considered as foreign officials. In August 2014, the Supreme Court denied Esquenazi and Rodriguez's Petition for Writ of Certiorari (FCPA Clearing House 2017), thus the appellate court's ruling stood.

Notably, the ruling in 2014 clarified the previously ambiguous judicial standards for enforcement against government "instrumentalities" and significantly empowered the U.S. Department of Justice and the Securities and Exchange Commission to target firms' corrupt exchanges with foreign SOEs (Boedecker 2015). We expect the ruling to significantly deter MNCs' informal dealings with SOEs, given that the MNCs are directly or indirectly under the FCPA's jurisdiction (Brewster 2017). In our empirical analysis, with the exception of Singapore, the MNC litigants in the dataset are all from parties to the OECD Anti-Bribery Convention (Jensen and Malesky 2018). Although not a signatory to the Convention, Singapore has a robust legal framework for extradition, mutual legal assistance, recovery of proceeds of corruption, and enforcement of foreign confiscation orders with major OECD countries (ADB & OECD 2007). Therefore, the MNCs in the dataset are all subject to the OECD anti-bribery framework. U.S. authorities can either directly enforce FCPA provisions on these firms or seek legal assistance from OECD Convention member states in prosecution and imposing sanctions.

Moreover, we suggest that the magnitude of the deterrent effect varies across these MNCs. First, the ruling's negative impact should be more pronounced for MNCs operating in state-dominated industries protected by regulatory barriers than for firms in sectors with more liberal market access regimes. In industries dominated by state-affiliated firms, SOEs are more common throughout the value chain (Chow 2012). There is a higher likelihood that, in order to operate in the industry and to obtain and retain business, MNCs

need to form joint venture partnerships with SOEs who possess privileged market status and rent-seeking opportunities. In contrast, firms operating in more liberalized, competitive industries do not need to engage in corrupt exchanges with state-affiliated actors as much, and are thus less exposed to external anti-corruption risks. Therefore, we expect firms operating in non-state-dominated sectors to be less affected by the 2014 ruling.

Second, the ruling should have a stronger deterrent effect for SOE joint ventures than for other types of MNCs. The external ruling should incentivize MNCs under transnational anti-corruption scrutiny to reduce their exposure to noncompliance risks in their daily interactions with SOEs. As a result, MNCs become less capable of generating institutional rents through SOE partnership in state-dominated sectors. Therefore, we expect SOE JVs' adjudicative advantages to diminish because of the U.S. ruling. Meanwhile, for all other MNCs not adopting the SOE JV structure in the highly regulated sectors, their adjudicative disadvantages should be mitigated. Firms that are not willing or able to conduct illegal dealings with SOEs in state-dominated industries may even benefit from the ruling when their industry competitors lose their political privileges as a consequence of the ruling's deterrence on maintaining corrupt relationships.

4 The MNC Litigation Dataset

To examine MNCs' performance in using local courts to assert and protect their rights when the host country lacks judicial independence, Chen and Xu (2021) construct a new dataset on MNCs' lawsuit outcomes in China. In 2013, the Supreme People's Court (SPC) of China started to require all levels of courts to publicize judgment documents online within seven days of judicial decisions,³ as an effort to increase judicial transparency.

³[http://news.xinhuanet.com/english/china/2013-11/27/c_132923578](http://news.xinhuanet.com/english/china/2013-11/27/c_132923578.htm)
.htm.

The SPC established and maintains an online database, China Judgement Online,⁴ which contains court rulings in all levels of Chinese courts since 1996.⁵ They use these legal records as the main source of our dataset.

A major concern about this database is the potential selection bias in publishing the legal documents. It might be possible that Chinese courts prefer publicizing rulings and judgements that seem impartial and professional. Chen and Xu (2021) suggest three reasons that mitigate this concern. First, based on readings of hundreds of the records, many of them are of poor quality in terms of both writing proficiency and legal reasoning. Some of the writings are not even complete. There does not appear to be a stringent screening and censorship process prior to publication. Second, even if the bias toward publicizing “better” documents exists, it would go against the finding that different types of litigants receive significantly different adjudicative decisions. Relatedly, if Chinese courts wish to project a foreign-friendly image by uploading documents that predominantly favor MNCs, MNCs should be overwhelmingly winning the lawsuits. However, this is not what is observed. Third, their interviews with front-line judges presiding over foreign-related cases confirm that uploading these legal documents is a tedious, time-consuming administrative task. Most judges struggle to find time to upload these records, which makes it infeasible to systematically select only “good” documents.⁶

The legal documents involving foreign litigants in Chinese courts are web-scraped from China Judgement Online. The coders searched for all cases where a foreign company is one of the litigating parties, either as the plaintiff or as the defendant. The current

⁴<https://wenshu.court.gov.cn/>.

⁵The website shows that, as of March 24, 2020, it stored approximately 89 million court documents, including 56 million documents on civil lawsuits and 2.5 million documents related to administrative lawsuits.

⁶The fieldwork and related interviews were conducted during the summers of 2018 and 2019, under [University] IRB protocols (IRB00096709 and IRB00103588).

dataset focuses on China's major FDI inflow origins—Australia, France, Germany, Japan, Singapore, South Korea, the U.K., and the U.S.⁷ Given their dominant positions in China's inward FDI, firms from these countries should also be involved in the great majority of foreign-related cases in Chinese courts.⁸ As an improvement over existing research on investor-state dispute settlement that focuses on disputes between foreign investors and host governments, the new dataset enables us to examine legal disputes between MNCs and private actors in the host economy.

The primary interest is the ruling outcome for the plaintiff who brings a claim before the court. We measure lawsuit outcomes in several ways. First, we measure whether the court's legal arguments and findings are supportive of or against the plaintiff's claims. We examine whether the court expresses clear support or mostly favorable opinions toward the plaintiff. Second, we consider whether the plaintiff pays less court fees than the defendant. In China, judges usually ask the party that they rule against to pay higher litigation-related fees and expenses to the court than the party receiving favorable ruling (Maxeiner 2010). Therefore, the relative allocation of court fees indicates which side has the upper hand in the lawsuit. Third, we look at the amount of monetary compensation awarded to the plaintiff. Following the tradition in corporate lawsuits literature (e.g., Lu, Pan and Zhang 2015; Wang 2018), we examine whether any positive amount of monetary compensation is awarded to the plaintiff. We then raise the threshold of defining lawsuit victory by looking at whether the plaintiff is awarded compensation that is greater than

⁷MNCs' nationality is identified in a broad sense, based on either their registered locations or their headquarters. To be included, the litigant needs to be (1) from one of these home countries and (2) listed as the first of the group of plaintiffs/defendants.

⁸Considering the strong ethnic ties between Hong Kong/Macao/Taiwan and mainland China as well as the fact that firms from these localities receive different policy treatments than other foreign companies, we do not include firms from Hong Kong/Macao/Taiwan in this study.

a quarter, half, or the full amount of the plaintiff's claim.⁹

The dependant variables use both subjective and objective measurements. While judges are often unequivocal in their opinions toward litigants' claims, sometimes the court's ruling entails a mixed basket of messages that require closer reading by the coder in order to reach relatively consistent and unambiguous conclusions. Therefore, the first measure involves more subjective understanding and interpretation of the court's judgment. Meanwhile, a judge's explicit support for the plaintiff's claims does not always translate into adequate compensation for the injured party. The supposedly more objective measurements of monetary compensations thus aim to capture the sufficiency of legal remedies.

The main explanatory variable is the corporate structure of the MNC. To identify joint venture partnerships between MNCs and SOEs, the coders first check whether the corporate entity is registered as a JV with the Chinese regulatory authority, the State Administration for Industry and Commerce (SAIC). As a specific type of JVs, the entity is further coded as *SOE JV* if the MNC's JV partner is a state-owned enterprise or has a state agency as its majority shareholder.¹⁰

Chen and Xu (2021) find that SOE JVs are more capable of engaging in judicial capture by maneuvering legal proceedings and outcomes. More specifically, they show that joint ventures between foreign firms and host SOEs are more likely to obtain *substantial* lawsuit victories than other types of foreign firms. In the following section, we examine how this result is shaped by the 2014 U.S. ruling, as an exogenous source of judicial intervention that has extraterritorial effects on Chinese judicial outcomes. Although it is almost im-

⁹These outcome variables are coded 0 if the plaintiff claims no monetary compensation. We do not consider the ratio of the ruled amount to claimed amount because the ratio would be undefined if the claimed amount is 0.

¹⁰This information is hand-coded based on government registries (including the SAIC), firms' websites, and data service providers such as Qichacha and Tianyancha.

possible to directly observe the changes in how SOE JVs dictate terms of the judgements behind close doors, the shifts in adjudicative patterns provide indirect evidence for the hypothesized mechanism of transnational judicial effects on domestic regulation.

5 Research Design

We exploit the 2014 ruling as a quasi-exogenous source of variation in the capacity of SOE JV's influence-peddling over the judiciary. We examine whether the 2014 ruling has heterogeneous effects on lawsuit outcomes depending on whether the MNC is operating in state-dominated industries and whether the MNC is an SOE JV. The idea here is similar to a difference-in-difference-in-differences design (Imbens and Wooldridge 2007). We use the following model to estimate the heterogeneous extraterritorial effects of the 2014 ruling.

$$\begin{aligned}
Y_{i,c,t} = & \beta_0 + \beta_1 Ruling_t \times StateInd_i \times SOEJV_i \\
& + \beta_2 Ruling_t \times StateInd_i + \beta_3 Ruling_t \times SOEJV_i + \beta_4 StateInd_i \times SOEJV_i \\
& + \beta_5 Ruling_t + \beta_6 StateInd_i + \beta_7 SOEJV_i \\
& + \mathcal{X}'_{i,t} \Gamma + \mathcal{Y}'_c \Phi + \epsilon_{i,c,t} \quad (1)
\end{aligned}$$

where $Y_{i,c,t}$ denotes the lawsuit outcome for firm i in case c in year t . $Ruling_t$ indicates whether the lawsuit is adjudicated before or after 2014. $StateInd_i$ is a dichotomous variable representing whether firm i operates in an SOE-dominated industry. $SOEJV_i$ is a dummy variable signifying whether firm i is a joint-venture firm between an MNC and Chinese SOE. $\epsilon_{i,c,t}$ is the error term. Similar to Chen and Xu (2021), we control for a set of litigant-level and lawsuit-level variables, $\mathcal{X}'_{i,t}$ and \mathcal{Y}'_c , that may confound the effect of the external legal intervention, including the plaintiff's home country, court location, case type, ruling procedure, and opponent nationality.

The coefficient of interest is β_1 , that is, the coefficient on the three-way interaction term. It estimates the average difference between the following two changes in win rates as a consequence of the 2014 ruling: (1) the change in the average win rate difference between SOE JVs operating in *state-dominated* industries and SOE JVs operating in other sectors; (2) the change in the average win rate difference between other foreign firms (i.e., MNCs other than SOE JVs) operating in *state-dominated* industries and other foreign firms operating in *state-dominated* sectors. If the implied heterogeneity between SOE JVs and other MNCs as well as between state-dominated industries and non-state-dominated industries exist, then we should expect a negative and statistically significant β_1 . Meanwhile, we should not expect to see a negative and significant β_2 , as the ruling should not deter other MNCs in state-dominated industries. If anything, β_2 should be positive, as the less-privileged firms' competitors weaken their political control over the judiciary.

The information about state-dominated sectors comes from the Catalogue of Industries for Guiding Foreign Investment, maintained by the National Development and Reform Commission and the Ministry of Commerce of China. The Catalogue classifies all industries into three categories: encouraged, restricted, and prohibited. In the "encouraged" category, foreign investments face little regulatory restrictions on market access and operation. Instead, local governments often compete with each other to offer attractive investment incentive packages (Chen 2017). Foreign investors in these sector generally do not need to build local connections in order to receive MNC-friendly policies.

However, in the "prohibited" category, foreign investors are technically not allowed to enter and operate in those industries, although there is still uncertainty and room for maneuver in practice.¹¹ In the "restricted" category, foreign investment is still allowed to en-

¹¹Examples include "Fishing in the sea area and inland waters under China's jurisdiction" and "Movie production companies, distribution companies, and cinema companies."

ter the market, but is subject to various ownership and corporate structure constraints.¹² Overall, the industries listed under “restricted” and “prohibited” categories are generally considered “strategic” industries and tend to be dominated by SOEs (Hsueh 2016), or require foreign investors to establish JV partnerships with SOEs (Hsueh 2011), even though the formal regulations do not explicitly specify “Chinese parties” as state-owned or state-controlled entities.

We use the 2017 Catalogue to create a proxy for the extent to which SOEs dominate an industry.¹³ *StateInd* is coded 1 if the firm operates in a “restricted” or “prohibited” industry, and 0 otherwise.¹⁴ In our dataset, in 29.0% of the cases the plaintiff firm operates in a state-dominated industry, and in 5.2% of the cases the plaintiff firm is an SOE JV. Moreover, 73.5% of the cases were adjudicated after 2014. We include the same set of control variables as the main analysis except for year and industry.

Moreover, the control variables include the adjudicating court’s location (province), the case type (criminal, civil, IPR, administrative, enforcement, and compensation cases), ruling procedure, the plaintiff’s headquarter country, and whether the MNC plaintiff sues

¹²For example, in the industry of “Exploration and exploitation of oil and natural gas”, foreign investments are “limited to Chinese-foreign equity or contractual joint ventures.” The restrictions also apply to a variety of manufacturing sectors. For example, the “Design, manufacturing and repair of vessels” industry requires “Chinese parties as controlling shareholders.”

¹³The government authorities periodically revise the Catalogue, and the general policy trend is reducing the number of restricted and prohibited industries and opening up more sectors for foreign and private investments. Therefore, we use the 2017 Catalogue to code the industries that have always been protected.

¹⁴The industries listed under “restricted” and “prohibited” categories in 2017 have mostly remained so since the beginning of the industrial policy. The 2017 Catalogue can be accessed at http://www.fdi.gov.cn/1800000121_39_4851_0_7.html.

against a domestic defendant.

6 Empirical Results

Table 1 displays the results of the heterogeneous effects arising from the 2014 exogenous ruling. With the exceptions of the first (*Judgement*) and sixth ($Comp \geq full$) measures of lawsuit outcomes, the coefficients of the triple interaction term are all negative and statistically significant. The coefficient for the first outcome variable is in the expected negative direction, though the result is not statistically significant. A potential explanation is that SOE JVs do not care much about obtaining favorable judicial opinions in the first place; they are more interested in winning actual monetary compensation, as we hypothesized. Moreover, the coefficient of the sixth outcome, which is the most substantial victory measure for the plaintiff, is indistinguishable from 0. A possibility is that, since awarding the full amount of claim is a very rare judicial decision that indicates particularly strong ties between the plaintiff and the court, the extraterritorial judicial intervention is not powerful enough to disrupt this kind of political exchanges.

However, the size of the deterrent effect is quite substantial for other measures of lawsuit outcome. For example, regarding the most common measure (i.e., $Comp > 0$), the 2014 ruling yields a 13.5 percentage points decrease in the win rates for SOE JVs in state-dominated industries relative to other types of MNCs in those sectors. Since triple-interactions are hard to interpret substantively, we calculate the changes in predicted win rates regarding the same outcome in Table 2.¹⁵ The results confirm that, in state-dominated industries, SOE JVs perform worse after the 2014 ruling, while the adjudicative disadvantages of other types of foreign firms have been reduced. This pattern is not observed in other industries. Overall, the results suggest that the 2014 U.S. court ruling does have a negative impact on the lawsuit outcomes of SOE JVs in the state-dominated

¹⁵The changes in win rates regarding other outcome measures share a similar pattern.

Table 1: Extraterritorial effects arising from the 2014 exogenous ruling

	<i>Dependent variable:</i>					
	<i>Judgement</i>	<i>Court fee</i>	<i>Comp > 0</i>	<i>Comp > $\frac{1}{4}$</i>	<i>Comp > $\frac{1}{2}$</i>	<i>Comp \geq full</i>
Ruling \times StateInd \times SOE JV	-0.039 (0.071)	-0.160 ⁺ (0.086)	-0.135** (0.049)	-0.092* (0.037)	-0.121*** (0.035)	-0.010 (0.014)
Ruling \times StateInd	0.100*** (0.019)	0.056* (0.027)	0.072 (0.057)	0.0002 (0.055)	-0.017 (0.036)	-0.002 (0.041)
Ruling \times SOE JV	-0.016 (0.037)	0.061 (0.037)	0.100* (0.043)	0.109* (0.046)	0.131*** (0.034)	0.030 (0.033)
StateInd \times SOE JV	0.037 (0.051)	0.305*** (0.072)	0.382*** (0.062)	0.379*** (0.077)	0.482*** (0.079)	0.291*** (0.059)
Ruling	-0.049*** (0.014)	-0.056*** (0.017)	-0.065 ⁺ (0.038)	-0.028 (0.026)	-0.040* (0.016)	-0.021 (0.015)
StateInd	-0.042* (0.021)	-0.034 ⁺ (0.018)	0.023 (0.059)	0.087 ⁺ (0.046)	0.089*** (0.026)	0.057 ⁺ (0.033)
SOE JV	0.067* (0.027)	-0.007 (0.025)	-0.082 ⁺ (0.043)	-0.067 ⁺ (0.040)	-0.120*** (0.034)	-0.046 (0.030)
Other controls:	plaintiff home country, court location, ruling procedure, case type, domestic opponent					
Observations	3,634	2,456	2,343	2,319	2,319	2,319
Adjusted R ²	0.292	0.092	0.203	0.127	0.116	0.103

Note: Two-way robust standard errors clustered by province and industry are in parentheses.

⁺ $p < 0.1$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

Table 2: Changes in predicted win rates (%)

<i>Outcome: Comp > 0</i>	SOE JVs	Other MNCs	Relative change in diff.
State-dominated sectors	73.3 \rightarrow 66.7	29.1 \rightarrow 35.7	-13.2
Other sectors	25.0 \rightarrow 24.2	31.6 \rightarrow 22.4	8.4

Note: pre-2014 win rates \rightarrow post-2014 win rates.

sectors in China, although the impact has its limitations.

7 Additional Analysis of the Extraterritorial Effects

We also conduct additional analysis of the extraterritorial effects on MNC's lawsuit outcomes arising from the exogenous 2014 ruling. We take into account several additional control variables in the analysis. First, SOE JVs, as a long-term strategic partnership, tend to operate in China longer than other firms. Therefore, it is possible that the longer experience of business operation and greater familiarity with the local environment that give managers an edge in navigating the judicial system. Therefore, we control for the plaintiff firm's experience of operating in China, measured by the number of years of China operation.

Second, joint ventures between SOEs and foreign investors tend to be large firms and important contributors of tax and employment in the local economy. Larger firms may be associated with greater informal influence over government officials. Therefore, we control for the size of the plaintiff firm measured by total assets.

Third, nearly a third of MNCs in this dataset are publicly listed firms. MNCs listed in major financial markets are usually constrained by higher corporate integrity standards, such as stronger disclosure requirements. In contrast, MNCs who are not publicly listed are not subject to such external sources of regulatory accountability and scrutiny. Therefore, it is possible that listed MNCs are more proficient in conducting transnational litigation and using legal channels instead of illegal means to advance their interests. In that case, it is their legal capacity and professional skills that generate the adjudicative advantage. Therefore, we also control for whether the MNC is a publicly listed firm.

Considering the missingness of these variables, we include each of the additional variables in turn in Tables 3 to 5. Then, we simultaneously consider all of the three variables in Table 6. As we can find from the tables, the three-way interaction term remains statistically significant for most of the outcomes regarding substantial reparations.

Moreover, to provide additional evidence of our theory, we examine the impact of the U.S. court ruling for private JVs, that is, joint venture partnerships between foreign

investors and private domestic firms. Compared with SOE JVs, private JVs have fewer interactions with SOEs aimed at leveraging SOEs' political resources to influence judicial institutions. Therefore, private JVs are less exposed to corrupt exchanges with SOEs and, hence, fewer FCPA noncompliance risks. If our theory is correct, then potential FCPA sanctions for bribing SOEs may relatively benefit private JVs operating in state-owned sectors. In fact, Table 7 shows that the estimate of the three-way interaction term flips its sign for every outcome variable, and is statistically significant. The results indicate that non-SOE JVs operating in state-dominated sectors are more likely to win lawsuits after the exogenous ruling. Thus, private JVs actually benefit from potential FCPA sanctions for bribing SOEs, which concurs with our arguments.

Table 3: Extraterritorial effects (controlling for China experience)

	<i>Dependent variable:</i>					
	<i>Judgement</i>	<i>Court fee</i>	<i>Comp > 0</i>	<i>Comp > $\frac{1}{4}$</i>	<i>Comp > $\frac{1}{2}$</i>	<i>Comp \geq full</i>
Ruling \times StateInd \times SOE JV	-0.086 (0.082)	-0.151 ⁺ (0.083)	-0.138** (0.043)	-0.084** (0.029)	-0.122** (0.041)	-0.015 (0.023)
Ruling \times StateInd	0.101*** (0.025)	0.086** (0.028)	0.080* (0.040)	0.006 (0.045)	-0.013 (0.032)	-0.006 (0.032)
Ruling \times SOE JV	-0.0004 (0.044)	0.059 (0.037)	0.097** (0.036)	0.099* (0.041)	0.123*** (0.033)	0.028 (0.032)
StateInd \times SOE JV	0.065 (0.066)	0.311*** (0.070)	0.360*** (0.047)	0.360*** (0.068)	0.465*** (0.085)	0.278*** (0.068)
Ruling	-0.052*** (0.010)	-0.076*** (0.019)	-0.078* (0.033)	-0.035* (0.016)	-0.045** (0.015)	-0.028 ⁺ (0.015)
StateInd	-0.048* (0.023)	-0.059** (0.022)	0.033 (0.048)	0.094** (0.036)	0.102*** (0.020)	0.065*** (0.017)
SOE JV	0.066 ⁺ (0.035)	-0.014 (0.028)	-0.072 (0.046)	-0.057 ⁺ (0.034)	-0.105** (0.035)	-0.045 (0.029)
Years of China operation	-0.001 (0.001)	0.001 (0.001)	-0.0002 (0.001)	0.001 (0.001)	0.0002 (0.001)	-0.00004 (0.002)
Other controls:	plaintiff home country, court location, ruling procedure, case type, domestic opponent					
Observations	2,995	2,040	1,945	1,923	1,923	1,923
Adjusted R ²	0.298	0.102	0.224	0.134	0.126	0.119

Note: Two-way robust standard errors clustered by province and industry are in parentheses.

⁺ $p < 0.1$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

Table 4: Extraterritorial effects (controlling for firm size)

	<i>Dependent variable:</i>					
	<i>Judgement</i>	<i>Court fee</i>	<i>Comp > 0</i>	<i>Comp > $\frac{1}{4}$</i>	<i>Comp > $\frac{1}{2}$</i>	<i>Comp \geq full</i>
Ruling \times StateInd \times SOE JV	-0.081 (0.151)	-0.250*** (0.061)	-0.178*** (0.036)	-0.201*** (0.026)	-0.248*** (0.024)	-0.056** (0.019)
Ruling \times StateInd	0.098*** (0.014)	0.064* (0.025)	0.087*** (0.021)	-0.005 (0.024)	-0.040 (0.027)	-0.024 (0.033)
Ruling \times SOE JV	-0.039 (0.072)	0.075** (0.029)	0.108** (0.038)	0.109** (0.040)	0.142*** (0.038)	0.046 (0.035)
StateInd \times SOE JV	0.073 (0.115)	0.267*** (0.058)	0.342*** (0.055)	0.420*** (0.044)	0.484*** (0.062)	0.285*** (0.055)
Ruling	-0.052*** (0.015)	-0.077*** (0.015)	-0.091*** (0.023)	-0.056*** (0.015)	-0.067*** (0.015)	-0.043+ (0.025)
StateInd	-0.023 (0.023)	-0.070** (0.024)	0.009 (0.038)	0.087*** (0.018)	0.105*** (0.017)	0.069*** (0.021)
SOE JV	0.079+ (0.047)	-0.037+ (0.019)	-0.109* (0.047)	-0.091** (0.034)	-0.098** (0.033)	-0.047 (0.031)
Total assets	-0.007 (0.022)	0.001 (0.012)	0.072 (0.044)	0.056** (0.017)	0.061*** (0.011)	0.091*** (0.007)
Other controls:	plaintiff home country, court location, ruling procedure, case type, domestic opponent					
Observations	2,011	1,370	1,329	1,313	1,313	1,313
Adjusted R ²	0.292	0.140	0.254	0.144	0.145	0.136

Note: Two-way robust standard errors clustered by province and industry are in parentheses.

+ $p < 0.1$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

Table 5: Extraterritorial effects (controlling for listing status)

	<i>Dependent variable:</i>					
	<i>Judgement</i>	<i>Court fee</i>	<i>Comp > 0</i>	<i>Comp > $\frac{1}{4}$</i>	<i>Comp > $\frac{1}{2}$</i>	<i>Comp \geq full</i>
Ruling \times StateInd \times SOE JV	-0.046 (0.078)	-0.151 ⁺ (0.089)	-0.134*** (0.040)	-0.088*** (0.023)	-0.121*** (0.028)	-0.002 (0.019)
Ruling \times StateInd	0.098*** (0.018)	0.070* (0.028)	0.084 ⁺ (0.043)	0.015 (0.047)	-0.005 (0.034)	0.001 (0.036)
Ruling \times SOE JV	-0.014 (0.042)	0.056 (0.040)	0.087* (0.039)	0.105** (0.040)	0.127*** (0.027)	0.022 (0.027)
StateInd \times SOE JV	0.049 (0.060)	0.310*** (0.068)	0.383*** (0.041)	0.364*** (0.056)	0.467*** (0.077)	0.283*** (0.058)
Ruling	-0.041** (0.016)	-0.067** (0.022)	-0.075* (0.030)	-0.041* (0.017)	-0.050*** (0.011)	-0.029* (0.012)
StateInd	-0.052*** (0.016)	-0.051* (0.024)	0.013 (0.044)	0.082* (0.035)	0.089*** (0.024)	0.053* (0.025)
SOE JV	0.059 ⁺ (0.033)	-0.016 (0.024)	-0.077 ⁺ (0.045)	-0.063 ⁺ (0.037)	-0.113*** (0.034)	-0.047 ⁺ (0.027)
Public listed	0.034 ⁺ (0.020)	0.016 (0.032)	0.042 (0.036)	-0.010 (0.036)	-0.014 (0.015)	-0.003 (0.008)
Other controls:	plaintiff home country, court location, ruling procedure, case type, domestic opponent					
Observations	3,175	2,143	2,044	2,021	2,021	2,021
Adjusted R ²	0.292	0.095	0.219	0.133	0.123	0.110

Note: Two-way robust standard errors clustered by province and industry are in parentheses.

⁺ $p < 0.1$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

Table 6: Extraterritorial effects (including all additional controls)

	<i>Dependent variable:</i>					
	<i>Judgement</i>	<i>Court fee</i>	<i>Comp > 0</i>	<i>Comp > $\frac{1}{4}$</i>	<i>Comp > $\frac{1}{2}$</i>	<i>Comp \geq full</i>
Ruling \times StateInd \times SOE JV	-0.074 (0.150)	-0.236*** (0.068)	-0.152*** (0.041)	-0.190*** (0.029)	-0.247*** (0.024)	-0.058*** (0.017)
Ruling \times StateInd	0.096*** (0.013)	0.067* (0.026)	0.092*** (0.024)	-0.003 (0.029)	-0.038 (0.026)	-0.023 (0.032)
Ruling \times SOE JV	-0.043 (0.072)	0.070* (0.029)	0.085* (0.036)	0.104* (0.041)	0.145*** (0.040)	0.051 (0.036)
StateInd \times SOE JV	0.083 (0.119)	0.266*** (0.054)	0.360*** (0.040)	0.424*** (0.037)	0.485*** (0.059)	0.284*** (0.054)
Ruling	-0.050*** (0.014)	-0.079*** (0.015)	-0.093*** (0.024)	-0.057*** (0.016)	-0.069*** (0.017)	-0.045 ⁺ (0.026)
StateInd	-0.031 (0.021)	-0.081** (0.027)	-0.022 (0.033)	0.077*** (0.016)	0.102*** (0.018)	0.068** (0.021)
SOE JV	0.075 (0.050)	-0.040* (0.019)	-0.104* (0.048)	-0.093** (0.036)	-0.102** (0.033)	-0.052 ⁺ (0.029)
Years of China experience	0.0003 (0.002)	0.001 ⁺ (0.001)	0.001 (0.001)	0.001 (0.002)	0.001 (0.001)	0.0004 (0.003)
Total assets	-0.009 (0.023)	-0.001 (0.012)	0.065 (0.044)	0.054** (0.019)	0.062*** (0.012)	0.092*** (0.007)
Public listed	0.045* (0.019)	0.025 (0.029)	0.096* (0.040)	0.018 (0.048)	-0.004 (0.017)	-0.012 (0.016)
Other controls:	plaintiff home country, court location, ruling procedure, case type, domestic opponent					
Observations	2,000	1,363	1,324	1,309	1,309	1,309
Adjusted R ²	0.294	0.143	0.267	0.145	0.145	0.137

Note: Two-way robust standard errors clustered by province and industry are in parentheses.

⁺ $p < 0.1$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

Table 7: Extraterritorial effects for private joint ventures

	<i>Dependent variable:</i>					
	<i>Judgement</i>	<i>Court fee</i>	<i>Comp > 0</i>	<i>Comp > $\frac{1}{4}$</i>	<i>Comp > $\frac{1}{2}$</i>	<i>Comp \geq full</i>
Ruling \times StateInd \times Private JV	0.125*** (0.012)	0.461*** (0.039)	0.132+ (0.068)	0.183*** (0.016)	0.207*** (0.041)	0.179*** (0.031)
Ruling \times StateInd	0.087*** (0.009)	0.016 (0.034)	0.068** (0.024)	-0.039 (0.028)	-0.082* (0.033)	-0.047+ (0.027)
Ruling \times Private JV	-0.018 (0.037)	-0.049 (0.039)	-0.016 (0.030)	0.027 (0.033)	-0.017 (0.029)	-0.017 (0.041)
StateInd \times Private JV	0.013 (0.053)	-0.200*** (0.022)	0.062 (0.045)	0.017 (0.025)	-0.001 (0.027)	-0.040 (0.030)
Ruling	-0.058*** (0.017)	-0.074*** (0.016)	-0.087*** (0.026)	-0.053** (0.018)	-0.058*** (0.016)	-0.039*** (0.012)
StateInd	-0.022** (0.009)	-0.042* (0.019)	-0.006 (0.018)	0.104*** (0.006)	0.137*** (0.019)	0.089*** (0.017)
Private JVs	0.009 (0.035)	0.026 (0.041)	-0.091** (0.028)	-0.112*** (0.031)	-0.076* (0.032)	-0.041 (0.052)
Years of China experience	0.0002 (0.001)	0.001 (0.002)	0.001 (0.001)	0.002* (0.001)	0.001 (0.001)	0.001 (0.003)
Total assets	-0.010 (0.021)	-0.003 (0.015)	0.073+ (0.040)	0.065*** (0.017)	0.074*** (0.018)	0.103*** (0.019)
Public listed	0.044* (0.022)	0.025 (0.024)	0.102*** (0.029)	0.023 (0.038)	-0.001 (0.022)	-0.012 (0.021)
Other controls:	plaintiff home country, court location, ruling procedure, case type, domestic opponent					
Observations	1,976	1,341	1,317	1,302	1,302	1,302
Adjusted R ²	0.296	0.152	0.268	0.143	0.137	0.133

Note: Two-way robust standard errors clustered by province and industry are in parentheses.

+ $p < 0.1$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.

8 Extraterritorial Judicial Effects on Investment Performance

In this section, we examine the financial implications of the extraterritorial judicial deterrence for China-based firms with listings in the U.S. stock markets. For such firms located in China, their US listing status directly subject them to the jurisdiction of the FCPA. Therefore, we expect that these firms should experience enhanced FCPA oversight over their dealings with SOEs after the 2014 ruling. Meanwhile, similar to the mechanism behind reduced adjudicative advantages for SOE JVs, we expect that those US-listed firms operating in China's state-dominated industries with high regulatory restrictions should be more negatively affected by the 2014 ruling than similar firms operating in the more liberalized sectors in China.

Research Design

We use the same design as the main analysis to conduct a parallel analysis, utilizing the the 2014 U.S. appellate court ruling that expanded FCPA oversight to cover corrupt engagement with SOEs. We run the following interactive model to estimate the extraterritorial effect of the external ruling on those firms located in China with listings in the U.S.:

$$Y_{ispt} = \beta_0 + \beta_1 Ruling_s + \beta_2 StateInd_t + \beta_3 Ruling_s \times StateInd_t + \mathcal{X}'_{ist} \Gamma + Dummies_{pt} + \epsilon_{ispt} \quad (2)$$

In model (2), Y_{ispt} is the firm-level outcomes. $StateInd_s$ is a binary indicator of whether the industry s that Firm i is operating in is an SOE-dominated sector. It is coded using the same categorization as in model (1). $Ruling_t$ is a binary indicator of whether the firm-level observation occurs before or after the year 2014. \mathcal{X}'_{ist} is a set of firm-level control variables included to satisfy the parallel trends assumption of DiD designs.

Local political dynamics may also affect corporations' legal and illegal engagement practices with political authorities and state-affiliated firms, such as the anti-corruption

campaign launched by President Xi Jinping around 2014. Such local dynamics have uneven intensity across geographical regions and time periods, which may confound the differential effects of external FCPA oversight on state-dominated versus liberalized sectors of the Chinese economy since 2014. Therefore, I include a fully saturated set of province-year dummies $Dummies_{pt}$ to account for all provincial-level time trends. The province-year dummies cover 28 Chinese provinces that US-listed firms are operating in, starting from 1968 to 2019, with a total of 444 province-year indicators. Including the province-year fixed effects also addresses other potentially confounding geographic and temporal heterogeneities including a province's population size, level of economic development, GDP growth rate, governance quality, and other provincial socio-economic characteristics that vary by year. The model specification aims to satisfy the parallel trends assumption of DiD designs.

To measure firm-level financial outcomes Y_{ispt} , we use the Compustat North America Database.¹⁶ It is a database of U.S. and Canadian publicly-held companies which provides information on corporate fundamentals obtained from firms' Income Statement, Balance Sheet, Statement of Cash Flows, and supplemental data items (Standard and Poor 2011). In our sample, there are 531 firms located in China with listing status in the U.S. stock markets, covering a time period from 1968 to 2019 and yielding a total firm-year observations of 4132. Among them, 28.0% of the observations are in the state-dominated industries, and 25.2% are observed after 2014.

To measure firms' corrupt payments, we refer to recent accounting research which shows that firms frequently use the accounting entry of "Selling, General and Administrative (SG&A) expenses" to fraudulently document and conceal illicit payments to government officials (Howard Scheck CPA 2019; Lawson et al. 2019). In many instances of FCPA violations, firms make commission payments to government procurement officials in or-

¹⁶Accessed through the Wharton Research Data Services at https://wrds-web.wharton.upenn.edu/wrds/query_forms/navigation.cfm?navId=83.

der to boost the sales of their products, and then record such payments on firms' books and records as "selling expenses."¹⁷ Hence, we use changes in firms' SG&A expenses after increased anti-corruption scrutiny as a proxy for shifts in firms' bribery behavior. Other firm-year financial outcomes include revenue, profitability, sale of investments, and market values. The firm-year control variables include total assets, fixed asset stocks, total sales, and income tax liabilities. The 444 province-year dummy variables $Dummies_{pt}$ are included in all models to take into account the decentralized nature of China's economic development models (Jin, Qian and Weingast 2005) and province-specific time trends.

Results

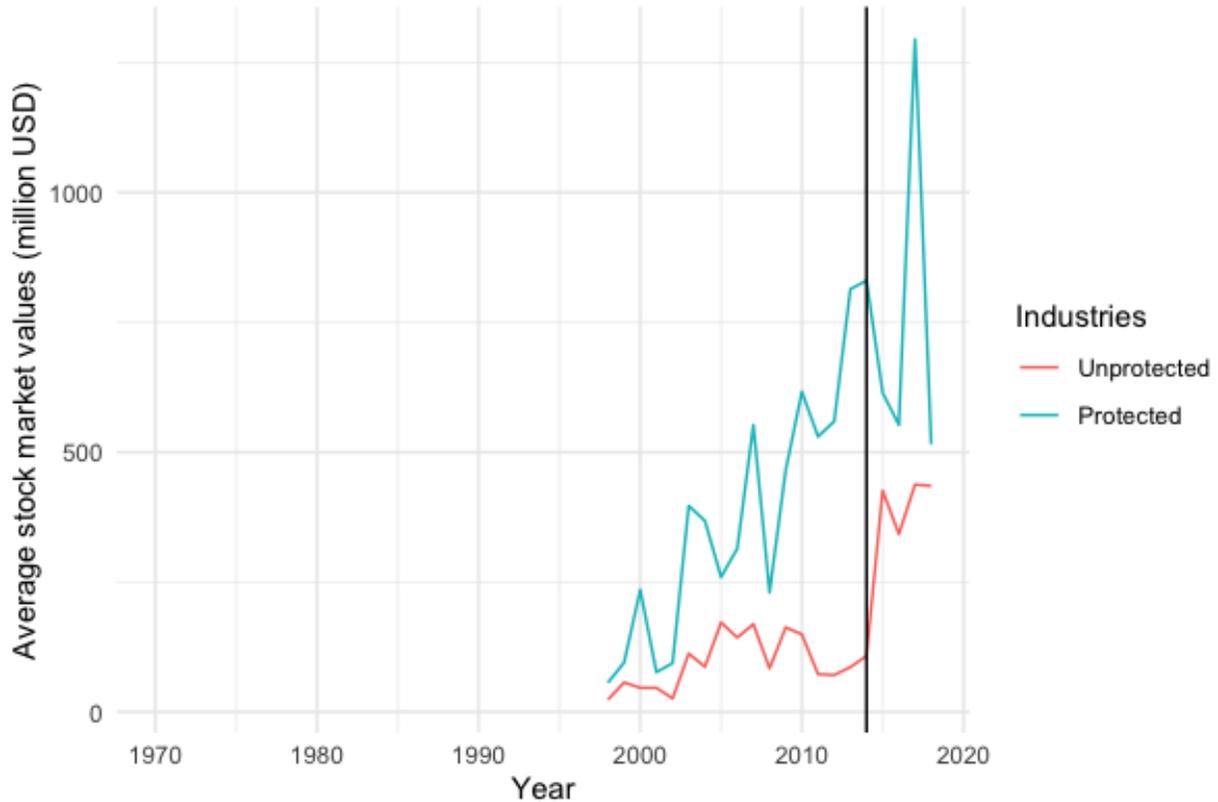
Stock market reactions

Figure 1 presents some preliminary evidence that the 2014 U.S. appellate court ruling has an observable impact on US-listed firms operating in China. It is noteworthy that the impact is different for those firms operating in China's protected industries ($StateInd = 1$) than those in the unprotected industries ($StateInd = 0$).

Figure 1 shows that the average stock market value of US-listed firms operating in China's protected industries decreased sharply in 2014, while firms in the unprotected industries saw a significant jump in market values. The gap between the average market values of these two sectors' firms has been narrowed significantly after 2014. This may suggest that, after bribing SOEs is unequivocally outlawed under the FCPA, firms in the protected industries can no longer maintain connections to regime insiders and power-holders. The state-business partnership that has delivered favorable legal and regulatory treatments is now disrupted by potential external legal interventions. Meanwhile,

¹⁷See one example from the DOJ information at <https://www.justice.gov/criminal-fraud/case/united-states-v-dpc-tianjin-co-ltd-court-docket-number-05-cr-482>.

Figure 1:
2014 ruling and stock market reactions of US-listed firms in China



investors see more value in firms operating in unprotected industries which are less exposed to corrupt arrangements with state-affiliated actors. The stock market reactions are consistent with the proposed mechanism regarding the uneven vulnerabilities of firms in different sector types to external judicial oversight.

Regression results

In this section, we provide stronger evidence for the theoretical claims using difference-in-differences regressions. Table 8 shows the results from estimating the DiD model (2). The primary quantity of interest is the coefficient for the interactive term β_3 , which is expected to be negative because the court ruling should hurt the performance of firms in state-dominated industries much more than those in liberalized industries.

The other two quantities of interest are β_1 , the coefficient for *Ruling*, and β_2 , the coeffi-

cient for *StateInd*. β_1 should not have a statistically discernible effect because this coefficient alone estimates how the 2014 ruling affects firms operating in non-state-dominated industries, i.e. the liberalized industries, who are NOT exposed to the expanded jurisdiction of the FCPA. β_2 is expected to be positive and significant because this coefficient alone estimates the effect of being in state-dominated industries on US-listed firms *prior to* the 2014 ruling. If the proposed theoretical mechanism is correct regarding the differences between regulated and unregulated firms, firms operating in state-dominated industries *before* 2014 should be more likely to engage in corrupt exchanges and, as a result, enjoy better business performance than they do *after* 2014.

Table 8 shows that the coefficient for the interactive term *Ruling* \times *StateInd* is negative and significant for the first four firm outcomes, consistent with the expectations. The results indicate that the 2014 court ruling, which set a new legal standard to tie firms' hands in interacting with state-controlled entities, has significantly decreased the bribery payments (Model (1)), revenue (Model (2)), net income (Model (3)), and ROA (Model (4)) of US-listed firms operating in China's state-dominated sectors. Notably, "Selling, General, and Administrative Expenses" is reduced significantly in state-dominated industries after 2014, even after controlling for firms' total sales and total assets, which provides strong evidence that firms experience enhanced legal deterrence against corrupt dealings in the restrictive sectors. The positive interactive coefficient in Model (5) indicates that expanded judicial scrutiny over corporate misconduct also pressured firms to sell their investments in those bribery-prone, state-led sectors, as a risk-mitigation strategy to ensure external compliance.

The coefficient for *Ruling* (β_1) is also consistent with theoretical predictions. In the liberalized sectors (*StateInd* = 0) where corrupt exchanges with state-affiliated entities are less necessary, the 2014 ruling does not significantly affect firms' bribery behavior or business performance. The positive and significant coefficient for *StateInd* (β_2) suggests that, before 2014 (*Ruling* =0), US-listed firms operating in state-dominated sectors were

Table 8: Transnational FCPA Deterrence on US-listed Firms in China

Dependent Variable:	SG&A Exp	Revenue	Net Income	ROA	Sale of Invst
	(1)	(2)	(3)	(4)	(5)
<i>Ruling</i>	0.026 (0.022)	0.012 (0.016)	0.0002 (0.049)	0.047 (0.102)	-0.031 (0.024)
StateInd	0.048*** (0.006)	0.046*** (0.011)	0.083** (0.037)	0.336** (0.145)	-0.050*** (0.018)
<i>Ruling</i> × StateInd	-0.013* (0.008)	-0.064*** (0.017)	-0.098*** (0.021)	-1.379*** (0.085)	0.196*** (0.023)
Total assets	2.099*** (0.099)	0.271*** (0.028)	0.075 (0.056)	0.068 (0.048)	1.340*** (0.162)
Total sales	0.128*** (0.038)		0.331*** (0.040)	-0.101 (0.159)	-0.129*** (0.002)
Total income taxes payable	0.108*** (0.020)	-0.004 (0.065)	0.702*** (0.028)	0.065 (0.048)	-0.066 (0.047)
Fixed assets value	-0.918*** (0.042)	0.685*** (0.098)	-0.123* (0.073)	0.066 (0.144)	-0.831*** (0.070)
Province × Year FEs			✓		
Observations	3,592	3,809	3,801	3,750	3,745
Adjusted R ²	0.962	0.798	0.821	0.378	0.703

Note: Robust standard errors are clustered by industry and year.

*p<0.1; **p<0.05; ***p<0.01

more actively engaging in corrupt exchanges and enjoying more profitable rent-seeking opportunities than they have been since 2014.

Overall, the results obtained from the DiD design provide additional evidence for the argument that the judicial deterrent effect of the FCPA, although domestically enacted, can spill over onto extraterritorial entities operating under weak institutional environments. In this way, domestic judiciaries of developed economies may exert transnational regulatory power to affect and shape the institutional development of other sovereign states, through an interconnected and interdependent global economic order (Farrell and

Newman 2019, 2014).

9 Conclusion

Past studies of judicial politics have almost exclusively focused on the effect of domestic court rulings on domestic policies. However, we know relatively little about how a state's domestic legal proceedings may affect lawsuits in foreign countries beyond its sovereign borders. In a seminal study, Kaczmarek and Newman (2011) highlight the consequences of domestic law for policy implementation in target countries. We delineate a novel and even more powerful mechanism of the extraterritorial reach of domestic judiciaries: integration into the global governance and economic system extends the set of (non-state) actors that domestic court rulings can influence, bringing foreign subjects under the remit of domestic regulations through a form of extraterritorial judicial effect.

Chen and Xu (2021) suggest that creating joint venture relationships with authoritarian regime insiders can help commit the state to advancing foreign investors' interests through judicial means. In this article, we utilize a U.S. appellate court ruling in 2014 to examine how deterrence against corruption schemes affects SOE JVs' ability to bend the rules and obtain considerable judicial favoritism. We argue that the new interpretation of the FCPA regulation has a long-arm deterrence effect for judicial rulings in foreign countries. The exogenous change in the scope of "foreign officials" under the FCPA significantly shrinks the judicial advantage that SOE JVs enjoy in authoritarian regimes where the state dominates the national economy.

Building on a new dataset on multinational firms' litigation activities in China during the period 2002–17, we find that SOE JVs that operate in state-dominated sectors are less likely to win lawsuits after the 2014 U.S. legal proceeding, compared with the pre-ruling period. In contrast, foreign investors that establish joint venture partnerships with private domestic firms operating in those industries actually increase their likelihood of

lawsuit success after the 2014 ruling. The results suggest that, to some extent, threats of extraterritorial legal intervention against SOE bribery schemes improve the litigation outcomes for non-SOE JVs. Interestingly, the judgement made by a U.S. court, which enjoys a high degree of independence, affects litigation outcomes in an authoritarian judiciary that lacks independence from undue influences.

While our study focuses on the extraterritorial effect of a U.S. statute for multinational corporations operating in China, our arguments are generalizable. This generalizability is twofold. On the sender's side, our theoretical starting point is that a state's integration into the global economic and governance order can put additional foreign actors under the influence of the state's domestic jurisdictions. Many states are interdependent on each other in terms of trade, financial, and governance relations (Chen 2021). Therefore, the domestic judiciaries of countries other than the U.S. also have the ability to generate this extraterritorial effect, although the magnitude of the effect may vary by the power of the states. On the receiver's side, our theory can travel to all authoritarian regimes beyond China where the state dominates the economy and where the lack of a rule of law results in bribery and corrupt exchanges as common business practices. Locally-operating actors with exposures and connections to transnational governance regimes may experience similar extraterritorial judicial effects and long-arm deterrence.

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