Home Country Attributes and Political Risk Abroad

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Overview

Research Question

- What factors make investment into emerging markets risky for firms?
- Previous research:
  - Commitment problem of cross-border investment (Vernon 1971).
  - What are investors looking for in a host (e.g., Jensen 2003, Li and Resnick 2003, Staats and Biglaiser 2012, Henisz 2000)?
  - Does the host country matter (Wellhausen 2014)?
- Shortcoming?
  - Large-N studies focusing on changes in aggregate investment.
  - What about bilateral ties more generally?

Research Design

- What would an ideal world research design look like?
  - How do key decision makers assess risk?
  - Can we isolate effects of changes along selected attributes? Study the relative importance of potential factors?
- Our approach:
  - Expert attitudes on risk *itself*, instead of flows (consequences).
  - Conjoint survey experiment to test factors simultaneously.
  - Elite sample of political risk insurers.
  - Supplement experiment with interviews to probe causal mechanisms.

Experimental Design I

Investor attributes:

- Size of investor company
- Country of origin
- Industry of investor

Location attributes:

- Bilateral investment treaties
- Level of country risk
- Major source of foreign aid

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Experimental Design I

Investor attributes:

- Size of investor company
- Country of origin
  - U.S. (Chinese) firms face less risk as home governments can exert pressure *(Hyp. 1)*.
- Industry of investor

Location attributes:

- Major source of foreign aid
  - A potential suspension of aid can be leveraged to reduce risk *(Hyp. 2)*.
- Bilateral investment treaties
  - Any BITs are a signal about intentions (rule of law) *(Hyp. 3)*.
  - Home-host dyad BITs provide insurance against violations *(Hyp. 4)*.
- Level of country risk

Experimental Design II

- Conjoint experiment with single forced choice among 2 randomized profiles.
- Iterated up to 12 times.
- Complete profile randomization within task.
- Order randomization within respondent (satisficing).
- Estimate Average Marginal Component Effects (AMCEs), and interactions (ACIEs) (Hainmueller et al. 2014).
- All analyses were pre-registered with EGAP.

Experimental Design III

Please select which investment you consider lower risk for expropriation or breach of contract:

	Investment A	Investment B
Location attributes		
Major source of foreign aid	China	Canada
Bilateral Investment Treaties	None	Treaties with countries other than Canada
Level of country risk	OECD Country risk rating of 5 (1=lowest risk, 7=highest risk)	OECD Country risk rating of 5 (1=lowest risk, 7=highest risk)
Investor attributes		
Country of origin	Investor is from Canada	Investor is from Canada
Industry of investor parent company	Manufacturing for export	Manufacturing for sale to host market
Size of investor parent company	Medium (Between 100-1000 employees)	Medium (Between 100-1000 employees)

Investment A

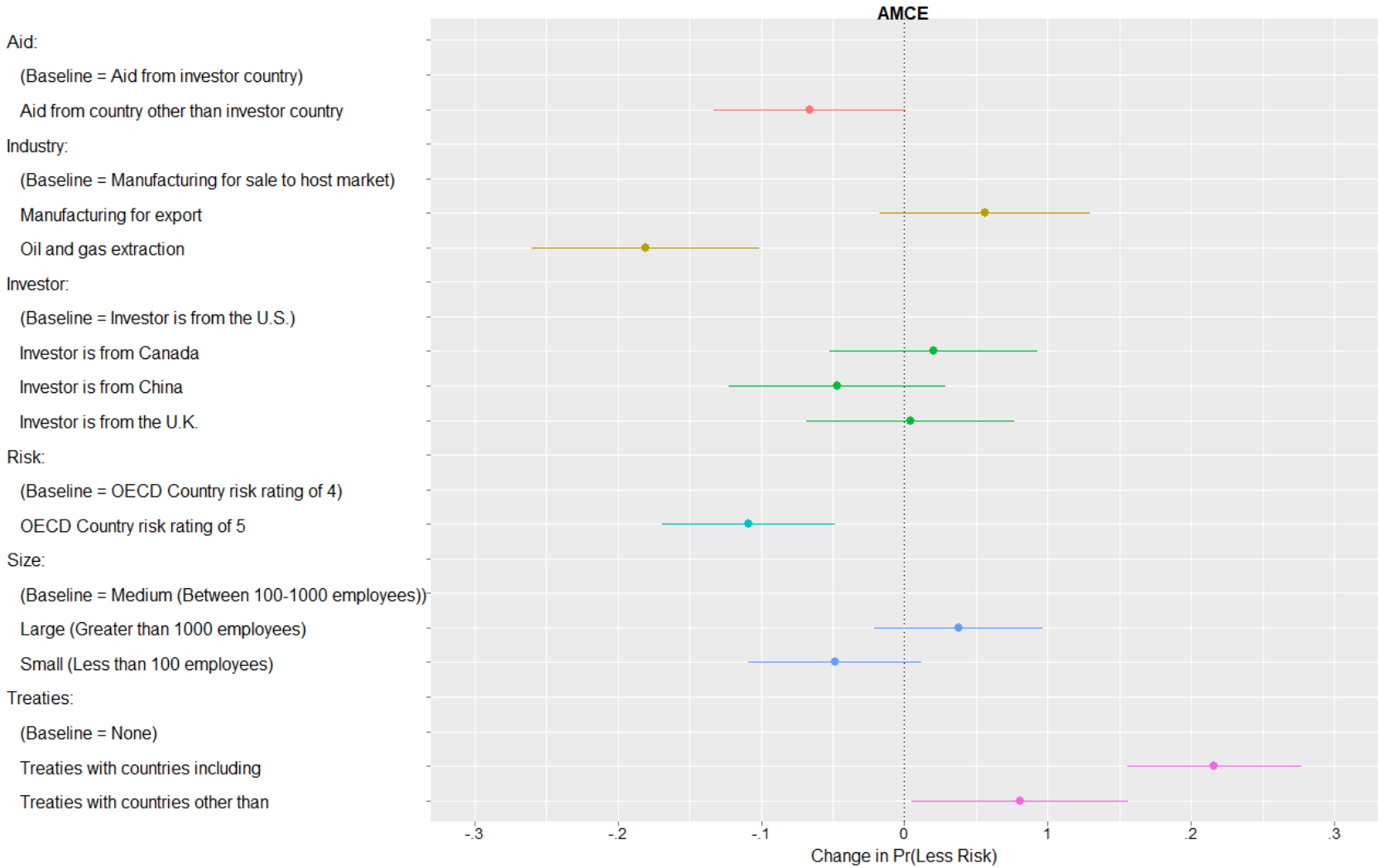
Investment B

I'm done, I don't want to do this anymore.

Our sample

- Recruitment:
  - Recruit participants via Berne Union.
  - Supplement via LinkedIn.
  - Snowball via references.
  - Time in the field: 9/8/2017–11/30/2017.
- Our pool:
  - 87 participants; 75 yield responses to profile comparisons.
  - 761 total choices made = 1522 data points.
  - Average comparisons per respondent: 10.1.
  - $\approx$ 67% (former) underwriters, $\approx$ 22% (former) analysts.
  - $\approx$ 78% private sector, $\approx$ 22% (quasi-)government agency or IO employees.
  - Regional variation: 50+% worked in all areas of the globe.

Baseline Results: Average Marginal Component Effects



More risky $\longleftarrow$ Baseline $\longrightarrow$ Less risky

Experimental results summary

- Respondents were interested!
  - Very few rushed individual comparisons.
  - Respondents could leave section whenever, yet most completed all 12 tasks.
- Aid relationships and BITs matter.
  - BITs with the investor home country matter even more than a lower risk rating.
  - BITs with third parties still serve to reassure investors.

Qualitative evidence

Design:

- Subjects drawn from potential pool of survey participants.
- Contact via email.
- Open-ended questions on the relationship between risk, bilateral aid, BITs, and country of origin.

Preliminary results:

- State power doesn't seem to matter.
- Bilateral relationships are critical.
  - Aid dependence a weakness?
  - Mixed results on BITs: BITs can alleviate investor risk through fund recovery; BITs can (or cannot) deter expropriation; BITs don't matter at all?

Conclusions

- Paper fills a void in studying expert attitudes on risk.
- Great power dynamics appear less salient once bilateral connections are accounted for.
- Home country attributes matter; interacts with the host country are crucial.
- Aid relationship can alleviate risk, but punishment can go both ways.
- BITs can help deter, but also in investment recovery.

Thank you!

Thank you for your feedback.

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Appendix

Additional slides

Experimental Design II

Investor attributes:

- Size of investor company
  - Large (Fortune 500); Medium, Small.
- Country of origin
  - U.S.; U.K.; China; Canada.
- Industry of investor
  - Manufacturing for export; Manufacturing for domestic consumption; Oil and gas extraction.

Location attributes:

- Bilateral investment treaties
  - None; BITs with countries other than {investor origin}; BITs with countries including {investor origin}.
- Level of country risk
  - OECD country risk rating of 4, OECD country risk rating of 5.
- Major source of foreign aid
  - U.S.; U.K.; China; Canada.

Our sample

- Recruitment:
  - Recruit participants via political risk insurance industry association (Berne Union), looking for underwriters and analysts [166 individuals, 39 companies].
  - Supplement list via LinkedIn search [217 contacts with overlap].
  - Add to pool through references by participants [36 additional contacts].
  - Time in the field: 9/8/2017–11/30/2017.
- Our pool:
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  - $\approx$ 67% (former) underwriters, $\approx$ 22% (former) analysts.
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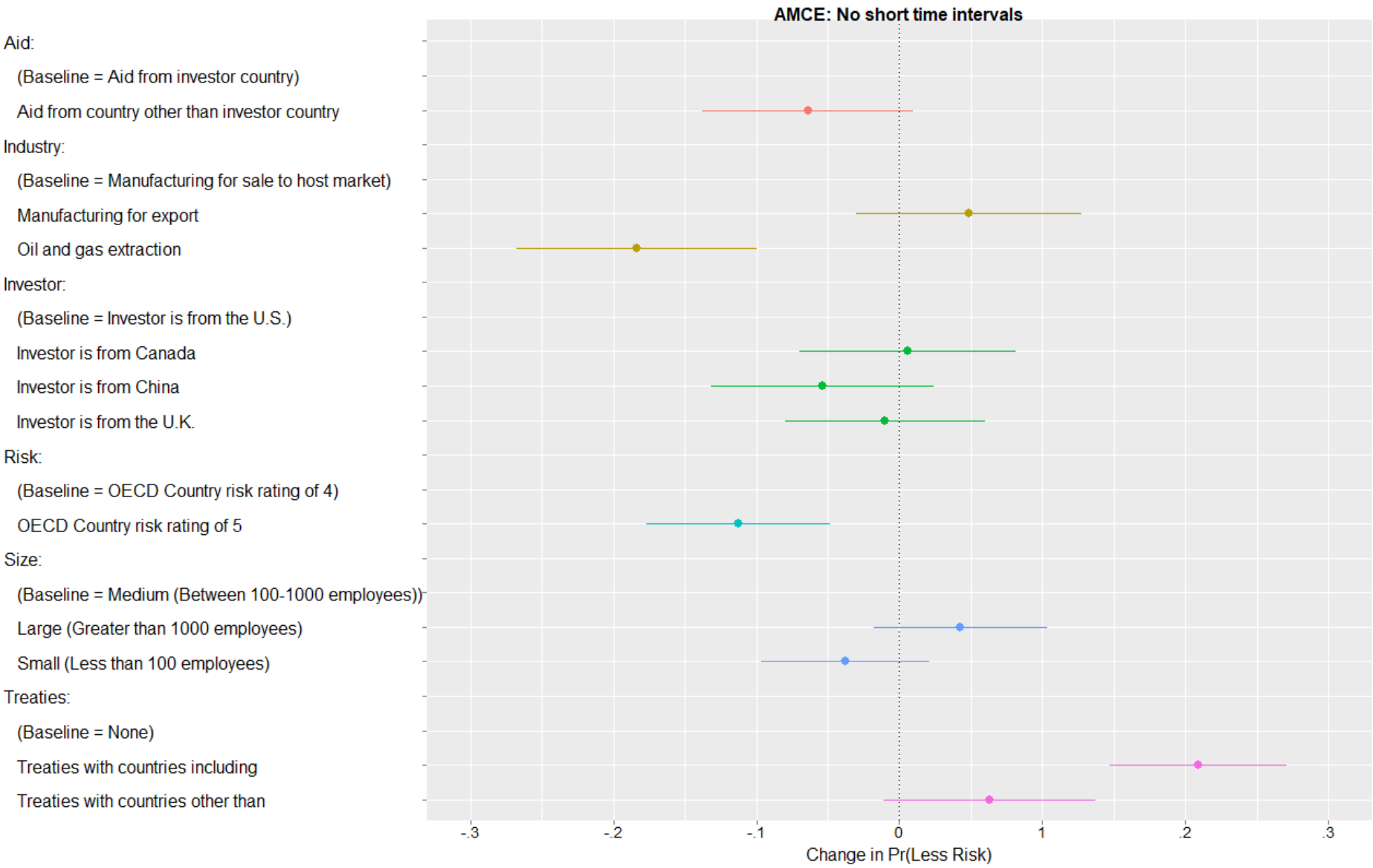
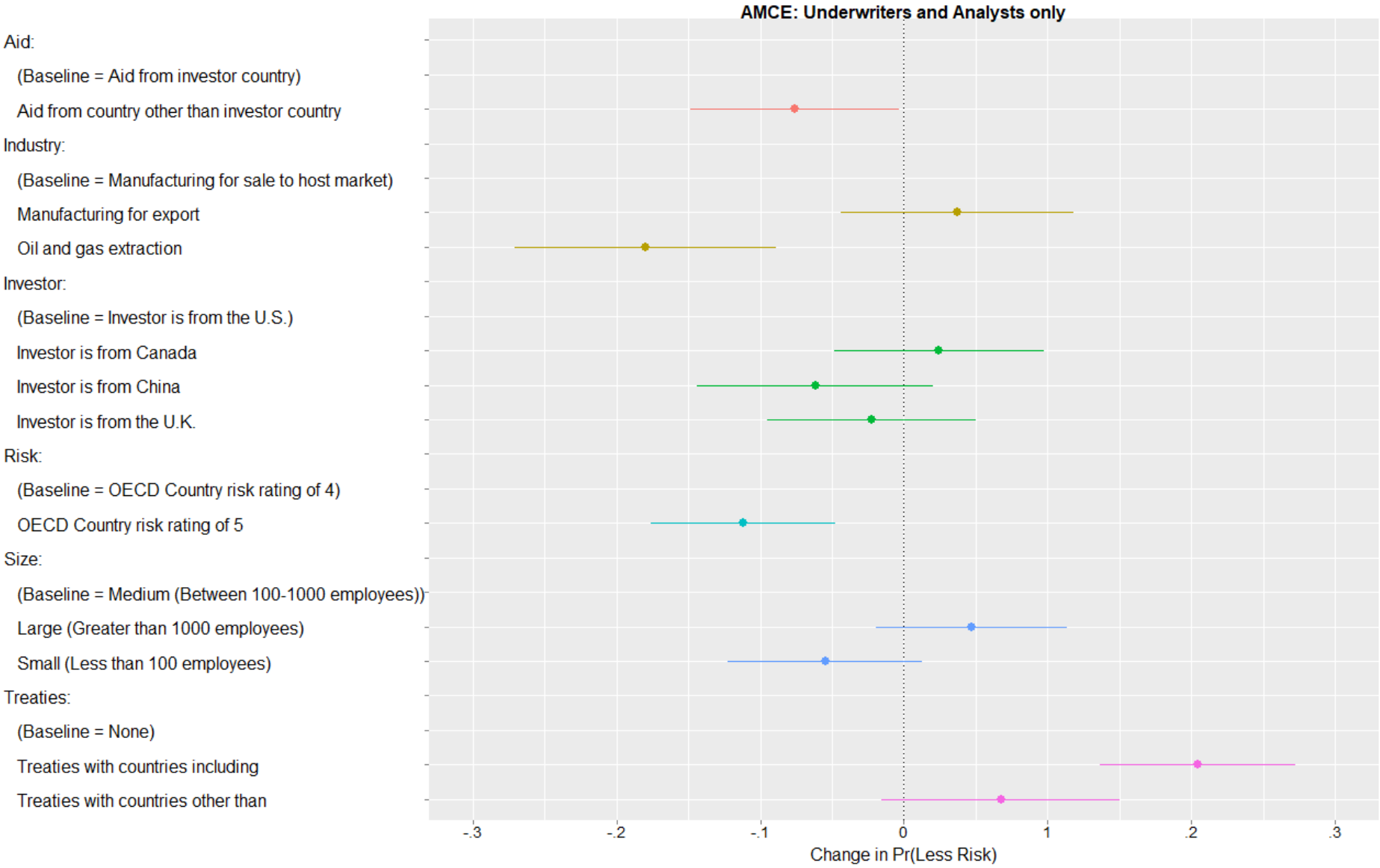
Robustness and interactions

- Remove any responses that seemed rushed.
  - Average time spend on a single comparison: 57 seconds (min: 18 seconds).
  - Harder test: Remove all responses that ever rushed through a comparison.
- Remove any responses by individuals that never worked as underwriters or analysts.
- Does a foreign aid relationship or BIT relationship matter more when the investor comes from a particular place?

Robustness Checks: No rushed responses



Robustness Checks: Only underwriters and analysts



Complex interactions?