Political Determinants of the Location Choice and Entry Mode of Chinese Outward FDI

Julan Du

(Chinese University of Hong Kong)

Kai Wang

(Chinese University of Hong Kong)

Yongqin Wang

(Fudan University)

Email: yongqinwang@fudan.edu.cn

ABSTRACT

This study investigates the effect of political factors on location choice and entry mode selection of outward FDI based on outward FDI transactions by Chinese firms in 209 countries around the world from 2002 to 2011. A firm that invests overseas encounters two problems. One is location choice, that is, the choice of the target country and target company. The other is entry mode strategy, which comprises the selection of sole owner or co-owner and the share proportion. Evidence indicates that political factors of a target country significantly influence the location choice of Chinese outward FDI. A substitution effect exists between the political and the tax factors to some small extent. Chinese firms tend to invest in countries that have a better institutional situation. In addition, evidence suggests that Chinese firms prefer M&A as entry mode in countries that have better political institutions and tend to have a high proportion of shares.

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CHAPTER 1

INTRODUCTION

1.1 Background

Since the imposition of the reform and opening-up policy in 1978, the Chinese GDP has grown rapidly. The Chinese economy is gradually transforming from a central planned system into a market system. Today, China is the second largest economy in the world and plays an important role in the global economy.

Inward FDI was once considered the key driver of robust Chinese economic growth. Since 1980, an increasing amount of inward FDIs has swarmed into mainland China, which has largely promoted the upgrade of the industrial structure. Early in 1993, China became the second largest FDI recipient in the world (behind the U.S.).

Traditionally, inward FDI is believed to contribute to domestic capital formation, whereas increased outward FDI reduces it. Nowadays, scholars gradually discover that this situation is not the case. Outward FDI (ODI) does have some positive influences on the economy. Hejazi and Pauly (2003) tested the influence of FDI with Canadian industry-level data and found that rapid growth of ODI relative to inward growth should not be considered a negative development and may reflect success. Numerous studies have been conducted on ODI to determine its benefit to the economy, such as introducing new techniques. ODI is now regarded as another economic driver.

Chinese ODI grew dramatically in recent years. In 1992, Chinese ODI experienced

its first peak with US$4 billion, which may be due to the spring speeches of Deng Xiaoping. In 1999, the central government of China proposed ODI to promote the "Going Global" policy, and the Chinese ODI began to grow rapidly, especially after 2005. And China has become the third largest source of the ODI in the world (China Daily, 2013).

Figure 1 1982–2010 Chinese ODI Flow.
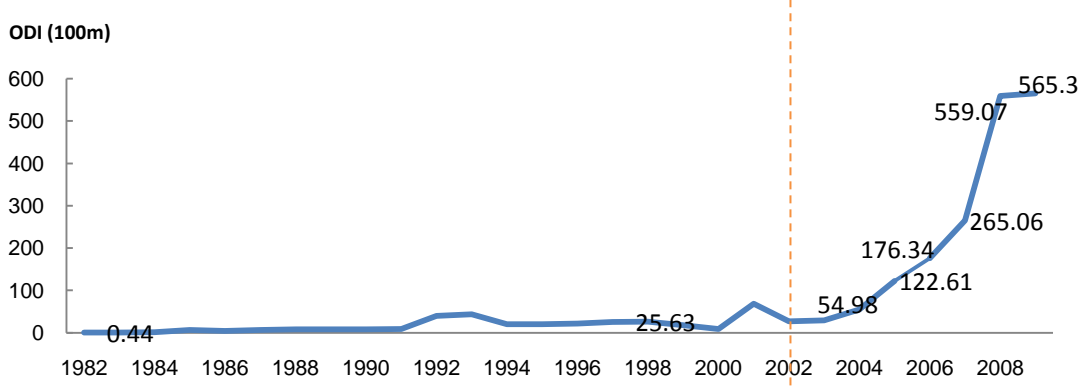
Source: 2012 Statistical Bulletin of Chinese Outward Foreign Direct Investment

In recent years, especially after the 2008 global financial crisis, the Chinese annual ODI has reached over 50 billion. Then, many hypotheses were formed to explain the large amount and rapid growth of Chinese ODI. Some hypothesize that the growth in Chinese ODI is due to access to raw materials and energy. Some believe that the purpose of Chinese ODI is to acquire technology, brand, and knowledge. In some studies, a portion of Chinese ODI is regarded as capital flight and tax evasion. Currently, many theoretical frameworks show that political factors such as government effectiveness are essential in the location choice of ODI.

This study uses 10 years of Chinese overseas M&A sample to understand the

influences of political factors on location choice of Chinese ODI. Several hypotheses, such as tax evasion and resource factor, will be validated by using the Chinese sample. This study also seeks to address the following questions: do these factors explain Chinese ODI? What kind of interaction will occur among political, tax, and resource factors?

1.2 Organization

This study is organized as follows: Chapter 2 reviews previous literature on ODI. Chapter 3 describes our data and its source. Chapter 4 uses conditional and mixed logit models to demonstrate the influences of political factors on the location choice of Chinese ODI. Chapter 5 mainly discusses and further explains the interaction among the political, tax, and resource factors. Chapter 6 discusses the role of political factors in the entry mode of Chinese ODI transactions to better understand the influences of legal reasons on Chinese ODI. Chapter 7 concludes the study.

CHAPTER 2

REVIEW OF LITERATURE

Some theoretical arguments about outward FDI have been presented. Among all the factors that affect ODI, the political, tax, and natural resource factors are three of the most important ones. Chinese FDIs have similarities. After exploring the development path of Chinese ODI, Salidjanova (2011) summarizes the reasons that may increase Chinese ODI. These reasons include access to raw materials and energy, acquisition of technology, brand, and know-how, avoiding competition in the domestic market, and avoiding international trade barriers. The author also pointed out that round-tripping may occur, an issue that Sicular (1998) also investigated. Chinese investors have the incentive to move money offshore and then return the money to China disguised as foreign investment because of tax concessions, property right protection, or preferential terms. Evidence shows that Hong Kong and Caribbean are top locations of Chinese ODI and are both o tax havens. In addition, natural resources are discussed extensively because of their influence on the location choice problem. Aleksynska,and Havrylchyk, (2012) show that FDIs are encouraged in countries with rich natural resources. To conclude, the political, tax, and the natural resources factors are regarded as three main reasons that affect the Chinese ODI.

2.1 Political Factors and their Expected Influences

As this study mainly discusses the influences of political factors on location

choice and entry mode of Chinese ODI, some literature about voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and corruption control is reviewed.

<u>Voice and Accountability</u>

This variable reflects the extent to which citizens of a country are able to participate in selecting their government as well as freedom of expression, freedom of association, and free media. These indicators illustrate the democratic development of the target country, which can affect the location choice and the entry mode of Chinese ODI in three aspects. First, a highly democratic country is always more open than a low democracy country. Thus, a highly democratic country provides more trade opportunities, which increases the possibility that the Chinese ODI will select that location. Second, a highly democratic country practices freedom of expression. By contrast, a low democracy country may have the problem of asymmetric information, which prevents Chinese ODI from selecting that country. Third, an open country usually has active financial markets, which indicates a larger portion of listed enterprises in the host country. Thus, purchasing shares of the enterprises of the host country becomes more convenient. These factors promote the selection of M&A as entry mode.

The influences of voice and accountability are also discussed in some previous studies. Ivar and Arne (2002) performed an econometric analysis of the host country determinants of Chinese ODI from 2003 to 2006 and found that voice and

accountability determine Chinese ODI. Bardhan (2003) also points out that voice and accountability can influence FDI because encouraging public input is important for democratic development. Gopinath and Echeverria (2004) also obtained significant and positive results on the voice and accountability indicator, which indicate their influences on FDI. However, Mina (2009) suggests that among all the political factors that affect ODI, the best performance relates to the rule of law, whereas the least relates to voice and accountability. Thus, we can predict that voice and accountability has positive influences on Chinese ODI but whether the influence is significant or not depends on some factors. Therefore, we hypothesize that:

Hypothesis 1: Firms prefer highly democratic countries. A target country with a good voice and accountability indictor will increase the possibility that the Chinese ODI will choose that country and will compel the firm to select M&A as the entry mode.

Political Stability and Absence of Violence/Terrorism

This variable reflects the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically motivated violence and terrorism. Political stability provides a fair environment for market participants. In the theoretical framework, low political stability indicates a lack of social stability, which enhances the risk of investing in the host country and prevents FDI inflow. In another aspect, the purchase price in acquisition is always established or closely related to the stock market value, and investors are more likely to choose

M&A as their entry mode.

In their investigation of the relationship between FDI and human capital, Farhad and Alberto (2001) provided empirical evidence that demonstrates that concerns about political violence and terrorism would defer FDI. Furthermore, Asiedu (2006) suggested a positive relationship between political stability and FDI based on an analysis of FDI to Africa. Therefore, we formulate the following hypothesis:

Hypothesis 2: Chinese firms prefer politically stable countries that experience no violence and terrorism. If the political stability is better, the entry mode of M&A is preferred.

Government Effectiveness

This variable reflects the qualities of public and civil services and the degree of their independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. The variable can affect the Chinese FDI in two aspects. First, good government effectiveness suggests that the host country extends comprehensive services. Previous studies indicate that the purpose of some FDIs is to open the foreign markets. High quality public and civil services in the host country will support FDI development, especially the development of multinational corporations, and promote the FDI. Second, good government effectiveness means fewer restrictions and political pressure from the host. Investment gains are more predictable, which also promotes

Chinese ODI. Fewer limitations encourage investors to purchase a relatively large portion of shares of target companies.

Early in 2002, Steven and Daniel examined the effects of governance infrastructure on both FDI inflows and outflows for a broad sample of both developed and developing countries from 1995 to 1997. They found that government effectiveness is an important determinant of both FDI inflows and outflows. The current study provides empirical evidence for the theoretical framework.

Hypothesis 3: Government effectiveness of the host country has a positive effect on the location choice of Chinese ODI and encourages the purchase of a larger portion of shares of target companies.

Regulatory Quality

The variable reflects the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Good regulatory quality includes three aspects that affect FDI.

First, good regulatory quality generally requires a high level of corporate transparency. Detailed and standard disclosure of accounting information is imperative. This factor can encourage investors and promote investments. Hay, Shleifer, and Vishny (1996) suggest that accounting standard is necessary for financial contracting.

Second, good regulatory quality means good shareholder protections. La Porta

(1998) stated that a country is attractive to FDI if the shareholder is well protected. Grossman and Hart (1988) and Harris and Raviv (1988) suggest that investors may be better protected if dividend rights are linked to voting rights, which rely on good regulatory quality.

Third, good regulatory quality can help to avoid information asymmetries. The purpose of most of the FDI is to gain more profits. Eliminating information asymmetry helps to lower risks and make profits more predictable at the same time. Good regulatory quality enhances profits. Therefore, shareholders are encouraged to choose M&A rather than joint venture as the entry mode. In addition, good regulatory quality encourages shareholders to take a larger portion.

Hypothesis 4: Chinese ODI tends to invest in countries with good regulatory quality and to select M&A as the entry mode. If the investment is made, firms are expected to take a larger portion of the shares of target companies.

Rule of Law

This variable reflects the extent to which agents have confidence in and abide by the rules of society, particularly the quality of contract enforcement, property rights, the police, and the courts as well as the likelihood of crime and violence. The influences of this factor can be divided into two aspects.

On one hand, a strong legal enforcement system may replace weak legal rules, as active and well-functioning courts can help protect investors abused by the

management (La Porta, 1998). Law enforcement protects the rights of investors, and it can further reduce default risk, and reduce transaction costs of the deals in further. La Porta, Lopez-de-Silanes, Sheifer, and Vishny (2000) stated that laws and regulations might be more protective of investors in countries with better functioning judiciaries. From this point of view, this political variable can promote location of Chinese ODI.

On the other hand, strict rule of law also implies some restrictions. More stringent rules emphasize the obligations of a company and encumber some companies. Sometimes, the purpose of Chinese ODI is to gain advanced technology or natural resources. A strict rule of law will limit the activities of Chinese ODI and prevent the entry of Chinese ODI.

In general, the total effect of rule of law is ambiguous.

Hypothesis 5: Rule of law has both positive and negative effects on Chinese ODI. The effect will be positive if the protection favors shareholders, whereas the effect will be negative if most transactions are for technology or resource purposes.

Corruption Control

This factor reflects the extent to which public power is exercised for private gain, including both petty and grand forms of corruption as well as "capture" of the state by the elite and private interests. Better corruption control can attract investors in two ways. First, good corruption control reduces the possibility of corruption among managers, thereby protecting company profits. This control ensures that managers

will not misappropriate company profits and make investments more profitable. Controlling corruption attracts investments and encourages companies to choose M&A as the entry mode. Second, good corruption control implies that the company may not need to spend a large amount of money to "grease" the government to ensure the smooth operation of the company. This aspect reduces costs, raises profits, and attracts more investments.

Per, John, and Daniel (2003) utilized data from the U.S. to show the negative influence of government corruption on FDI. Wei (2000) also found that increased corruption would negatively affect FDI based on a sample that includes bilateral investment from 12 source countries to 45 host countries.

Hypothesis 6: Chinese firms tend to locate in countries with good corruption control and prefer M&A as the entry mode if corruption is curbed.

2.2 Tax Factors and their Expected Influences

Tax factors indicate the tax situation of the host country. They include corporate tax rate, total tax rate, and tax havens. Each factor plays the same role in studying the location choice problem. A high tax rate in the host country can be regarded as a cost increase, which reduces investment profits. Therefore, tax is always believed to have a negative influence on the location choice of FDI. Similarly, a tax haven will attract FDI because of the low tax.

Numerous studies on the location choice of FDI pay specific attention to tax

factors. Boddewyn and Brewer (1994) cited that escape is an expression of avoidance, which is a form of non-bargaining business political behavior. Caves (1996) stated that based on evidence from prior studies, home country factors, such as high tax rates, can increase outward FDI. To support this observation, Gordon and Hines (2002) reviewed previous studies on international taxation and found that firms may relocate their headquarters to avoid high home country taxes.

Thus, the expected influence of tax factors can be hypothesized as follows:

Hypothesis 7: Chinese firms are more likely to invest in a country with a lower tax rate.

2.3 Natural Resources and their Expected Influences

In analyzing the purpose of outward FDI, natural resources are usually regarded as one of the most important reasons. A large part of FDI is classified into resource-seeking FDI. Kinoshita,and Campos,(2003) analyzed Soviet Union countries and concluded that most resource-seeking FDI invest in resource-rich countries. When a firm adopts a resource-based perspective, it pays attention to firm resources and abilities that allow it to exploit incomplete factor markets and to generate high rates of return to sustain competitive advantage (Amit and Schoemaker, 1993, Conner, 1991). This framework indicates that a firm's motivation to acquire resources accounts for the receipt of economic rents. Of course, a country with high resource reserves will attract resource-seeking FDI. Therefore, the reserve amount of natural

resources is expected to positively influence the location choice of Chinese ODI. Aleksynska and Havrylchyk,(2013) provided empirical evidence that suggests that FDI inflow is promoted in countries with rich natural resources.

Hypothesis 8: Natural resources positively affect the location choice of Chinese ODI.

CHAPTER 3

DATA

3.1 Sample

The sample consisted of 842 Chinese ODI transactions from Jan 1, 2002 to Dec 31, 2011. The transactions occurred between China and 63 countries. The distribution of the transactions is listed in Table 1. Considering that more candidate target countries are available for each transaction before it occurs, we provide 209 countries as alternative countries for selection in the conditional logit model.

(Insert Table 1here)

3.2 Source of data

The information of each of the 842 transactions is mainly from the Zephyr database. We also used variables from other databases, such as World Bank, CEP II database, Dealogic, La Porta et al., STAN database, and WorldScope. Detailed information is listed in Table 2.

(Insert Table 2 here)

CHAPTER 4

EFFECTS OF POLITICAL FACTORS ON THE LOCATION CHOICE OF CHINESE ODI

4.1 Methodology

In this section, we mainly use two methods to explore the effects of political factors on the location choice of Chinese ODI.

4.1.1 Conditional Logit Model

The conditional logit model is widely used in the location choice problem. The model is developed from McFadden's multinomial logit model. For our location choice problem, the characteristics of industry, year, and country of the acquirer firm are definite for a certain deal, which means that they do not vary. Only the target country j's characteristics X_j matter. Therefore, we have $V_j = g(X_j)$. Let $U_j = V_j + e_j$, and V_j is assumed to be linear. U_j is equal to $\beta X_j + e_j$, where X_j is the observable characteristics of target country j, β is the vector of estimated parameters, and e_j is the error term. If the error terms are distributed independently with an identical extreme value, then the probability of locating in country j can be expressed as

$$P_j = \frac{e^{\beta' X_j}}{\sum_{j=1}^{n} e^{\beta' X_j}}$$

Let $d_{nj} = 1$ if in deal I the firm chooses to locate in country j; otherwise, $d_{nj} = 0$. Given the sample size N, then we have the log-likelihood function

$\log LL = \sum_{k=1}^{N} \sum_{j=1}^{n} d_{kj} \log P_{kj}$. McFadden (1974) demonstrated that the log-likelihood

function is globally concave in parameter β , which makes the numerical

maximization procedures useful to solve the location choice problem.

4.1.2 Independence of Irrelevant Alternatives Problem

However, the conditional logit model is valid only if the assumption of

independence of irrelevant alternatives (IIA) is satisfied. e_j should be distributed

independently and identically among all choices.

From the definition of the conditional logit model, we can easily obtain the IIA

property. For any two alternatives i and k, the ratio of the probabilities can be

expressed as

$$\frac{P_{nj}}{P_{nk}} = \frac{e^{V_{ni}} / \sum_{j} e^{Vj}}{e^{V_{nk}} / \sum_{j} e^{Vj}} = \frac{e^{V_{ni}}}{e^{V_{nk}}} = e^{V_{ni} - V_{nk}}$$

The ratio does not depend on any alternatives other than i and k. This condition

implies that the relative odds of choosing i over k will stay the same whether other

alternatives are available or not, and regardless of the attributes of the other

alternatives.

The IIA test can be performed in two ways. First, we can test the subsets of

alternative (Hausman and McFadden, 1984) and cross-alternative variables

(McFadden, 1987). Second, we can use a more general model that can operate even if

the IIA assumption is violated and then check the conditional logit model. The mixed

logit model is appropriate in this test.

4.1.3 Mixed Logit Model

The mixed logit model is highly flexible and can be used in any random utility situation (McFadden and Train, 2000). Mixed logit model can be expressed as

$$P_{nj} = \int \left(\frac{e^{\beta' x_{ni}}}{\sum_j e^{\beta' x_{ni}}} \right) f(\beta) d\beta,$$

where the parameter, β follows a certain distribution, and $f(\beta)$ is the density function. By assuming the parameter as some certain distribution rather than a single target value, the mixed logit model can avoid the many problems in conditional logit model, such as the IIA problem.

Before using the mixed model, we have to define a certain distribution for each parameter. Normal, lognormal, uniform, gamma, triangular, or any other distributions can be used here. Usually, we use the normal distribution if we have little information about the parameter. The log-normal distribution is useful when the coefficient has the same sign.

The mixed logit model can be used to check the IIA problem for the conditional logit model. The natural difference between the conditional logit and the mixed models is in the parameter setting. The conditional logit model regards the parameter as a value, whereas the mixed logit model regards the parameter as a distribution (contains mean and variance). Therefore, if the variance estimators of the mixed logit model are all insignificant, the distribution collapses to a value. The mixed model can perfectly avoid the IIA problem. Therefore, when a conditional logit model is performed and the IIA problem should be checked, we can build a mixed logit model and check the significance of the variance terms. If all the variance estimators are

insignificant or they are significant but have values that are small or close to zero, the conditional logit model is valid if a major IIA problem does not exist.

4.2 Control variables and their expected effects

Country Level

GDP (current US$): GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies that are not included in the value of the products. Data are in current U.S. dollars.

GDP growth rate (annual %): This is the annual GDP percentage growth rate at market prices based on constant local currency. Aggregates are based on constant US$2000. The value is calculated without deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.

GDP per capita (current US$): This is the GDP divided by mid-year population. The value is calculated without deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current U.S. dollars.

Geographic distance: This variable measures the distance between two countries (distance between their capitals). Generally, a longer distance increases the costs of

obtaining information from foreign markets. The distance also increases the costs of coordination and governance after investing, which deters Chinese firms from investing. On the other hand, a longer distance can result in large transportation cost, which encourages companies to invest abroad directly rather than export to the target country. Then, the total effect of distance is indefinite.

Market capitalization: This variable is the market capitalization of listed companies at current prices. Market capitalization provides information on M&A opportunities in a given country and may constrain the location choice of Chinese ODI. The influence could be in two aspects. First, if the market capitalization of a certain target country is small, the available pool of host companies is limited, which restricts M&A and Chinese ODI transactions. Second, market capitalization also provides a measure of financial depth. A large financial market helps firms to relax their internal financing constraints and promote investments.

Total tax rate (% of profit): Total tax rate is the total amount of taxes payable by businesses (except for labor taxes) after accounting for deductions and exemptions as a percentage of profit. As discussed in many previous studies, tax evasion is a reasonable explanation for capital flight. Therefore, a higher tax rate of the host country reduces the possibility that the Chinese firms are willing to invest. The tax rate is expected to have a negative effect on the location choice of Chinese ODI.

Resource reserve allocation: This indicator is calculated by the summation of the total natural resource reserves in a target country, which is measured in U.S. dollars. The resource hypothesis is a widely accepted reason for FDI. Some studies believe that the purpose of some proportion of ODIs is to acquire the resource of host countries. Aleksynska,and Havrylchyk, (2012) used data from emerging economies to show that FDIs are encouraged in countries with rich natural resources. Therefore, this variable is expected to positively influence the probability of location choice of Chinese ODI.

Ownership structure: This variable measures the dispersion of shareholders within firms. Ownership is concentrated within a few hands in some countries, whereas it is dispersed in others. The indicator can affect M&A in many aspects. If the ownership structure is concentrated, large investors are able to monitor management and to replace poorly performing management. However, this ownership structure will also cause some governance problems, and minority rights cannot be safeguarded. In addition, a concentrated ownership pattern is more likely to set an entry barrier to new investors. Therefore, the net effect of the influence is ambiguous.

Industry Level

Market size: We use industry-level production as a proxy for market size. A large market size implies a substantial local demand and easier outlets. Therefore, this

indicator is expected to stimulate M&A activities, and countries with large market sizes are expected to be more attractive.

Labor costs: This indicator represents labor costs in the target country. The indicator provides the information of costs in the considered industry. A rise in the production cost will reduce profits as well as deter Chinese firms from taking over another firm in the host country. On the other hand, this variable can reflect the employment structure to some extent. A higher share of qualified employees raises per capita wages. Therefore, high labor cost may be a sign of a high percentage of qualified employees, which would attract investments. Hence, the two opposite directions signifies that the influence is ambiguous.

Productivity: This indicator provides information on the productivity level in a given sector of a target country. The indicator can also reflect the technological and the intangible asset levels of target country firms. The influence includes two aspects. First, studies show that FDI activity and productivity are relevant in many cases. Helpman, Melitz, and Yeaple (2004) believe that pursuing high technology is a reason of FDI after validating a U.S. sample. Higher productivity will promote takeover if buyers are willing to absorb intangible assets held by high-technology firms. Second, productivity may affect acquisition price. High productivity usually implies high acquisition price, which discourages investments. Hence, the total effect is due to the trade-off between the price and the technology.

4.3 Empirical Analysis

To investigate the influences of each of the six political factors, we introduce nine regressions that contain different control variables. As in many previous studies on location choice of ODI, the first regression contains the basic control variables only, including GDP (take logarithm), GDP growth, GDP per capita (take logarithm), and geographic distance (take logarithm). The second regression contains tax rate to measure the influence of tax. The third regression includes market capitalization (take logarithm), except for the basic variables contained in the first regression. The fourth regression is a combination of the previous three regressions, which contains all variables. The fifth regression measures the influences of resources in addition to the basic regression (regression one). The sixth and seventh regressions pay more attention to the ownership structure. The eighth and the ninth regressions take the industry level variables, including labor costs (take logarithm), market size (take logarithm), and productivity (take logarithm).

Then, we introduce a new variable, namely, political average, which is the average of the six political factors, to examine the general legal effects and influences of the control variables.

4.3.1 Effects of Political Factors and Control Variables (Conditional Logit)

(Insert Table 3 here)

Table 3 reports the coefficients of the conditional logit model with political_average as a key variable. The results indicate that the political_average is significant and positive at 1% significance level. This finding provides a general view that the political factors affect the location choice of M&A firms. In general, the Chinese ODI tends to go to countries with better institutional condition.

As discussed in Chapter 4.2, previous studies show that some of the control variables affect the location choice of Chinese ODI in two or more ways, some of which even influence the Chinese ODI in the opposite directions. Therefore, to clarify this issue in the Chinese M&A sample we used is essential.

GDP is significant and positive in all the nine regressions, with a 1% significance level. This finding implies that Chinese PDI tends to go to large and highly developed countries. Other things being equal, the U.S. is more attractive than Singapore. This conclusion concurs with almost all previous empirical research on the location choice problem of outward FDI, regardless of which country the sample comes from. GDP growth is insignificant and remains insignificant in most regressions. Moreover, the sign varies in different columns. The same result is found for GDP per capita and is insignificant. Therefore, GDP growth and GDP per capita are not essential determinants of the location choice of Chinese ODI.

The geographic distance is significant at 1% level in each regression, and the signs are all negative, which follows the gravity model. This result suggests that Chinese firms prefer countries close to China when making decisions on M&A location choice. Market capitalization is also significant but positive, which is

consistent with our expectation. The market capitalization provides information on M&A opportunities in a given country. A country with a developed capital market is more attractive. The ownership structure has little influence on the location choice of Chinese ODI. The result is significant at 10% significance level in column 6 but insignificant in other regressions.

The tax rate is negatively significant at the 1% significance level, which implies that the tax evasion hypothesis applies to our Chinese sample. Tax evasion is one of the main reasons for Chinese ODI. The resource hypothesis is another key explanation for the ODI problem, which is discussed in many studies on ODI. In our Chinese sample, resource is significant and positive, which implies that the Chinese ODI tends to go to resource-rich countries. The resource hypothesis applies to our Chinese ODI sample. The result is consistent with Dunning's argument (1993) that natural resources are a location advantage of FDI.

Some industry-level variables also affect the location choice of Chinese ODI. The market size is significant and positive, which is consistent with our expectation that the market size of the target country will stimulate M&A activities. The labor cost is negatively significant at 5% level, which reflects the situation that a large production cost tends to deter a Chinese company from taking over a local firm. The productivity is also positively significant at 10% significance level, which suggests that a rise in the productivity of target countries tends to attract the Chinese ODI. As discussed in Chapter 4.2, local productivity has two opposite influences on ODI. The results of our model suggest that in our Chinese sample, firms focus more on achieving intangible

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assets and studying high technology. Chinese firms are willing to pursue a target

company with high technology if the price premium is reasonable. Helpman, Melitz,

and Yeaple (2004) used a U.S. sample, and Head and Ries (2003) used a Japanese

sample in their studies on the relationship between productivity and ODI, and reached

the same conclusion.

4.3.2 Effects of Six Detailed Political Factors (Conditional Logit)

The effects of the control variables are similar when the variable

political_average is changed into the detailed political factors. Therefore, this section

pays more attention to the influences of the key political factors.

<u>Voice and Accountability</u>

(Insert Table 4A here)

Table 4A reports the coefficients of the conditional logit model with voice and

accountability as the key variable. The results indicate that voice and accountability

are somewhat significant in columns (2) and (6) and insignificant in all the other

seven regressions. This finding suggests that the right to vote and the freedom of

expression of local citizens are not essential factors to attracting Chinese ODI. Overall,

the voice and accountability variable is insignificant.

<u>Political Stability and Absence of Violence/Terrorism</u>

(Insert Table 4B here)

Table 4B reports the coefficients of the conditional logit model with political stability and absence of violence/terrorism as the key variable. From the results, only few of the regressions are significant, and the sign is not definite. This finding indicates that political stability and absence of violence/terrorism are not determinants of the location choice of Chinese FDI. All the 842 transactions in our sample are located in 63 target countries. This finding is illustrated by the fact that although the U.S. experienced terrorist attacks in 2001, many Chinese ODIs still selected the U.S. as their target country. The insignificance of political stability and absence of violence/terrorism seems reasonable.

Government Effectiveness

(Insert Table 4C here)

Table 4C reports the coefficients of the conditional logit model with government effectiveness as the key variable. The results show that government effectiveness is significant and positive, which suggests that government effectiveness is an important political factor in the location choice of Chinese ODI. High-quality civil service, significant independence from political pressures, and high-quality policy formulation are all helpful in attracting Chinese ODI.

Regulatory Quality

(Insert Table 4D here)

Table 4D reports the coefficients of the conditional logit model with regulatory

quality as the key variable. Regulatory quality is significant and positive in all nine regressions, which suggests that the ability of the target government to formulate and implement sound policies and regulations positively influences the location choice of Chinese ODI.

Rule of Law

(Insert Table 4E here)

Table 4E reports the coefficients of the conditional logit model with rule of law as the key variable. Rule of law is negatively significant in all nine regressions at 1% significance level, which is contrary to our expectation. Previous studies argue that the effect of rule of law exists. Schoppa (2006) performed a qualitative analysis on an aggregate time series data of outward FDI trends in Japan and suggested that the outward FDI were likely to go to countries with poor law situations. In the same year, Le and Zak (2006) performed a panel regression by using data from 45 developing countries to show that good rule of law in the host country is attractive to FDI. Our Chinese data provide evidence to suggest that most Chinese ODI tends to avoid countries with a stringent law system.

Corruption Control

(Table 4F inserted here)

Table 4F reports the coefficients of the conditional logit model with corruption control as the key variable. The results show that corruption control is significant and

positive. Chinese ODI is more likely to invest in a host country with lower corruption.

To conclude, political factors affect the location choice of Chinese ODI, but not all political factors are significant in our Chinese sample. As expected, the hypotheses (part 2) on government effectiveness, regulatory quality, and corruption control positively influence the location choice of Chinese ODI. These three factors can be indicate government enforcement efficiency. We find that the Chinese ODI is likely to go to countries that are better at enforcing laws. The influence of rule and law is negative. The net negative effect may suggest that Chinese firms care more about the restrictions of the host country than the ability of the host country to protect shareholders. Voice and accountability and political stability are insignificant, which indicates that Chinese firms care less about the democracy and the political stability of the target country than about other political factors.

4.3.3 Effects of Political Factors and the Test of IIA Problem (Mixed Logit)

From the settings of the mixed model, we have to assume the distribution of each variable. The coefficient of tax rate is expected to be negative, even when the test variation problem exists. Hence, the tax rate is given a lognormal distribution. Each of the other variables has independent normal distribution.

(Table 5 inserted here)

Table 5 reports the coefficients and errors of the mixed logit model, with the political_average as the key variable. Most of the standard error terms (marked with

'_S') of the model are insignificant. Among all the estimators of standard errors, only geographic distance and market capitalization are significant but at a very low level. Therefore, the mixed logit model can logically collapse into a conditional logit model, and the corresponding conditional logit model is reasonable and will not be significantly influenced by the IIA problem. In addition, we check the confidences of the variables in the mixed logit model and find the result to be similar with that of the conditional logit model. Therefore, we conclude that the Chinese ODI tends to locate in countries with a generally better institutional situation.

To conclude, the mixed logit and conditional logit models provide similar results. Therefore, the previous conditional logit model is valid.

CHAPTER 5

INTERACTION AMONG THE POLITICAL FACTORS, TAX FACTORS, AND RESOURCE RESERVES

Based on previous studies, political factors, tax and resource hypotheses are the three most important explanations when deciding the location choice of FDI. Zhao (2007) also regards them as the three driving forces of Chinese ODI from a theoretical framework. Our previous discussion found that the political, tax, and resource factors are all essential determinants of the problem of location choice of Chinese ODI. In this chapter, we explore these factors further to determine the interaction of their influences on Chinese ODI.

5.1 Tax Havens

According to Boddewyn and Brewer (1994), capital escape is an expression of tax avoidance. Through evidence from previous studies, Caves (1996) concluded that country factors, such as tax rates, can affect the ODI. To support this observation, Gordon and Hines (2002) reviewed previous studies on international taxation and suggested that firms may relocate their headquarters to avoid high home country taxes. For the Chinese ODI, as cited in most studies in Chapter 2, a large proportion of Chinese ODIs go to tax havens. Hence, we introduce a dummy variable to show tax havens as the tax factor to explore the interaction among political, tax, and resource factors, and their influences on the location choice of Chinese ODI.

We use the OECD criterion to divide the 209 target countries into tax havens and non-tax havens. Table 6 shows the tax haven lists in detail.

(Table 6 inserted here)

5.2 Interaction of the Three Factors that Influence Chinese ODI

We use the conditional logit model to deal with the location choice problem. We select the basic significant control variables from the previous location choice model as the control variables in this interaction model. As for the three key variables, political_average stands for the political factor, tax haven stands for the tax factor, and resource reserves stands for the resource factor. In addition, we add cross terms between the political and the tax factors and between the political and the resource factors.

(Table 7 inserted here)

Table 7 reports the coefficients of the conditional model with cross terms. Column (1) shows the result of our key variable, political_average. As suggested in the previous location choice model, the political factor is significant and positive.

Then, we add tax haven as a tax variable in column (2) and add the cross term of political_average and tax haven in column (3). The results suggest that tax haven is positively significant at 1% significance level, which implies that countries classified as tax havens are more attractive to Chinese ODI. Moreover, the cross term between the tax and political factors is negatively significant at 5% level, which suggests that some substitution effects exist between the political and tax factors, that is, the low

tax rate of the target countries can offset the weakness caused by poor political situations to some extent. However, we notice that the value of the cross term coefficient is very small compared with the coefficients of political_average and tax haven. This finding may indicate that although some substitution effects occurred between the political and the tax factors, the substitution effect itself is minor.

Columns (4) and (5) show the situation between political and resource factors. The results indicate that both the political and the resource factors are significant, as discussed in Chapter 4. The cross term between the political_average and the resource is also negative but insignificant even at 10% significance level. The substitution effect between the political_average and resource is insignificant.

CHAPTER 6

POLITICAL FACTORS AND THE ENTRY MODE OF CHINESE ODI

For each Chinese ODI transaction, acquirer firms will not only choose target countries but also select the entry mode. After choosing a country, the next step is to choose the entry mode. Some previous studies developed some theoretical frameworks and cited that political factors may influence the entry mode of FDI. This chapter explores the influence of political factors on entry mode and discusses the function of political factors in Chinese ODI transactions.

6.1 Entry Mode

6.1.1 Entry Mode

A firm that plans to invest abroad will choose the entry mode after selecting the target country. The firm could be the sole owner of the target company or a co-owner with other companies in the host country. The firm can establish a wholly owned enterprise (WOE) or acquire 100% of the target company (purchase 100% of the shares of an existing company in the host country) to become a sole owner in the host country. If the firm wants to be a co-owner in the host country, it can enter a joint venture (JV) or purchase part of the shares of the target company. The firm can choose to be a majority or minority shareholder according to the ex-post shares of the target company. If the portion of shares after M&A is larger than 50%, the firm is a majority

shareholder. Otherwise, the firm holds a minority interest in the target company. Figure 2 illustrates the process of choosing an entry mode.

Figure 2 Illustration of Entry Mode

Firm planning to invest abroad

Sole owner of the foreign invested entity
(1)

Co-owner of the foreign invested entity
(2)

Buy an existing
foreign firm
(100% acquisition)
(3)

Set up a WOE
(4)

Buy a portion of an
existing firm
(<100% acquisition)
(5)

Set up a JV with
foreign firms
(6)
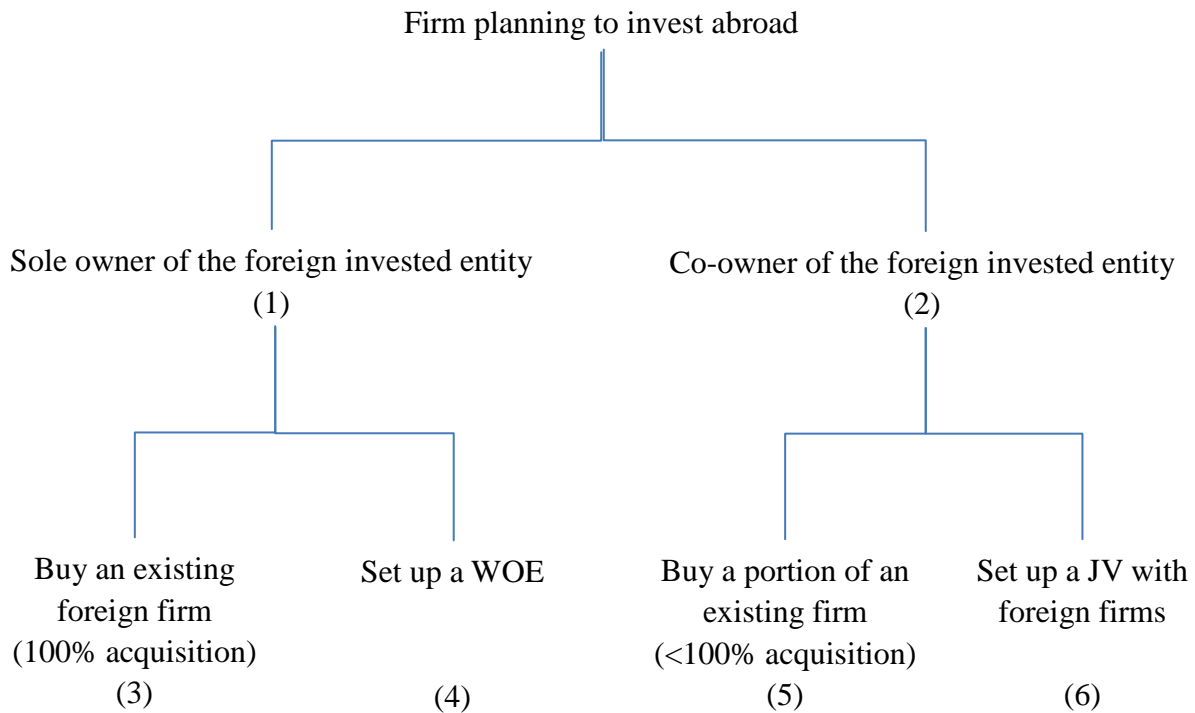
In general, if a firm wants to be the sole owner of a foreign-invested entity (1), the firm will choose between (3) and (4). In the 100% acquisition strategy, the firm can rapidly acquire the tangible and intangible assets of the target company, be familiar with them, and take advantage of its brand and technology at once. However, the firm cannot wholly control the entity immediately because the acquisition only involves a change of ownership. The enterprise culture cannot be changed within a short period of time. In WOE, the firm can set up the enterprise culture from the very beginning and be able to control the entity better, but the firm has to establish the

intangible assets gradually. If the firm wants to be a co-owner, it chooses between (5) and (6). The new entity could have a combined enterprise culture of the several joint investors if the JV strategy is selected. Otherwise, if the firm chooses partial acquisition, the enterprise culture will remain at least in the short term, and the firm can also take advantage of its original intangible assets. The firm can choose to hold majority of the shares or have a minority interest according to the purpose and the situation of the firm. In the subsequent sections of this study, we view the problem from an alternative view. First, the firm can choose from two modes of investing, namely, M&A [including (3) and (6)] or greenfield start-ups [including (4) and (6)]. The WOE case seldom occurs in Chinese ODI and is not covered by our sample transactions. Therefore, JV transactions are considered greenfield start-ups. Then, for M&A transactions, we will further discuss the situations of full M&A and majority and minority shareholdings.

6.1.2 Theoretical Framework of Entry Mode

Recently, numerous theoretical frameworks have been developed to explain entry mode. The Dunning OLI paradigm and the transaction cost theory contribute and provide a substantial explanation to investigate the underlying principles of entry mode selection.

The Dunning OLI paradigm (1980, 1988) states that the choice of entry mode is affected by determinants of three types, namely, ownership advantages of the firm, location advantages of the market, and internalization advantages of integrating

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transactions within the firm. The ownership advantage of the firm suggests that a firm prefers to choose the riskier entry mode once the technological, organizational, operational, and financial competencies are strong enough because they promise the potential for higher returns. Location advantage of the market suggests that the characteristics of the host country, including market opportunities, the government policies, and contextual uncertainties, usually significantly influence the entry mode selection of overseas investment. According to previous studies, internalization advantages suggest that high control entry modes are preferred when high integration is necessary. In general, Williamson (1985) observes that low control entry modes are considered better because the firm can benefit from the scale of economies of the marketplace. However, if the management of the target company is poor, the low control entry mode will cost much. In this case, the internalization advantage framework is effective.

Previous studies by Williamson (1985), Anderson and Gatignon (1986), and Hennart (1989) discussed the transaction cost theory. They suggested that a multinational enterprise is willing to choose a governance structure to minimize transaction costs. Transaction costs refer to the costs of transacting with other parties in the market, including the costs of contract drafting, contract negotiation, and monitoring. The firm prefers to be the sole owner if the costs of adaptation, performance monitoring, and safeguarding against opportunistic behavior are too high (Luo, 2001). Thus, the high control entry mode is employed if the transaction costs are high (Hill et al., 1990; Madhok, 1997) or if the demand in the foreign market is

uncertain and unpredictable (Luo, 2001).

Both theoretical frameworks discuss the determinants of the choice of entry mode, and both refer to the political factor to some extent. Several previous empirical studies have been conducted to explain the binary choice between the WOE and JV methods (Henmart and Larimo,1998; Markina and Neupert, 2000) and to show the selection mode between acquisition and greenfield investment (Chang and Rosenzweig, 2001). Results suggest that the Dunning OLI paradigm and the transaction cost theory are valid and useful to explain the investment entry mode choice and the ownership proportion choice problems. Thus, we select the independent variables suggested in the theories to model and explore the influences of political factors in the selection of the entry mode of Chinese ODI.

6.2 Methodology

In this section, we mainly employ two models, namely, the logistic and the conditional logit models. The two methods explore the influences of political factors on the entry mode of Chinese ODI in different aspects. The result obtained is comparable. In this model, we use political_average as the key political factor to validate its significance and influences in detail. Each model contains two parts: (1) the entry mode choice between M&A and JV and (2) the entry mode choice among full M&A, majority, and minority shareholdings within M&A transactions.

6.2.1 Logistic model

For the entry mode choice between M&A and JV, the logistic regression specification is

$$\text{M\&A or JV} = f(x) + \varepsilon,$$

where X is the political_average, total asset, ROA, P/E, dummy of same industry, GDP, GDP growth, GDP per capita, geographic distance, tax rate, market capitalization, resource, and ownership structure.

For the entry mode choice among full M&A, majority, and minority shareholdings, the logistic regression specification is

$$\text{Full M\&A or majority or minority} = f(x) + \varepsilon,$$

where X is the political_average, total asset, ROA, P/E, dummy of same industry, GDP, GDP growth, GDP per capita, geographic distance, tax rate, market capitalization, resource, and ownership structure.

For each sub-model, we prepared three regressions. The control variables of the first regression include financial variables of the target firm, such as total asset, ROA, and PE, basic control variables, such as GDP, GDP growth, GDP per capita, and geographic distance, dummy industry variable, tax factor, and the situation of market capitalization. Aside from these variables, the second regression adds resource as a new variable. Then, we add and explore the ownership structure situation in the third regression.

6.2.2 Conditional logit model

The model in this section is similar to the conditional logit model used in Chapter 4. To explore differences of the influences of political factors in different entry modes, we divide our sample into subsamples according to the different entry modes. To validate the political factors with M&A and JV transactions separately, we first divide our original sample into two subsamples, namely, M&A and JV transaction samples. Then, we perform the conditional logit for each sample and obtain the results with certain transactions. Similarly, to discuss the effect of political factors within the M&A sample, we divide the M&A sample into full M&A, majority, and minority shareholding samples. Then, each is validated, and we compare the results from different samples.

6.3 Empirical Results of Entry Mode Model I: The Logistic Model

(Insert Table 8A here)

(Insert Table 8B here)

Table 8A reports the coefficients of the logistic model to explore the differences in political factor influences between M&A and JV, whereas Table 8B represents the coefficients to explore the differences among full M&A, majority, and minority shareholdings.

The results indicate that influence of the political factor is significant at 10% significance level when choosing between M&A and JV entry mode. The influence is

also significant when choosing among full M&A, majority, and minority shareholding entry modes with a 1% significance level. Therefore, the political factors influence the entry mode decisions of Chinese ODI. All coefficients of political factors are positive. This finding suggests that in a host country with a better institutional situation, Chinese firms prefer to invest through M&A rather than JV, and they are willing to obtain more equity rights. Compared with the two groups of coefficients, political factor is more influential in the share percentage within M&A transactions than the choice between M&A and JV.

The three financial variables are all significant in both entry mode types. The sign of total assets is negative. This result suggests that if the total assets of the target firm are large, the entry mode preferred is JV, and the firm is more likely to acquire fewer shares if it chooses M&A as the entry mode. Similarly, the firm will more likely invest in a target company with lower ROA and P/E and in a relevantly large proportion of shares by using M&A.

The dummy of same industry is insignificant, which implies that whether the target firm is in the same sector is not a determinant when choosing the entry mode. GDP is significant at 5% level in Table 8A and insignificant in Table 8B. The entry mode is more likely to be M&A if the target country has a larger GDP. However, GDP growth and GDP per capita contribute little to the problem of entry mode choice in both cases.

Geographic distance and market capitalization are significant in both cases. This finding implies that Chinese firms prefer M&A as the entry mode and majority rather

than minority shareholding if the target country is located nearby. Chinese firms are likely to choose M&A and majority or even full M&A if the capital markets of the target country is developed.

Tax rate is significant at 10% level and negative in both cases. This result reflects the character of tax evasion. The Chinese firms choose M&A as the entry mode and prefer majority than minority shareholding if the tax rate in the target country is low. Otherwise, the entry mode will likely be JV.

Natural resources of the target country are not essential when choosing between M&A or JV entry modes. The result is insignificant. However, in the M&A sample, firms will more likely enter a full M&A or prefer majority rather than minority shareholding in host countries with rich natural resources. The purpose of some Chinese ODIs is to exploit resources. This result suggests that the ODI that aims to acquire resources usually absorbs a large proportion of shares in M&A.

The ownership structure is significant and positive in both models, which implies that Chinese firms prefer M&A if the shareholder dispersion is good and JV if the shares are concentrated.

6.4 Empirical Results of Entry Mode Model II: The Conditional Logit Model with Subsample

(Table 9 inserted here)

Table 9 reports the coefficients of the conditional logit model that separately used M&A and JV subsamples. Both results are similar to the previous location choice

result from Chapter 4. In either subsample, the political_average is significant.

(Table 10 inserted here)

Table 10 reports the coefficients of the conditional logit model based on full M&A; majority and minority shareholding subsamples are used separately. Similarly, the political factor is significant in all three models. However, the coefficient values differ, which suggests that political factors have a larger influence on the location choice of Chinese ODI if the firm chooses full M&A as a mode of entry over majority or minority shareholdings. In other words, political factors affect the entry mode among full M&A, majority and minority shareholdings, which is consistent with the previous result from Table 8B.

CHAPTER 7

CONCLUSIONS

The role of political factors in the Chinese ODI has long been uncertain. Although several theoretical frameworks have been developed to explain the influences of political factors on Chinese ODI, empirical studies on location choice of Chinese ODI are few, and sample sizes are small. No previous work combined the location choice and entry mode problems to demonstrate the influences of political factors more clearly. Therefore, we explore the influences of political factors in the location choice of Chinese ODI by using a large Chinese sample and also discussed their influences in the problem of entry mode choice. For a more in-depth exploration and to ensure an adequate sample size, we used the Chinese ODI transactions in the past decade for analysis.

First, we found that political factors significantly influence the location choice of Chinese ODI. Generally, Chinese ODI tends to locate in countries with better institutional situations. Among the six political factors, voice and accountability, political stability, and absence of violence are insignificant, whereas government effectiveness, regulatory quality, rule of law, and corruption control affect the location choice of Chinese ODI. Chinese ODI tends to locate in countries with better government effectiveness, better regulatory quality, lenient rule of law, and better corruption control.

Second, political, tax, and natural resource factors are all determinants in Chinese

ODI. Substitution effect exists between political and tax factors but to a very small extent. On the other hand, political factors and natural resources cannot substitute for each other significantly in the Chinese ODI location choice problem.

Third, political factors are significant in deciding on the Chinese ODI entry mode. Firms prefer M&A to JV if the institutional situation of target countries is better.

Finally, political factors also influence the choice of share proportion if the entry mode is M&A. Firms prefer to take a large portion of shares if the institutional situation is better. This finding suggests that if the target political environment is good, a firm prefers 100% acquisition or majority acquisition to minority acquisition.

TABLES

Table 1 Number of Target Companies of Chinese Cross-border M&A per Country (2002–2011)

Country	Number of Target Companies	Country	Number of Target Companies
United Arab Emirates	1	Jamaica	1
Albania	1	Japan	11
Argentina	2	Kyrgyzstan	1
Austria	3	Korea	7
Australia	73	Cayman Islands	125
Azerbaijan	4	Kazakhstan	3
Belgium	5	Luxembourg	1
Bermuda	87	Mongolia	2
Brazil	9	Macau	3
Canada	40	Mauritius	1
Democratic Republic of the Congo	1	Malaysia	4
Switzerland	2	Netherlands	10
Chile	3	Norway	5
Colombia	2	New Zealand	1
Cape Verde	1	Oman	1
Cyprus	1	Panama	1
Czech Republic	1	Pakistan	3
Germany	27	Portugal	2
Egypt	3	Russia	3
Spain	3	Saudi Arabia	1
France	16	Sweden	3
Great Britain	27	Singapore	45
Greece	1	Syria	1
Ghana	1	Chad	1
Hong Kong	123	Thailand	4
Hungary	3	Turkey	2
Indonesia	9	Taiwan	9
Ireland	1	United States	71
Israel	4	Uzbekistan	3
India	7	British Virgin Islands	59
Iceland	2	Vietnam	5
Italy	7	South Africa	3
TOTAL		**842**	

Source: Zephyr Database

Table 2 Variables and Data Sources

Independent Variables	Sources	Summary
Voice and Accountability	*World Bank*	An index from -2.5 (weak) to 2.5 (strong) reflects the extent to which the citizens of a country are able to participate in selecting their government as well as enjoy freedom of expression, freedom of association, and free media.
Political Stability and Absence of Violence/Terrorism	*World Bank*	An index from -2.5 (weak) to 2.5 (strong) reflects the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically motivated violence and terrorism.
Government Effectiveness	*World Bank*	An index from -2.5 (weak) to 2.5 (strong) reflects the qualities of public and civil services and the degree of their independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.
Regulatory Quality	*World Bank*	An index from -2.5 (weak) to 2.5 (strong) reflects the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.
Rule of Law	*World Bank*	An index from -2.5 (weak) to 2.5 (strong) reflects the extent to which agents have confidence in and abide by the rules of

		society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.
Corruption Control	*World Bank*	An index from -2.5 (weak) to 2.5 (strong) reflects the extent to which public power is exercised for private gain, including both petty and grand forms of corruption as well as "capture" of the state by the elite and private interests.
Logarithm of GDP	*World Bank*	A variable that controls for the size of the economy of a country. We employ GDP of 209 target countries from 2002 to 2011.
GDP growth rate (annual %)	*World Bank*	A variable reflects the annual percentage growth rate of GDP at market prices based on constant local currency. The variable controls the growth of the economy of a country. We employ GDP growth rates of 209 target countries from 2002 to 2011.
GDP per capita (current US$)	*World Bank*	GDP per capita is GDP divided by midyear population. The variable controls the wealth situation per capita of a country. We use GDP per capita of 209 target countries from 2002 to 2011.
Logarithm of geographic distance	*CEP II Database*	A variable that controls the point distance between the capitals of China and the target countries
Logarithm of market	*World Bank*	A variable that measures the market capitalization of listed companies at current

Capitalization		prices.
Total tax rate	*World Bank*	A variable that represents the tax factor. Total amount of taxes payable by businesses (except for labor taxes) after accounting for deductions and exemptions as a percentage of profit.
Logarithm of resource reserve allocation	*Dealogic Database*	A variable that represents the natural resources and is calculated by summation of the total natural resource reserves in a target country, measured in U.S. dollars. We use the resource reserve values of 209 target countries from 2002 to 2011.
Ownership structure	*La Porta et al.(1999)*	A variable measures the shareholder dispersion within firms.
Logarithm of market size	*STAN database-OECD ISIC Rev 4*	A variable that shows the production at the industry level of the 209 target countries from 2002 to 2011 as a proxy of market size of a specific industry of the target country.
Logarithm of Labor costs	*STAN database-OECD ISIC Rev 4*	A variable that represents labor costs in the target country.
Logarithm of Productivity	*STAN database-OECD ISIC Rev 4*	A variable that provides information on the productivity level in a given sector of a target country. We employ the industry productivity of each of the 209 target countries from 2002 to 2011.
Logarithm of Total Asset	*Zephyr Database*	A variable that controls the size of the firm.
Return on Asset	*Zephyr Database*	A financial ratio calculated by dividing the EBIT by the total asset of the firm.

P/E	*Zephyr Database*	A financial ratio calculated by dividing the market price of the firm by EBIT of the share of the firm
Dummy of the same SIC	*WorldScope*	A dummy equals 1 if the investing firm and the target firm are in the same industry (first two digits are the same).

Table 3 Political Average on the Location Choice Model (Conditional Logit)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
				Dependent Variable: True = 1, False = 0					
Political_average	0.9863***	0.9451***	0.9800***	1.233***	1.1715***	1.1844***	0.9236***	1.2192***	0.9198***
	(0.105)	(0.164)	(0.110)	(0.171)	(0.126)	(0.141)	(0.132)	(0.136)	(0.151)
LN_GDP	0.4838***	0.4865***	0.5216***	0.4879***	0.4308***	0.5124***	0.5182***	0.4706***	0.4749***
	(0.023)	(0.038)	(0.032)	(0.037)	(0.042)	(0.035)	(0.033)	(0.027)	(0.029)
GDP_growth	0.0471***	0.1793***	0.0118	0.1412***	0.0587	0.0191	0.1195***	0.0863	-0.0118
	(0.011)	(0.017)	(0.014)	(0.021)	(0.048)	(0.029)	(0.023)	(0.096)	(0.107)
LN_GDP_per_capita	0.4404***	0.4493***	0.4704***	-0.2449	0.4073	-0.1731	0.0278	-0.3771	-0.4234
	(0.077)	(0.109)	(0.077)	(0.120)	(0.253)	(0.120)	(0.157)	(0.635)	(0.689)
LN_Distance	-0.4962***	-0.5162***	-0.4444***	-0.4408***	-0.4286***	-0.4941***	-0.4119***	-0.4975***	-0.5020***
	（0.065）	（0.070）	（0.069）	（0.071）	（0.067）	（0.073）	（0.072）	（0.068）	（0.067）
Tax_rate		-0.0167***		-0.0112***			-0.0102***		-0.0170***
		（0.005）		（0.005）			（0.006）		（0.005）
LN_Capitalization			0.9485***	1.0348***			1.0154***		0.9720***

			（0.078）	（0.075）				（0.089）	（0.065）
Resource					1.7324***				
					（0.146）				
Ownership_Structure						1.0446*	0.8644		
						（0.461）	（0.795）		
LN_Labor_cost								-0.2191**	-0.2330**
								（0.076）	（0.082）
LN_Market_size								0.0243***	0.0232***
								（0.002）	（0.002）
LN_productivity								0.3249*	0.4605**
								（0.163）	（0.194）
Observations	119460	81054	68688	48204	78448	17884	15096	2016	1610
Log-Likelihood	-2669	-1694	-2447	-1547	-2131	-1594	-1273	-247.27	-211.97
McFadden's LRI	0.2221	0.305	0.1903	0.2869	0.3234	0.1404	0.1869	0.3493	0.3016

*significant at 10%; ** significant at 5%; *** significant at 1%

Table 4A Voice and Accountability on the Location Choice Model (Conditional Logit)

Dependent Variable: True = 1, False = 0

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Voice_and_Accountability	0.0203	0.2340***	-0.0566	-0.0829	0.0214	0.3180***	-0.0867	0.6264	0.7487
	（0.061）	（0.083）	（0.068）	（0.096）	（0.052）	（0.113）	（0.135）	（1.147）	（1.833）
LN_GDP	0.4728***	0.4936***	0.5185***	0.4728***	0.4029***	0.5396***	0.5239***	0.4705***	0.4519***
	（0.022）	（0.035）	（0.033）	（0.036）	(0.044)	(0.037)	(0.032)	(0.026)	(0.026)
GDP_growth	0.0195*	0.1579***	-0.00761	0.1329***	0.009275	0.1816***	0.1141***	0.0211	-0.0606
	（0.011）	（0.016）	（0.014）	（0.021）	（0.048）	（0.019）	（0.024）	（0.096）	（0.113）
LN_GDP_per_capita	0.8944***	0.6234***	0.6397***	0.5192***	0.3573***	0.8428***	0.5848***	1.4106*	1.3495*
	（0.054）	（0.075）	（0.057）	（0.078）	（0.342）	（0.072）	（0.090）	0.7319	0.8217
LN_Distance	-0.4989***	-0.5093***	-0.4468***	-0.4332***	-0.4188***	-0.4948***	-0.4066***	-0.4854***	-0.4915***
	（0.064）	（0.067）	（0.071）	（0.075）	（0.072）	（0.070）	（0.068）	（0.065）	（0.071）
Tax_rate		-0.0164		-0.0161			-0.03958		0.0151
		0.004271		0.004876			0.005701		0.00154
LN_Capitalization			0.9525***	1.0527***			1.0215***		0.9840***

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
			（0.071）	（0.072）			（0.086）		（0.069）
Resource					1.8010***				
					（0.144）				
Ownership_Structure						1.0322*	0.7772		
						（0.452）	（0.906）		
LN_Labor_cost								-0.2320**	-0.2213*
								(0.077)	(0.089)
LN_Market_size								0.0295***	0.0208***
								(0.003)	(0.002)
LN_productivity								0.3148*	0.4423**
								(0.172)	(0.191)
Observations	119460	81054	68688	48204	78448	17884	15096	2016	1610
Log-Likelihood	-2700	-1785	-2450	-1574	-2146	-1629	-1280	-244.52	-208.99
McFadden's LRI	0.213	0.2675	0.1893	0.2745	0.3211	0.1217	0.1824	0.3566	0.3114

*significant at 10%; ** significant at 5%; *** significant at 1%

Table 4B Political Stability and Absence of Violence on the Location Choice Model (Conditional Logit)

	Dependent Variable: True = 1, False = 0								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Political Stability and Absence of Violence	-0.2091***	0.6648***	-0.2201***	0.5717***	-0.2727	0.169	0.2691*	-0.2449	0.3372
	（0.081）	（0.122）	（0.082）	（0.141）	（0.326）	（0.107）	（0.130）	（0.566）	（0.739）
LN_GDP	0.4794***	0.5066***	0.5162***	0.4885***	0.4344***	0.4927***	0.4968***	0.4933***	0.5097***
	（0.023）	（0.042）	(0.033)	(0.039)	(0.040)	(0.035)	(0.033)	(0.029)	(0.031)
GDP_growth	0.0134	0.1540***	-0.00564	0.1411***	0.013	0.2039***	0.1208***	0.102	7.71E-05
	（0.009）	（0.015）	（0.012）	（0.020）	（0.046）	（0.017）	（0.022）	（0.091）	（0.107）
LN_GDP_per_capita	1.0258***	0.3069***	0.7485***	0.1229	0.4492	0.6328***	0.3984***	0.1521	0.2158
	（0.068）	（0.097）	（0.070）	（0.108）	（0.365）	（0.094）	（0.110）	（0.538）	（0.630）
LN_Distance	-0.5280***	-0.4950***	-0.4476***	-0.4464***	-0.4325***	-0.5047***	-0.4288***	-0.4881***	-0.5025***
	（0.065）	（0.071）	（0.070）	（0.075）	（0.067）	（0.071）	（0.070）	（0.066）	（0.067）
Tax_rate		-0.0169***		-0.0110***			-0.154***		-0.0127***
		(0.004)		(0.005)			(0.005)		(0.004)

LN_Capitalization			0.9458***	1.0491***				1.0269***	0.9731***
			（0.079）	（0.074）				（0.090）	（0.071）
Resource					1.7521***				
					（0.142）				
Ownership_Structure						1.0459*	0.8974		
						（0.463）	（0.821）		
LN_Labor_cost								-0.2326**	-0.2743**
								(0.078)	(0.081)
LN_Market_size								0.0265***	0.0221***
								(0.002)	(0.002)
LN_productivity								0.3453*	0.4696**
								(0.164)	(0.195)
Observations	119460	81054	68688	48204	78448	17884	15096	2016	1610
Log-Likelihood	-2697	-1773	-2447	-1565	-2143	-1632	-1278	-247.29	-212.43
McFadden's LRI	0.2139	0.2725	0.1903	0.2786	0.3214	0.1204	0.1838	0.3493	0.3000

*significant at 10%; ** significant at 5%; *** significant at 1%

Table 4C Government Effectiveness on the Location Choice Model (Conditional Logit)

Dependent Variable: True = 1, False = 0

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Government_Effectiveness	1.7697***	1.7776***	1.4428***	1.1439***	1.5245***	1.5058***	1.8583***	1.1501***	1.5661***
	（0.089）	（0.118）	（0.093）	（0.109）	（0.096）	（0.111）	（0.129）	（0.097）	（0.094）
LN_GDP	0.4633***	0.4433***	0.4611***	0.5148***	0.4869***	0.5034***	0.5481***	0.5093***	0.5135***
	0.0235	0.0375	0.0632	0.1012	0.1056	0.0553	0.1276	0.2193	0.4379
GDP_growth	0.0412***	0.1435***	0.0093	0.1160***	0.0111	0.1476***	0.0931***	0.0879	-0.00819
	（0.010）	（0.017）	（0.013）	（0.020）	（0.048）	（0.019）	（0.023）	（0.096）	（0.106）
LN_GDP_per_capita	0.4279***	0.4351***	0.4962***	0.2262*	0.3435	0.1947*	0.0419	0.3512	0.3801
	（0.072）	（0.105）	（0.068）	（0.116）	（0.346）	（0.119）	（0.156）	（0.622）	（0.680）
LN_Distance	-0.4201***	-0.4565***	-0.4263***	-0.4652***	-0.4261***	-0.4966***	-0.4142***	-0.5125***	-0.5096***
	（0.066）	（0.072）	（0.069）	（0.070）	（0.065）	（0.072）	（0.069）	（0.070）	（0.069）
Tax_rate		-0.0115***		-0.0103***			-0.0157***		-0.0125***
		(0.004)		(0.004)			(0.005)		(0.004)
LN_Capitalization			0.9643***	1.1012***			1.0243***		0.9678***

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
			（0.074）	（0.077）		（0.088）		（0.064）	
Resource					1.7324***				
					（0.146）				
Ownership_Structure						1.2535**	0.9656		
						(0.488)	(0.820)		
LN_Labor_cost								-0.2182**	-0.2451***
								(0.086)	(0.076)
LN_Market_size								0.0233***	0.0234***
								(0.002)	(0.002)
LN_productivity								0.3237*	0.4679**
								(0.163)	(0.195)
Observations	119460	81054	68688	48204	78448	17884	15096	2016	1610
Log-Likelihood	-2659	-1681	-2447	-1544	-2154	-1589	-1273	-247.29	-212.04
McFadden's LRI	0.2249	0.3102	0.1903	0.2883	0.3234	0.1432	0.1868	0.3493	0.3013

*significant at 10%; ** significant at 5%; *** significant at 1%

Table 4D Regulatory Quality on the Location Choice Model (Conditional Logit)

Dependent Variable: True = 1, False = 0

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Regulatory_Quality	1.6016***	1.8108***	1.4717***	1.9410***	1.6285***	1.5054***	1.2794***	1.3552***	1.2502***
	（0.271）	（0.282）	（0.265）	（0.202）	（0.246）	（0.286）	（0.287）	（0.261）	（0.291）
LN_GDP	0.4775***	0.4605***	0.4813***	0.5039***	0.4529***	0.5042***	0.4966***	0.5009***	0.5169***
	（0.024）	（0.038）	（0.034）	（0.041）	（0.041）	（0.034）	（0.039）	（0.29）	（0.30）
GDP_growth	0.0518***	0.1614***	0.0405***	0.1329***	0.0004	0.1490***	0.1116***	0.0978	-0.0041
	(0.011)	(0.017)	(0.014)	(0.021)	(0.049)	(0.019)	(0.022)	(0.095)	(0.106)
LN_GDP_per_capita	0.0579	0.8521***	0.1758**	0.5364***	0.4629	0.7840***	0.1591	0.2373	0.2066
	(0.076)	(0.118)	(0.072)	(0.123)	(0.374)	(0.125)	(0.170)	(0.591)	(0.636)
LN_Distance	-0.4528***	-0.5034***	-0.4221***	-0.4482***	-0.4177***	-0.4879***	-0.4333***	-0.5068***	-0.4977***
	（0.064）	（0.070）	（0.071）	（0.071）	（0.067）	（0.073）	（0.078）	（0.069）	（0.064）
Tax_rate		-0.0116***		-0.0187***			-0.0127***		-0.0125***
		(0.004)		(0.004)			(0.005)		(0.004)
LN_Capitalization			0.9135***	1.0532***			1.0438***		0.9992***

			（0.075）	（0.073）			（0.085）		（0.063）
Resource					1.8022***				
					（0.149）				
Ownership_Structure						0.6582	0.4617		
						(0.468)	(0.762)		
LN_Labor_cost								-0.2275**	-0.2824*
								(0.084)	(0.158)
LN_Market_size								0.0253***	0.0217***
								(0.002)	(0.002)
LN_productivity								0.3337*	0.4830**
								(0.162)	(0.194)
Observations	119460	81054	68688	48204	78448	17884	15096	2016	1610
Log-Likelihood	-2574	-1616	-2403	-1515	-2133	-1522	-1269	-247.37	-212.54
McFadden's LRI	0.2498	0.3369	0.2047	0.3015	0.3316	0.1795	0.1892	0.3491	0.2997

*significant at 10%; ** significant at 5%; *** significant at 1%

Table 4E Rule of Law on the Location Choice Model (Conditional Logit)

	Dependent Variable: True = 1, False = 0								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Rule_of_Law	-0.9279***	-1.0218***	-1.0344***	-0.9457***	-0.9306***	-1.0957***	-0.9414***	-0.1098***	-0.9225***
	（0.093）	（0.104）	（0.101）	（0.112）	（0.096）	（0.122）	（0.121）	（0.099）	（0.126）
LN_GDP	0.4688***	0.4858***	0.4926***	0.5192***	0.4464***	0.4927***	0.5239***	0.5002***	0.5257***
	（0.026）	（0.041）	（0.033）	（0.037）	（0.040）	（0.034）	（0.037）	（0.27）	（0.30）
GDP_growth	0.0416***	0.1675***	0.00418	0.1331***	0.0083	0.1874***	0.1136***	0.0879	-0.0214
	(0.011)	(0.016)	(0.013)	(0.021)	(0.047)	(0.018)	(0.022)	(0.095)	(0.107)
LN_GDP_per_capita	0.5031***	-0.2788***	0.5401***	-0.0905	0.3497	0.033	0.1706	0.3481	0.4096
	(0.074)	(0.099)	(0.076)	(0.108)	(0.350)	(0.107)	(0.147)	(0.601)	(0.659)
LN_Distance	-0.4846***	-0.5112***	-0.4399***	-0.4353***	-0.4179***	-0.4725***	-0.4092***	-0.4985***	0.5022***
	（0.065）	（0.070）	（0.072）	（0.067）	（0.066）	（0.073）	（0.070）	（0.068）	（0.067）
Tax_rate		-0.0123***		-0.0110***			-0.0126***		-0.0108***
		(0.004)		(0.005)			(0.004)		(0.004)
LN_Capitalization			0.9730***	1.0925***			1.0638***		0.9612***

				(0.079)	(0.085)			(0.093)	（0.067）
Resource						1.7754***			
						（0.140）			
Ownership_Structure							1.1153**	0.8644	
							(0.470)	(0.623)	
LN_Labor_cost								-0.2170**	-0.2165**
								(0.066)	(0.073)
LN_Market_size								0.0464***	0.0422***
								(0.005)	(0.002)
LN_productivity								0.3245*	0.4630**
								(0.163)	(0.194)
Observations	119460	81054	68688	48204	78448	17884	15096	2016	1610
Log-Likelihood	-2676	-1705	-2449	-1552	-2131	-1602	-1276	-247.27	-211.66
McFadden's LRI	0.2202	0.3005	0.1895	0.2845	0.3244	0.1362	0.1851	0.3493	0.3026

*significant at 10%; ** significant at 5%; *** significant at 1%

Table 4F Control of Corruption on the Location Choice Model (Conditional Logit)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Dependent Variable: True = 1, False = 0								
Control_of_Corruption	1.1556***	1.5345***	0.9402***	1.0813***	1.0261***	1.3310***	0.9022***	1.1119***	1.2239***
	（0.072）	（0.078）	（0.081）	（0.095）	（0.064）	（0.068）	（0.069）	（0.086）	（0.091）
LN_GDP	0.4892***	0.4301***	0.5055***	0.4872***	0.4293***	0.5046***	0.5312***	0.4979***	0.6024***
	（0.024）	（0.040）	（0.035）	（0.039）	（0.042）	（0.034）	（0.036）	（0.28）	（0.029）
GDP_growth	0.0401***	0.1535***	0.0088	0.1155***	0.0095	0.1558***	0.0948***	0.0859	-0.0068
	（0.011）	（0.017）	0.013	（0.021）	（0.048）	（0.018）	（0.023）	（0.097）	（0.107）
LN_GDP_per_capita	0.3268***	0.5019***	0.3812***	0.3775***	0.3571	0.3019***	0.1551	-0.3771	-0.2996
	（0.071）	（0.101）	（0.075）	（0.115）	（0.341）	（0.115）	（0.151）	（0.654）	（0.678）
LN_Distance	-0.5547***	-0.5873***	-0.4581***	-0.4704***	-0.4293***	-0.4946***	-0.4107***	-0.5094***	-0.4901***
	（0.066）	（0.073）	（0.070）	（0.071）	（0.069）	（0.073）	（0.071）	（0.068）	（0.068）
Tax_rate		-0.0116***		-0.0121***			-0.0173***		-0.0120***
		(0.004)		(0.005)			(0.004)		(0.005)
LN_Capitalization			0.9527***	1.1264***			1.0132***		1.0320***

			（0.080）	（0.076）				（0.089）	（0.069）
Resource					1.6736***				
					（0.150）				
Ownership_Structure						1.4556***	0.8844		
						（0.468）	（0.812）		
LN_Labor_cost								-0.2194**	-0.2295**
								(0.086)	(0.089)
LN_Market_size								0.0253***	0.0523***
								(0.004)	(0.002)
LN_productivity								0.3278*	0.4759**
								(0.163)	(0.194)
Observations	119460	81054	68688	48204	78448	17884	15096	2016	1610
Log-Likelihood	-2643	-1664	-2441	-1532	-2114	-1572	-1265	-247.29	-212.44
McFadden's LRI	0.2297	0.3173	0.1921	0.2936	0.3287	0.1523	0.1918	0.3493	0.3000

*significant at 10%; ** significant at 5%; *** significant at 1%

Table 5 Political Average on the Location Choice Model (Mixed Logit)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
			Dependent Variable: True = 1, False = 0					
Political_Average_M	1.0319***	0.9356***	1.0189***	1.2493***	1.1827***	1.1164***	0.9572***	1.1985***
	(0.028)	(0.041)	(0.045)	(0.067)	(0.036)	(0.063)	(0.044)	(0.039)
Political_Average_S	0.0564	0.0239	0.1876	0.062	0.0111	0.535	0.042	0.1748
	(0.372)	(0.897)	(0.456)	(0.692)	(0.522)	(0.627)	(0.855)	(0.350)
LN_GDP_M	0.4581***	0.4837***	0.5323***	0.4262***	0.4533***	0.5144***	0.5152***	0.4918***
	(0.014)	(0.017)	(0.017)	(0.021)	(0.023)	(0.015)	(0.018)	(0.014)
LN_GDP_S	0.2763	0.0401	0.1453	0.0114	0.3099	0.1573	0.1248	0.0470
	(0.343)	(0.217)	(0.198)	(0.330)	(0.330)	(0.181)	(0.182)	(0.742)
GDP_growth_M	0.0423***	0.1763***	0.0315	0.0239	0.0487	0.0191	0.1000***	0.0303
	(0.010)	(0.014)	(0.036)	(0.024)	(0.043)	(0.029)	(0.021)	(0.023)
GDP_growth_S	0.0001	0.0023	0.0072	0.0069	1.4821	0.0004	0.0843	0.2936
	(0.075)	(0.212)	(0.094)	(0.178)	(0.977)	(0.211)	(0.112)	(0.346)
LN_GDP_per_capita_M	1.0944***	0.5501***	0.8586***	-0.4541**	0.2933	-0.1685	0.4731	-0.3683*
	(0.209)	（0.165）	（0.217）	（0.239）	（0.561）	（0.220）	（0.358）	0.2012
LN_GDP_per_capita_S	1.2549***	0.0425	1.012***	0.3099	0.1103	0.0186	0.8539***	0.2062***
	(0.166)	（0.660）	（0.175）	（0.330）	（0.549）	（0.631）	（0.303）	（0.061）

LN_Distance_M	-0.5023***	-0.4762***	-0.4316***	-0.4587***	-0.4301***	-0.4967***	-0.4099***	-0.5013***
	（0.043）	（0.058）	（0.054）	（0.062）	（0.060）	（0.067）	（0.059）	（0.060）
LN_Distance_S	0.0035***	0.0023***	0.0041***	0.0082***	0.0029***	0.0078***	0.0034***	0.0043***
	(0.002)	(0.002)	(0.001)	(0.003)	(0.002)	(0.002)	(0.001)	(0.002)
log(-Tax_rate)_M		-4.8962***		-4.5228***			-4.9113***	
		(0.520)		(0.528)			(0.614)	
log(-Tax_rate)_S		0.0425		-0.0991			0.0186	
		(2.401)		(0.700)			-0.631	
LN_Capitalization_M			0.9258***	1.0141***			0.9695***	
			(0.072)	(0.068)			(0.077)	
LN_Capitalization_S			0.0071***	0.0082***			0.0084***	
			(0.001)	(0.001)			(0.001)	
Resource_M					1.7663***			
					(0.121)			
Resource_S					0.2338			
					(3.245)			
Ownership_Structure_M						0.8116	1.3937	
						(0.677)	(0.855)	
Ownership_Structure_S						0.2419	1.6437	
						(2.065)	(2.918)	
LN_Labor_cost_M								-0.2206**

								(0.071)
LN_Labor_cost_S								0.0773
								(0.268)
LN_Market_size_M								0.0251***
								(0.003)
LN_Market_size_S								0.0497
								(0.425)
LN_productivity_M								0.3225**
								(0.159)
LN_productivity_S								0.1609
								(1.975)
Observations	119460	81054	68688	48204	78448	17884	15096	2016
Log-Likelihood	-2302	-1554	-2163	-1468	-2069	-1468	-1235	-235.49115
McFadden's LRI	0.3291	0.3623	0.2842	0.3233	0.4512	0.2084	0.2112	0.3803
AIC	4644	3152	4370	2984	3244	2980	2522	522.98231
Likelihood Ratio (R)	2258.3	1765.8	1717.4	1402.3	1713.6	773.28	665.51	289.07

*significant at 10%; ** significant at 5%; *** significant at 1%

Table 6 Countries Listed on Various Tax Haven Lists

Caribbean/West Indies	Anguilla, Antigua and Barbuda, Aruba, Bahamas, Barbados, British Virgin Islands, Cayman Islands, Dominica, Grenada, Montserrat, Netherlands Antilles, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Turks and Caicos, U.S. Virgin Islands
Central America	Belize, Costa Rica, Panama
Coast of East Asia	Hong Kong, Macau, Singapore
Europe/Mediterranean	Andorra, Channel Islands (Guernsey and Jersey), Cyprus, Gibraltar, Isle of Man, Ireland, Liechtenstein, Luxembourg, Malta, Monaco, San Marino, Switzerland
Indian Ocean	Maldives, Mauritius, Seychelles
Middle East	Bahrain, Jordan, Lebanon
North Atlantic	Bermuda
Pacific, South Pacific	Cook Islands, Marshall Islands, Samoa, Nauru, Niue, Tonga, Vanuatu
West Africa	Liberia

Source: OECD, Towards Global Tax Competition

Table 7 Cross Term on the Location Choice Model (Conditional Logit)

			Dependent Variable: True = 1, False = 0		
	(1)	(2)	(3)	(4)	(5)
Political_Average	0.9863***	0.9645***	0.8912***	1.1715***	1.0839***
	(0.105)	(0.132)	(0.125)	(0.126)	(0.117)
LN_GDP	0.4838***	0.4795***	0.4815***	0.4308***	0.4486***
	(0.023)	(0.034)	(0.035)	(0.042)	(0.042)
GDP_growth	0.0471***	0.0962	0.0773	0.0587	0.0688
	(0.011)	(0.095)	(0.088)	(0.048)	(0.049)
LN_GDP_per_capita	0.4404***	0.2563	0.2796	0.4073	0.3875
	(0.077)	(0.224)	(0.240)	(0.253)	(0.250)
LN_Distance	-0.4962***	-0.4999***	-0.5032***	-0.4286***	-0.4306***
	（0.065）	（0.063）	（0.070）	（0.067）	(0.066)

Tax_Haven		1.2155***	1.1448***		
		（0.352）	（0.394）		
Resource				1.7324***	1.5942***
				（0.146）	(0.151)
Tax_Haven*Political_Average			-0.0027**		
			(0.001)		
Resource*Political_Average					-0.0012
					(0.001)
Observations	119460	119460	119460	78448	78848
Log-Likelihood	-2669	-2748	-2805	-2131	-2306
McFadden's LRI	0.2221	0.3121	0.3247	0.3234	0.3376

*significant at 10%; ** significant at 5%; *** significant at 1%

Table 8A Political Average on the Entry Mode Selection Model (Logistic)

	(1)	(2)	(3)
	Dependent Variable: M&A = 1, JV = 0		
Political_Average	1.2753*	1.3529**	1.2635*
	(0.814)	(0.807)	(0.829)
LN_Total Asset	-3.1153***	-3.0137***	-3.2012***
	(0.325)	(0.374)	(0.387)
ROA	-0.9546***	-0.9326**	-0.9271***
	(0.392)	(0.415)	(0.367)
P/E	-0.0452***	-0.0443***	-0.0471***
	(0.018)	(0.018)	(0.019)
Same_industry	1.6182	1.7473	1.7312
	(1.323)	(1.287)	(1.445)
LN_GDP	0.0871**	0.0874**	0.0796***
	(0.031)	(0.033)	(0.024)
GDP_growth	0.0102	0.0007	0.0248
	(0.042)	(0.022)	(0.058)
LN_GDP_per_capita	0.2113	0.2113	0.3482
	(0.422)	(0.327)	(0.537)
LN_Distance	-0.3461***	-0.3524***	-0.3788***
	(0.123)	(0.124)	(0.133)
Tax_rate	-0.0158**	-0.0132*	-0.0165**
	(0.009)	(0.009)	(0.009)
LN_Capitalization	0.9283***	0.9547***	0.9178***
	(0.216)	(0.238)	(0.224)
Resource		0.2132	
		(0.133)	
Ownership_Structure			0.4677***
			(0.109)
Observations	742	583	714
Chi^2	247.1	155.5	256.5
Prob>Chi^2	0.0000	0.0000	0.0000

*significant at 10%; ** significant at 5%; *** significant at 1%

Table 8B Political Average on the Share Portion Selection Model (Logistic)

	Dependent Variable: Full = 2, Majority = 1, Minority = 0		
	(1)	(2)	(3)
Political_Average	2.375***	2.102***	2.441***
	(0.964)	(0.957)	(0.958)
LN_Total Asset	-2.7851***	-2.6743***	-2.5755***
	(0.486)	(0.482)	(0.435)
ROA	-0.3543***	-0.3117***	-0.3272***
	(0.141)	(0.167)	(0.144)
P/E	-0.012***	-0.011***	-0.016***
	(0.003)	(0.004)	(0.004)
Same_industry	1.421	1.345	1.546
	(2.653)	(2.491)	(2.356)
LN_GDP	0.3874*	0.331	0.279
	(0.221)	(0.333)	(0.367)
GDP_growth	0.0423	0.0457	0.3240
	(0.111)	(0.169)	(0.144)
LN_GDP_per_capita	0.1225	0.1626	0.1376
	(0.513)	(0.447)	(0.878)
LN_Distance	-0.4667***	-0.4520***	-0.4195**
	(0.227)	(0.253)	(0.264)
Tax_rate	-0.0141*	-0.0167*	-0.0152**
	(0.009)	(0.009)	(0.008)
LN_Capitalization	0.6545***	0.6891***	0.5764***
	(0.139)	(0.174)	(0.185)
Resource		0.4132**	
		(0.217)	
Ownership_Structure			0.7524***
			(0.237)
Observations	488	396	426
Chi^2	202.5	142.7	187.3
Prob>Chi^2	0.0000	0.0000	0.0000

*significant at 10%; ** significant at 5%; *** significant at 1%

Table 9 Political Average on the Entry Mode Selection Model (Conditional Logit)

	Dependent Variable: True = 1, False = 0								
	Subsample: M&A								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Political_Average	0.9407***	0.9442***	0.9603***	1.232***	1.1652***	1.2103***	0.9005***	1.2341***	0.9858***
LN_GDP	0.4902***	0.7289***	0.5916***	0.5029***	0.4706***	0.5716***	0.5433***	0.7146***	0.9039***
GDP_growth	0.0383***	0.18***	0.0201	0.1212**	0.0687	0.1765*	0.1127	0.074	0.01281
LN_GDP_per_capita	0.6141***	0.5033***	0.5132***	0.4374**	0.4073	-0.1531	0.1278	0.2734*	-0.1458
LN_Distance	-0.5004***	-0.532***	-0.3444***	-0.3421***	-0.5266***	-0.5749***	-0.3256***	-0.6245***	-0.5623***
Tax_rate		-0.0135***		-0.0122***			-0.0164***		-0.0181***
LN_Capitalization			0.9485***	1.1467***			1.0366***		0.9991***
Resource					2.0534***				
Ownership_Structure						1.5342**	1.4892*		
LN_Labor_cost								-0.2333**	-0.2521**
LN_Market_size								0.0211***	0.0289***
LN_productivity								0.3058*	0.4389**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
				Subsample: joint Venture					
Political_Average	0.8863***	0.9451***	0.9574***	1.1140***	1.0715***	1.1144***	0.8636***	1.1292***	0.9198***
LN_GDP	0.4838***	0.4865***	0.5616***	0.4879***	0.4308***	0.5124***	0.5182***	0.7060***	1.1439
GDP_growth	0.0471***	0.1793*	0.0118	0.1412**	0.0587	0.1941**	0.1195*	0.0863	-0.0118
LN_GDP_per_capita	0.4404***	0.4493***	0.4704*	-0.2449	0.4073*	-0.1731	0.0278	-0.3771	-0.4234
LN_Distance	-0.4962***	-0.5162***	-0.2440***	-0.2408***	-0.4286***	-0.7490***	-0.1119***	-0.5975***	-0.5021***
Tax_rate		-0.0167***		-0.0112***			-0.0102***		-0.0100***
LN_Capitalization			0.7485***	1.0348***			1.0154***		0.972***
Resource					1.5324***				
Ownership_Structure						1.0446*	0.8644		
LN_Labor_cost								-0.2191**	-0.233**
LN_Market_size								0.0243***	0.0232***
LN_productivity								0.3249*	0.4605**

*significant at 10%; ** significant at 5%; *** significant at 1%

Table 10 Political Average on the Share Portion Selection Model (Conditional Logit)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
				Dependent Variable: True = 1, False = 0					
				Subsample: M&A Full					
Political_Average	1.7841***	1.8184***	1.5700***	1.6880***	1.7453***	1.8099***	1.1143***	1.5675***	1.5004***
LN_GDP	0.6686***	0.7838***	0.9581***	0.9743***	0.7575***	0.8567***	0.8439***	0.9775***	1.2435***
GDP_growth	0.1138*	0.1537**	0.0102	0.1356	0.0574	0.1665	0.1175*	0.0893	0.0328
LN_GDP_per_capita	0.444***	0.4486***	0.4712***	-0.2445	0.4053**	-0.1756	0.0223	-0.3561	-0.4287
LN_Distance	-0.5754***	-0.4905***	-0.3524***	-0.3378***	-0.5167***	-0.8056***	-0.3098***	-0.6457***	-0.5787***
Tax_rate		-0.0192***		-0.0114***			-0.0137***		-0.0111***
LN_Capitalization			0.9978***	1.3356***			1.2989***		1.2503***
IDA_resource_allocation					2.1459***				
Ownership_Structure						1.8634***	1.7795***		
LN_Labor_cost								-0.2231**	-0.2768**
LN_Market_size								0.0242***	0.0257***
LN_productivity								0.3001*	0.3328*

Subsample: M&A Majority									
Political_Average	1.1293***	1.2504***	1.3203***	1.4054***	1.6215***	1.7932***	1.3245***	1.3254***	0.9987***
LN_GDP	0.1396***	0.5274***	0.6234***	0.6023***	0.5134***	0.5983***	0.6316***	0.8739***	1.2041***
GDP_growth	0.0131	0.1446**	0.01251	0.1212*	0.1684	0.1002*	0.0784	0.0843	0.03756
LN_GDP_per_capita	0.6599**	0.41	0.4645***	0.03451	0.4069*	0.223	0.0278	-0.4356	-0.3234
LN_Distance	-0.9531***	-0.9578***	-0.4562***	-0.6723***	-0.4167***	-0.9672***	-0.3670***	-0.7132***	-0.6455***
Tax_rate		-0.0112***		-0.0179***			-0.0123***		-0.0168***
LN_Capitalization			0.8213***	1.1348***			1.1341***		1.1632***
IDA_resource_allocation						1.8955***			
Ownership_Structure							1.6457***	1.4989**	
LN_Labor_cost								-0.2452**	-0.2376**
LN_Market_size								0.0251***	0.0269***
LN_productivity								0.3234**	0.3569*
Subsample: M&A Minority									
Political_Average	0.7416***	0.8233***	0.8524***	1.0111***	1.0049***	1.0562***	0.9044***	0.9553***	0.9087***
LN_GDP	0.1545***	0.7823***	0.6487***	0.4585***	0.4102***	0.4881***	0.4276***	0.6028***	0.9075***
GDP_growth	0.0283	0.2242*	0.0105	0.1351*	0.05556	0.1782	0.1069*	0.1245	0.0088

LN_GDP_per_capita	1.0423**	0.6648*	0.3904	-0.2456	0.3209*	0.7688	0.2784	0.1265	-0.1562
LN_Distance	-0.232***	-0.4283***	-0.2214***	-0.1907***	-0.3004***	-0.6745***	-0.1321***	-0.5432***	-0.4858***
Tax_rate		-0.0134***		-0.0169***			-0.0198***		-0.0189***
LN_Capitalization			0.7485***	0.9428***			0.8711***		0.9043***
IDA_resource_allocation					1.5421***				
Ownership_Structure						0.9561*	0.7742*		
LN_Labor_cost								-0.2391**	-0.2499**
LN_Market_size								0.0247***	0.0251***
LN_productivity								0.3231**	0.4897**

*significant at 10%; ** significant at 5%; *** significant at 1%

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