Strategic Asset Mobility:
How Foreign Firms Use Asset Mobility to Manage Political Risk

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Abstract

In this paper, I show that foreign firms can strategically alter their asset mobility in response to different levels of political risk. I argue that asset mobility is determined by industry characteristics and firms' political concerns. In countries with high political risk, to obtain government support foreign investors may prefer low asset mobility over high asset mobility. I substantiate my theory using firm-level data from 47 countries and a survey fielded among foreign firms' managers in China. The findings from firm-level data confirm that foreign firms with lower mobility receive better government treatment in countries with high political risk. Then, using the survey data from China, I show how foreign firms strategically choose asset mobility levels. My theory and findings make important contributions to our knowledge of the challenges to the current world order, as I shed light on how countries with inadequate property rights protection can still attract long-term investment from foreign investors.

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1 Introduction

Political risk is usually defined as unforeseeable government interference in private investment and business operations (Kobrin 1979). Studies in political science highlight government exploitation and expropriation as a major type of government interference, which ranges from asset confiscation to discriminatory policies. The risk of exploitation is viewed as a major political hurdle for foreign investments. Political scientists argue that political institutions can significantly mitigate political risk. Scholars show that domestic political institutions (Henisz 2000; Jensen 2008; Beazer and Blake 2018), international political institutions (Büthe and Milner 2008; Allee and Peinhardt 2011), supply chain networks (Kobrin 1987; Johns and Wellhausen 2015), firms' nationality (Wellhausen 2014), and political connections (Fisman 2001; Frye and Yakovlev 2016; Truex 2016; Xu 2020) can help foreign investors protect their assets. Without sufficient protection, foreign investors are reluctant to make long-term and immobile investments (Jensen 2008). Therefore, existing studies usually predict that more mobile investors should obtain better government treatment in countries with high political risk.

In contrast, I argue that less mobile foreign investors often obtain better government treatment in countries with high political risk, because 1) host governments favor foreign investors with a strong commitment to the local economy, 2) countries with higher political risk offer more preferential policies, and 3) foreign investors strategically choose their asset mobility in response to government preferences and political risk.

Contrary to conventional wisdom, I argue that less mobile investors, instead of more mobile ones, are more likely to obtain government incentives, because host governments often favor foreign investors with lower mobility and stronger commitments (Bauerle Danzman and Slaski 2021b; Ge 2021). The canonical theory usually focuses on cases in which the host government shares few interests with foreign investors and always has incentives to exploit. As a result, foreign investors with lower asset mobility are more likely to be exploited because they cannot pose as strong of an exit threat as their more mobile counterparts. However, many host governments and foreign firms share significant interests, as office-motivated government officials value the economic benefits foreign firms

bring. Government officials who sufficiently value economic benefits are willing to "invest in" foreign firms by offering favorable government treatment, in which case less mobile foreign firms are favored precisely because of their lower propensity to leave.

Knowing host governments' preferences, foreign investors evaluate the benefits and costs of low asset mobility. Host governments that value economic gains may still turn predatory due to exogenous political and economic reasons. Low asset mobility helps foreign firms obtain preferential government treatment but also increases the exit cost if the host governments turn predatory. Thus, foreign investors choose among entering with low mobility, entering with high mobility, and staying out.

The literature establishes that governments of countries with higher political risk offer more generous incentives to foreign investors to compensate for the lack of institutional protection (Li 2006; Jensen 2013). Thus, in countries with high political risk, a proportion of investors may enter only when receiving government preferential treatment because it is not profitable for them to operate in a risky environment without generous government support. Therefore, these firms choose to enter with low mobility, while others choose to stay out or remain mobile. In countries with low political risk, however, most investors can earn a profit without government support. Their decision regarding asset mobility is not politically motivated. Meanwhile, because the governments of countries with low political risk do not offer preferential treatment as generous as that offered by governments of countries with high political risk, the difference in treatment between foreign firms with high and low mobility in countries with lower political risk is lower. As a result, low asset mobility is usually associated with preferential treatment in countries with high political risk, while this relationship is attenuated in countries with low political risk.

In this paper, I find strong empirical support from firm-level data from 47 countries and a survey of foreign firms' managers in China. First, the firm-level data confirm that foreign firms with low asset mobility pay even less taxes in countries with higher political risk, *ceteris paribus*. Second, using survey data, I show that the within-industry variation of asset mobility is much larger than the across-industry variation of asset mobility, which suggests that asset mobility can be at least partially chosen by individual firm. Last, results from the survey show strong support for the proposed theoretical mechanisms.

This paper tries to answer an important question in international political economy: How do countries with inadequate institutional protection of property rights incentivize foreign investors to make long-term investments? Existing works highlight the time inconsistency problem between foreign investors and host governments, in which the host governments cannot credibly commit to protect foreign investors' property rights after the investments are sunk (Jensen 2008). It follows that to protect their assets foreign investors should remain mobile in an environment with poor institutional protection. However, we observe a large increase in recent years in the amount of foreign direct investment (FDI) in developing countries with relatively weak institutional protection in recent years. This paper shows that governments of countries with high political risk can alleviate the time inconsistency problem by credibly revealing their preference for long-term economic gains instead of short-term revenue increases. For example, Brazil announces in its constitution that foreign investment is welcome provided it represents a long-term commitment to economic development. Hence, countries with high political risk can still attract long-term foreign investment to boost economic growth, which has important political implications for the current world liberal order.

Second, this paper joins a burgeoning literature that re-examines the effect of asset mobility in this globalization era. Recent works have demonstrated that the role of asset mobility has gradually changed in recent decades. Pond and Zafeiridou (2020) show that the level of financialization moderates the effect of asset mobility. Johns and Wellhausen (2020) emphasize that firm replaceability can explain government treatment of foreign firms better than firms' exit threat. Bauerle Danzman and Slaski (2021b), using investment deal data from Latin America, empirically demonstrate that host governments offer foreign investors with lower mobility better treatment. Ge (2021) shows that low asset mobility helps address the inverse credible commitment problem between host governments and foreign investors that helps foreign firms get preferential government treatment. Building on their insights, I make two additional contributions. First, I show that asset mobility can be affected by firms' strategic concerns. Second, I demonstrate that political risk is another factor that changes the observed effect of asset mobility.

Lastly, this paper also contributes to the existing literature on foreign direct invest-

ment and government preferences. Extant studies focus on the scenario of predatory governments (Bates and Lien 1985; Kobrin 1987; Wellhausen 2014; Perlman and Sykes 2017). However, I formalize the idea that many investment-seeking governments benefit from supporting foreign firms, as foreign investment also brings crucial political capital, such as economic growth, wages, and employment. I extends the existing framework by systematically examining the political effect of asset mobility while incorporating foreign investor *ex ante* and *ex post* bargaining with host governments.

2 Theory

Attracting foreign direct investment is one of the major economic goals for governments. Over 160 countries have set up at least one investment promotion agency to attract investments from multinational enterprises (Bauerle Danzman and Slaski 2021a). Scholars have well documented the economic benefits of FDI in developing and developed countries (Kugler 2006; Setzler and Tintelnot 2021). Many governments view FDI as one of the most effective ways to achieve growth, increase wages, and introduce new technologies. For these reasons, host governments usually share substantial interests with foreign investors. Existing research also shows that many governments offer incentives to offset the fixed cost to expedite the process of foreign investors' initial landing (Chor 2009). Echoing the study by (Ge 2021), I argue that the political effect of asset mobility depends crucially on whether host governments and foreign investors share interests. Existing theories usually emphasize the "worst case scenario" in which the governments do not share interests with foreign investors and therefore, always want to exploit the investors. It is well-established that investors with higher mobility receive better government treatment in this scenario (Kobrin 1987; Caves 1996). However, I contend that host governments offer foreign firms with lower asset mobility better treatment when they share interests.

Numerous studies demonstrate that the political survival of governments is closely tied to the local economic performance in both democracies and non-democracies (Przeworski et al. 2000; Anderson 2000). As FDI brings numerous economic benefits, investment-

seeking countries usually find it beneficial to support instead of exploit foreign firms because they are, on average, more productive than domestic ones (Melitz 2003). Well-performing firms can bring significant increases in jobs, wages, and economic growth through various channels, such as agglomeration (Krugman 1991). For these reasons, host governments often share significant interests with foreign investors and are willing to "invest" in them. This government motivation is prevalent among investment-seeking governments but is largely overlooked by the canonical theoretical framework. Governments with this preference find it more rewarding to "invest" in foreign investors compared with exploiting them. Thus, the exit threats of foreign investors no longer serve as protection against exploitation, because host governments prefer not to exploit the firms. In this scenario, however, the mobility of foreign investors becomes a risk in the host governments' opinions, as the delivery of economic benefits depends on the foreign firms not moving their assets. If a foreign firm is highly mobile, the expected return of the government offering preferential treatment to the firm is downplayed by the low propensity to stay. Therefore, the government is unwilling to support firms that are likely to leave or protect them from negative political and economic shocks.

However, the preference of host governments may change. As the temptations to exploit foreign assets are many (Wellhausen 2014), a host government that values economic gains can still turn predatory for many exogenous reasons. For example, diplomatic tensions can spur considerable political backlash against foreign firms which may motivate host governments to sanction foreign investors for political gains. This change, in many cases, is beyond the control of foreign investors. Therefore, this unforeseeable change in government preferences causes risk. Foreign investors still need to consider whether their income and assets can be exploited should the host government become opportunistic. The government of a country with higher political risk is less constrained, as the government can exploit foreign firms or intervene with lower cost in their operations. As no government can assure foreign investors that their preferences will not change, I view this risk as mostly exogenous to host governments and foreign investors.

Foreign investors, knowing the political risk of potential destinations, decide whether and how to enter. I abstract away from the economic calculations behind foreign in-

vestors' entry decisions by assuming that some foreign investors may still consider entering a risky country for exogenous economic reasons. For example, investors may find a country attractive because it has a large domestic market, cheap labor, or access to cheap production ingredients. Thus, the major hurdle for the entry of foreign investors is political risk.[1] It is obvious that fewer foreign investors are willing to enter a country with higher political risk when the country's economic characteristic is held constant.

When considering the entry decisions, foreign investors compare the benefits and costs of different entry modes with those of staying out. Existing studies in economics and business show that political risk affects investors' entry modes (Antras 2003; Helpman 2006; Santangelo and Meyer 2011; Nunn and Trefler 2013). They emphasize how political risk shapes firms' buying verses producing decisions (i.e., outsourcing versus vertical integration). Building on their research, I further explore how political risk shapes the mobility choice of foreign investors who decide to enter a country via FDI. An investor can choose the mobility of the investment by choosing the asset's composition. A common choice that affects mobility is between renting or buying production buildings, land, offices, and equipment. I argue that investors' mobility decision is also affected by political risk. In contrast to conventional wisdom, I argue that less mobile investors often obtain better treatment than their more mobile peers, and the treatment of immobile compared to mobile investors is higher in countries with higher political risk.

To maximize returns under political risk, foreign investors strategically choose their asset mobility. I conceptualize asset mobility as part of investors' political and business strategies, which contrasts with existing theories that view asset mobility solely as a structural factor. Admittedly, asset mobility is partially determined by the nature of the industry. However, investors still have discretion in choosing the level. In one interviews I conducted in China in 2019, a local official confirmed that firms could partially choose asset mobility. He described a case in which a multinational company sought to enter his jurisdiction. Although the company can choose between purchasing or renting an office building, the local official felt reassured when the company chose to purchase the building because it showcased their commitment to the locality. Host governments, knowing

1. I also assume that governments are not predatory when seeking investment.

that investors can partially determine asset mobility, often explicitly ask for low mobility. Thus, asset mobility is one of the strategies considered by foreign investors when they compete for favors from host governments.

When the political risk of a host country is high, most foreign investors do not enter the country. Due to the lack of investment, the economic benefits of attracting and supporting investment are further prioritized. Therefore, investment-seeking governments in countries with higher political risk offer more generous incentives (Li 2006; Jensen 2012). However, as these policies are valuable resources, host governments prefer to offer them to foreign investors that are likely to stay (i.e., low *ex post* asset mobility). If many investors desire these policies, those with lower mobility are more likely to obtain the incentives.

The question remains why foreign investors are willing to choose low mobility in an environment with significant political risk. The trade-off for foreign investors is between gaining government support and risking losing assets. Choosing low mobility helps foreign investors obtain government support but increases the potential cost if the government turns predatory. However, if the preferential treatment is generous, foreign investors can still prefer to obtain government support over minimizing the potential loss and simply staying out, which makes choosing low mobility the desirable choice. In other words, the benefit of obtaining government support may exceed the benefit of remaining mobile or staying out.

Thus, depending on the level of political risk in host countries, we can observe two types of government—investor interactions:

- **In Countries with Low Political Risk:** Many investors enter these countries without being concerned about government exploitation. As the investors are relatively abundant, the host governments are not sufficiently motivated to offer investors very generous support. Instead, the governments offer moderate support to foreign investors. As a result, the difference between government treatment received by low and high mobility firms is also small, because 1) the government treatment does not differ significantly, and 2) investors are not willing to choose low mobility in exchange for moderate support.

- **In Countries with High Political Risk:** Fewer investors enter these countries because of the elevated risk of government exploitation. Therefore, host governments are willing to offer very generous preferential policies. The treatment received by firms with different mobility levels becomes significant because the governments offer very different treatments and investors are willing to choose low mobility in exchange for crucial government support.

I do not claim that higher political risk causes host governments to treat less mobile firms better. Governments' preference for investors with low mobility stems from a preference for economic gains. Instead, I argue that higher political risk make host governments reward foreign firms with low mobility with even better treatment. Meanwhile, many foreign investors are willing to lower their mobility to obtain generous support.

2.1 Empirical Implications

I propose three main arguments: 1) Asset mobility is determined by industry characteristics and firm's individual decisions. 2) Foreign firms with lower mobility are more likely to obtain government support. 3) The government treatment of immobile investors over mobile ones is better in countries with higher political risk. To empirically assess the empirical validity of these claims, I propose two testable hypotheses.

First, I propose that political risk affects the effect of asset mobility on government treatment.

Hypothesis 1. *Foreign firms with lower asset mobility receive better government treatment. This effect is stronger in countries with higher political risk.*

Notice that this prediction differs significantly from the prediction of existing theories. I argue that many host governments have non-predatory preferences which make the host governments favor foreign firms that have low *ex post* mobility. This is a major departure from existing theories and produces different observations. If host governments have only predatory preferences, foreign firms with low mobility will never receive better treatment in countries with higher political risk, as *ex post* exploitation and expropriation

are always more likely in these countries. However, if the data lead to a different empirical finding, the results support the proposed theory.[2]

Second, I propose that governments are concerned about firms leaving after they receive government support. This mechanism should generate observable differences across different industries. Due to industry heterogeneity, the government's concern should be more salient in some industries than the others. As I argue that asset mobility is determined by industry characteristics and firms' decisions. I assume that each industry has a "default" mobility level which is determined by structural characteristics. For example, firms in the manufacturing industry should have a lower "default" mobility level than firms in the information industry. However, firms can deviate from the "default" level by paying costs. As I contend that host governments are concerned about firms leaving after they receive government support, it follows that the concern is more salient among firms in industries with a higher "default" mobility level. As a result, among firms in more mobile industries low mobility becomes more important for obtaining support in host governments' view. To test this observable implication, I propose the second hypothesis:

Hypothesis 2. *The treatment of less mobile foreign firms compared to more mobile foreign firms is better in industries with higher mobility.*

Moreover, Hypothesis 2 is the opposite of what existing theories suggest (Hiscox 2001; Zhu and Deng 2020). Scholars find that firms in more fixed-asset-intensive industries get better government treatment, as these firms exert more effort to build government connections due to the firms' low mobility. If the observed positive effect of low asset mobility is an outcome of bribery or political connections, the effect should be stronger in more fixed-asset-intensive industries as firms in these industries are more fragile due to

2. My arguments still hold if we consider *ex ante* and *ex post* bargaining. Consider a host government that always exploits firms with low *ex post* mobility negotiates with foreign investors. Knowing the government's predatory preferences, foreign investors will try to stay as mobile as possible *ex post*. The host government may ask foreign firms to choose lower *ex post* mobility in exchange for better government treatment. As foreign investors prefer to stay mobile *ex post*, an investor with more bargaining power can always obtain government preferential treatment at a higher *ex post* mobility level. Therefore, we should observe that foreign investors that choose lower mobility are those with less bargaining power. If the government incurs lower cost exploiting foreign investors (i.e., has higher political risk), foreign investors that end up choosing low *ex post* asset mobility are more likely to be exploited because of their low bargaining power.

their low mobility.

In Section 3, I use firm-level data to evaluate the relationships between asset mobility and government treatment. Evidence on the theoretical mechanisms are presented in Section 4 in which I leverage the survey data to show that asset mobility can be partially decided by individual firm.

3 Evidence from Firm-level Data

3.1 Data Pre-processing

The main data source that I employ is the Orbis database from Bureau van Dijk (BvD). It is a comprehensive database that includes financial information about around 400 million public and private companies. I download financial information on all of the foreign firms in Orbis through Wharton Research Data Services. Foreign firms are defined as those that are located in a different country from their global ultimate owner. This measurement strategy is consistent with recent work by Johns and Wellhausen (2020). Next, I preserve only foreign firms whose unconsolidated financial information is available. Unconsolidated financial reports include only information about that firm, whereas consolidated financial reports include information about the firm and its subsidiaries. Due to data coverage, I delete data from before 2001 or after 2018. I also exclude countries that have fewer than 100 firms covered by the dataset. All firm-level variables are winsorized at the 95% and 5% levels to address extreme values.

I use the three-year average of the fixed asset ratio (i.e., the fixed asset amount divided by the total asset amount) to measure asset mobility, which is similar to the strategy in Pond and Zafeiridou (2020) and Chen and Hollenbach (2020). Formally, I define asset mobility as:

$$\text{Asset Mobility}_{it} = \frac{1}{3} \cdot \sum_{s=t-2}^{t} \left(1 - \frac{\text{Fixed Asset}_{is}}{\text{Total Asset}_{is}}\right)$$

The benefit of using a rolling average is to reduce erratic variation due to unknown finan-

cial or accounting issues. Asset mobility by its definition should be relatively stable but still varies by time. This rolling average strategy best reflects these properties.

To demonstrate the validity of this measurement strategy, I look at the estimated mobility of three different industries: mining (e.g., Chevron), manufacturing (e.g., Ford), and information (e.g., Facebook). As we know, the mining industry has the lowest mobility, and the information industry has the highest. Thus, the estimated mobility should be consistent with this fact.

Table 1: Industry Mobility Level

Industries	Average Mobility (Descending Order)
Management of Companies	0.92
Finance	0.90
Wholesale	0.87
Technical Services	0.85
Information	**0.83**
Administrative and Support	0.82
Retail	0.78
Other Services	0.77
Educational Services	0.77
Public Administration	0.77
Transport And Warehouse	0.72
Manufacturing	**0.71**
Social Assistance	0.70
Recreation	0.64
Mining	**0.63**
Construction	0.61
Accommodation	0.53
Utilities	0.52
Agriculture	0.50
Real Estate	0.42

Table 1 presents the average asset mobility of the 20 industries at the North American Industry Classification System (NAICS) 2-digit level, using the proposed measurement strategy. It is readily observed that among the mining, manufacturing, and information industries, the information industry has the highest mobility (0.83), and the mining industry has the lowest (0.63). Moreover, industries such as Real Estate and Agriculture have low asset mobility, while the Finance and the Information industries have high asset mobility. Therefore, using the fixed asset ratio to approximate asset mobility is valid. In

Section 4, I also use survey questions to directly measure asset mobility.

Finally, I delete observations that do not have information about fixed assets or total assets. Following the practice of He, Wang, and Zhang (2020), I also delete observations whose fixed asset ratio are above 1 or below 0 to enhance interpretability. After these steps, the sample contains 3.65 million foreign firms from 47 countries.

3.2 Political Risk and Government Treatment

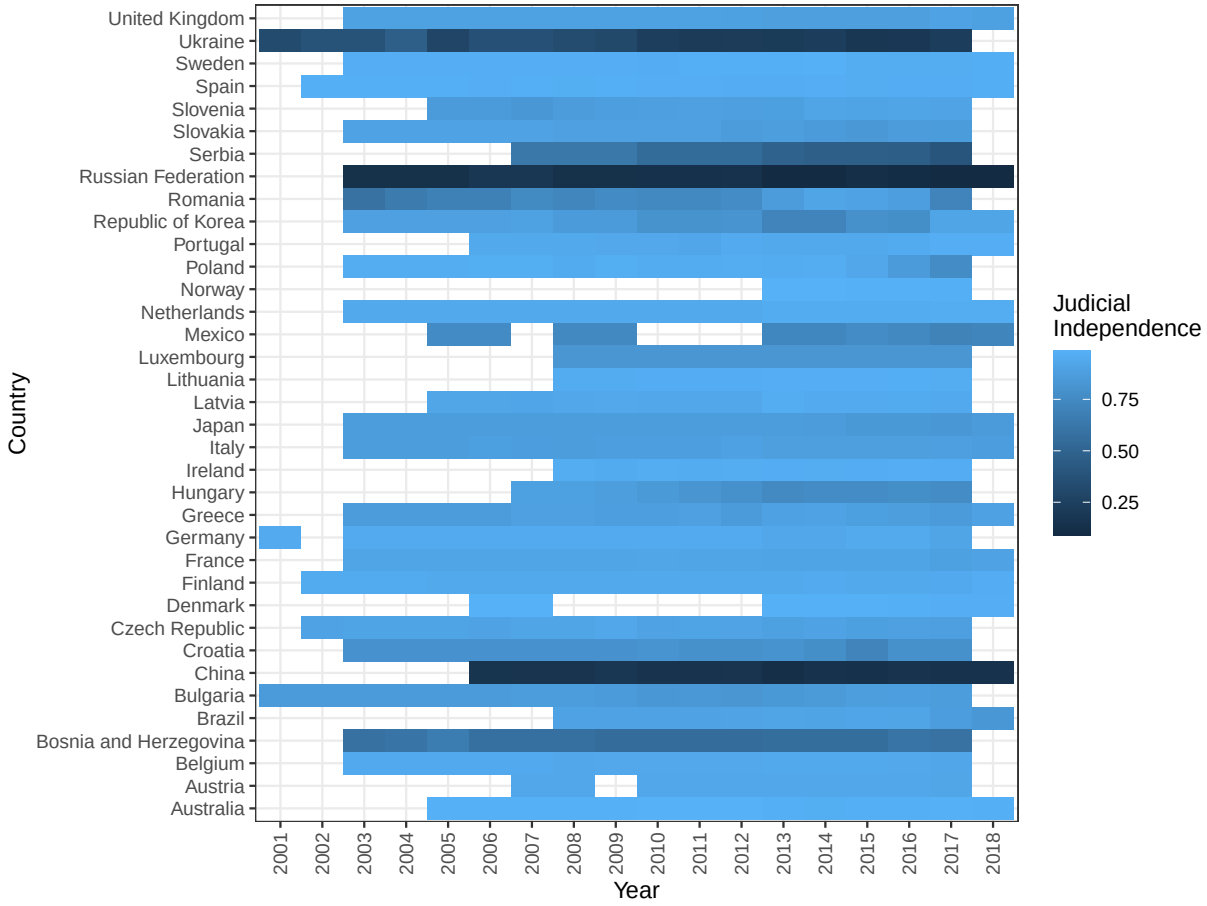
Hypothesis 1 predicts that host governments treat foreign firms with low asset mobility better in countries with higher of political risk. To measure political risk, I follow the literature and use judicial independence as a proxy (Li, Resnick, et al. 2003; Jensen 2003; Wang 2015). An independent judiciary can serve as a veto player that deters governments from exploiting foreign investors. In Table A.1, I show that the results remain unchanged if I use the political risk ratings from the PRS group.

I use the independent judiciary score from Varieties of Democracy (V-Dem) to measure the level of judicial independence. I access the V-Dem data through the International Political Economy Data Resource (Graham and Tucker 2016). If my prediction is correct, we should observe that host governments treat foreign firms with low asset mobility better in countries with lower judicial independence levels.

Figure 1 presents the countries and the temporal change in their judicial independence scores. Due to data limitation of the Orbis database, most of the countries in the sample are in Europe. Light blue in the figure signifies a higher level of judicial independence. It is readily observed that countries such Germany and U.K. are light blue, while Russia and China are almost black. The white cells represent missing data. As many countries in the sample are in Europe, the average judicial independence score is relatively high (0.81 / 1). This sample selection bias should not significantly undermine the validity of the results as the sample includes countries with very low and very high judicial independence.

To measure government treatment, I use the amount of tax paid by firms. This strategy is commonly used in studies on government-business relationships (Jensen 2013; Pond and Zafeiridou 2020; Johns and Wellhausen 2020). Asset mobility is again measured by

Figure 1: Judicial Independence Panel Data



the three-year rolling average of 1 minus the fixed asset ratio. To account for firm heterogeneity, I include firm-level covariates such as profit, employee, and revenue. I also include GDP, GDP pc, FDI stock, trade/GDP ratio, democracy, and corruption index score to deal with country heterogeneity. All country-level covariates are from the International Political Economy Data Resource (Graham and Tucker 2016)

The results are presented in Table 2. All four empirical models include firm, home country, and year fixed effects. Model 1 and Model 2 examine the relationship between asset mobility and the tax amount. Consistent with my theory, I find that foreign firms with higher asset mobility pay more taxes. Specifically, an increase in asset mobility from 0 to 1 is associated with the firm paying 36,000 USD more taxes, on average.

Results for Hypothesis 1 are presented in Model 3 and Model 4. The theory predicts that the effect of asset mobility weakens in countries with lower political risk. In the

Table 2: Hypothesis 1 Results

	Model 1	Model 2	Model 3	Model 4
Asset Mobility	40.98^{***}	36.03^{***}	82.21^{***}	61.80^{***}
	(11.72)	(10.23)	(19.02)	(13.04)
Profit	0.00^{***}	0.00^{***}	0.00^{***}	0.00^{***}
	(0.00)	(0.00)	(0.00)	(0.00)
Employee		0.10^{*}		0.10^{*}
		(0.06)		(0.06)
Revenue		-0.00^{***}		-0.00^{***}
		(0.00)		(0.00)
ln GDP		-436.86^{*}		-427.40^{*}
		(261.00)		(259.46)
ln GDP pc		555.64^{**}		546.97^{**}
		(247.97)		(247.14)
FDI Stock		0.00		0.00
		(0.00)		(0.00)
Trade/GDP		0.10		0.11
		(0.38)		(0.36)
Corruption		-1.48^{***}		-1.46^{***}
		(0.40)		(0.39)
Democracy		7.20		
		(27.31)		
Judicial Independence			111.76^{***}	46.22
			(36.20)	(30.00)
Asset Mobility ×			-66.23^{***}	-40.93^{***}
Judicial Independence			(17.77)	(12.89)
Fixed-effects				
Firm	✓	✓	✓	✓
Home Country	✓	✓	✓	✓
Year	✓	✓	✓	✓
Fit statistics				
R^2	0.87	0.88	0.87	0.88
Adj. R^2	0.84	0.85	0.84	0.85
N	1,047,519	983,704	1,047,519	983,704

$^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

regression table, the interaction between asset mobility and judicial independence is negative. This shows that in countries with lower judicial independence foreign firms with low asset mobility are treated even better than their peers with high mobility. When the judicial independence score is 0, a increase in asset mobility from 0 to 1 is associated with a 61,000 USD increase in tax. However, when the judicial independence score is 1, increasing asset mobility from 0 to 1 is associated with only around a 15,000 USD increase in tax. Thus, the evidence is consistent with my theoretical prediction.

One may be concerned that the effects are driven by political connections or bribery. Existing studies show that bribery can also explain these empirical findings (Zhu and Deng 2020; Chen and Hollenbach 2020). Because foreign firms that pay more bribes should receive better asset protection, these firms are more likely to invest in fixed assets. Meanwhile, foreign firms that pay bribes are also more likely to pay less in taxes. To address this concern, I present placebo test results in Table A.2 to show that these findings are not driven solely by corruption or bribery.

3.3 Industry Heterogeneity

Hypothesis 2 predicts that the government treatment of immobile foreign firms over mobile foreign firms should be better in industries with higher mobility.

I again measure industry asset mobility by the average mobility of firms in the industry. I allow the average industry mobility to vary by year to reflect technological changes at the industry level. Averaging over firms' asset mobility in an industry highlights the structural component of asset mobility at the industry level.

Results in Table 3 provide evidence for my theory. In each of the models, I regress the tax amount on asset mobility interacted with industry mobility while controlling for covariates and firm, home country, and year fixed effects. If Hypothesis 2 is supported by the data, the interaction term should be positive and statistically significant.

In Model 1 and Model 2, I interact asset mobility with industry mobility measured at the NAICS 2-digit level. I include firm-level covariates including profit, revenue, and the number of employees in Model 1, while in Model 2 I also incorporate a rich set of

Table 3: Hypothesis 2 Results

	Model 1	Model 2	Model 3	Model 4
Asset Mobility	65.21	−31.07	32.31	−26.49
	(48.58)	(34.74)	(30.55)	(30.23)
Industry Mobility NAICS2	−23.04	48.81		
	(63.67)	(70.39)		
Profit	0.00***	0.00***	0.00***	0.00***
	(0.00)	(0.00)	(0.00)	(0.00)
Asset Mobility ×	−35.92	100.33**		
Industry Mobility NAICS2	(60.67)	(49.35)		
Employee		0.10*		0.10*
		(0.06)		(0.06)
Revenue		−0.00***		−0.00***
		(0.00)		(0.00)
ln GDP		−425.86		−421.82
		(272.83)		(272.56)
ln GDP pc		546.12**		542.20**
		(258.54)		(257.89)
FDI Stock		0.00		0.00
		(0.00)		(0.00)
Trade/GDP		0.06		0.06
		(0.38)		(0.38)
Corruption		−1.47***		−1.47***
		(0.39)		(0.39)
Democracy		−25.32		−25.00
		(44.68)		(44.65)
Judicial Independence		34.99		34.75
		(45.18)		(45.14)
Industry Mobility NAICS4			−27.21	−27.59
			(36.75)	(42.58)
Asset Mobility ×			13.64	95.00**
Industry Mobility NAICS4			(36.29)	(43.47)
Fixed-effects				
Firm	✓	✓	✓	✓
Home Country	✓	✓	✓	✓
Year	✓	✓	✓	✓
Fit statistics				
R^2	0.87	0.88	0.87	0.88
Adj. R^2	0.84	0.85	0.84	0.85
N	1,047,519	983,704	1,047,519	983,704

$^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

country-level covariates: GDP, GDP per capita, FDI stock, trade to GDP ratio, corruption, democracy, and judicial independence score. The coefficient of the interaction term "Asset Mobility $\times$ Industry Mobility NAICS2" is consistently positive and achieves statistical significance at the conventional level, which demonstrates that the data support my hypothesis. According to the point estimates in Model 2, increasing a foreign firm's asset mobility from 0 to 1is associated with a decrease of around 30,000 USD in the taxes in industries with the minimum asset mobility (i.e., industry mobility = 0), while increasing a foreign firm's asset mobility from 0 to 1 is associated with an *increase* of around 69,000 USD in taxes in industries with the maximum mobility (i.e., industry mobility = 1).

Alternatively, I measure industry mobility at the NAICS 4-digit level in Model 3 and Model 4. The results remain unchanged under this alternative measurement strategy. The interaction term "Asset Mobility $\times$ Industry Mobility NAICS4" is again positive and statistically significant. Thus, the hypothesis is supported by the empirical findings.

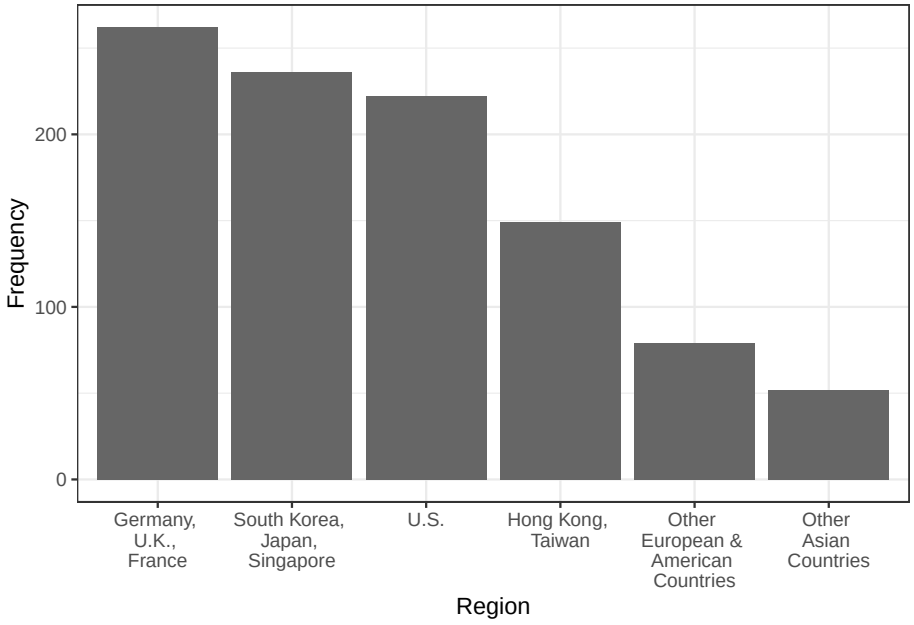
4 Evidence from a Survey

To illustrate the theoretical mechanisms, I fielded a survey among 772 managers of foreign firms in China in July 2021. Leveraging their knowledge of business practices, I can collect direct evidence. Political science, economics, and business studies have demonstrated the validity of this research approach (Malesky and Mosley 2018; Malesky and Taussig 2019; Bandiera et al. 2020). One important benefit of the survey approach is that it allows me to measure hard-to-observe concepts and empirically reveal the mechanism.

4.1 Data Summary

The survey is fielded via an online survey platform in China. At the beginning of the survey, it asks about the respondents' employer information. If the respondent chooses either "Foreign-Invested Joint Ventures" or "Wholly Foreign Owned Enterprises", she/he is then asked about her/his position. The respondent is admitted to the survey if he/she chooses "manager and above" as the position. This screening process ensures that re-

Figure 2: Foreign Investor Distribution



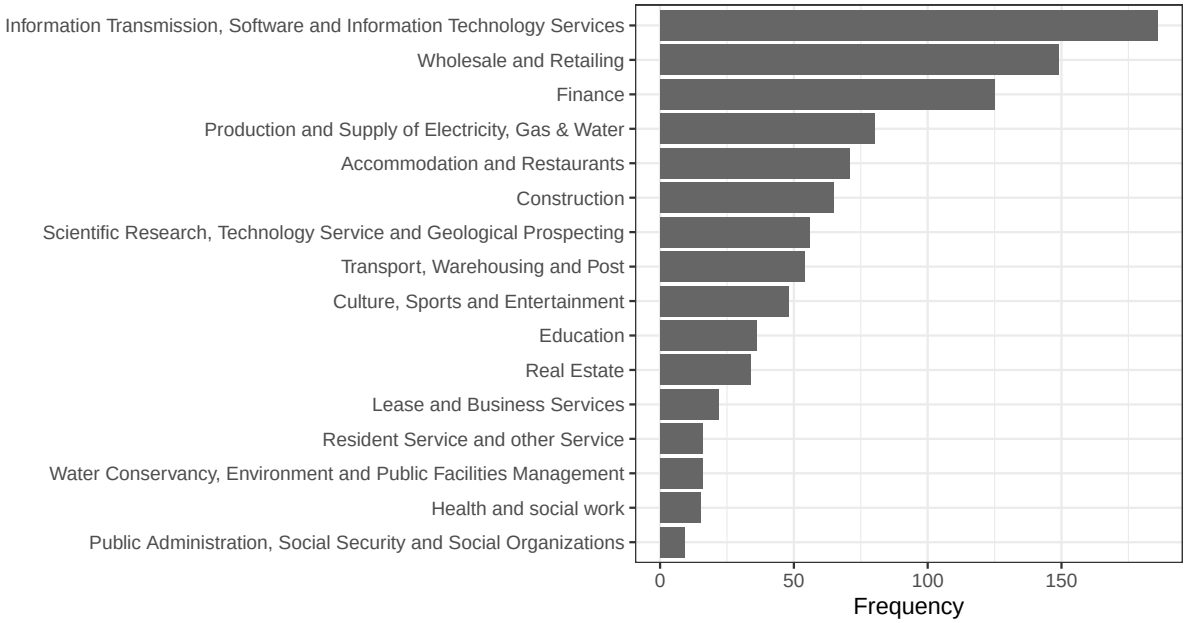
spondents are managers of foreign-invested enterprises in China.

Figure 2 shows the empirical distribution of the foreign firms' home countries in the sample. According to the "Statistical Bulletin of FDI in China" published by the Ministry of Commerce of China in 2019, the listed countries and regions account for 94% of the total FDI in China. In the sample, more than 70% of foreign investors are from Germany, the U.K., South Korea, Singapore, and the U.S. In comparison, around only 14% of investors are from Hong Kong and Taiwan. This distribution strengthens the validity of the results, as studies suggest that investors from Hong Kong and Taiwan are very different from investors elsewhere (Huang 2003).

Next, I explore the industry composition of the sample. The results are shown in Figure 3. Information, Wholesale and Retailing, and Finance are the three most common industries in the sample, which is generally consistent with the actual FDI patterns in China.[3] As most industries in the sample are relatively mobile, the proposed effect of asset mobility should also be very pronounced.

3. For information about the industry composition of FDI in China, please see "2019 Statistical Bulletin of FDI in China".

Figure 3: Industry Distribution



4.2 Asset Mobility as a Firm Strategy

One of my main arguments is that asset mobility is a firm-level strategy and an industry characteristic. In this section, I substantiate this claim by decomposing the variance of asset mobility in the data. If asset mobility is an industry-level characteristic, the variance of firm asset mobility should be mostly explained by *across-industries variation*. If firms can determine asset mobility, then the most variance should be accounted for by *within-industry variation*.

To directly measure asset mobility, I leverage a question in the survey (Box 1). The question asks about the firm's exit cost, as a higher exit cost signifies lower asset mobility. This measurement strategy is superior to the fixed asset ratio measurement because the exit cost can account for all observable and unobservable factors that determine asset mobility.

Table 4: Decomposing the Variance of Asset Mobility

Within-Industry Variance	Across-Industry Variance
0.50	0.23

Box 1

Question:

How easy would it be if your company chose to exit the local market for economic reasons? (1 = almost no cost; 4 = extremely difficult).

- Choose a number between 1 and 4
- Do Not Know

I decompose the variance of respondents' answers to this question by performing an analysis of variance (ANOVA). ANOVA allows me to assess how much variance in asset mobility can be explained by industry while controlling for the degrees of freedom. Controlling for the degrees of freedom helps us guard against misinterpretation that is caused by simply inflating the number of industries. Increasing the number of industries mechanically can increase the total explained variance; however, that does not show that industry is a good predictor. Therefore, ANOVA strengthens the results by addressing this concern.

Table 4 presents the within- and across-industry variance. It can be readily observed that the *within-industry variance* is more than twice the *across-industry variance* in my sample. This pattern suggests that asset mobility is at least partially determined at the firm level, although industry features are also significant factors. This stark difference provides empirical support for my view that asset mobility is a firm strategy. Firms have discretion in choosing their asset mobility.

Next, I assess whether foreign firms choose asset mobility strategically to obtain government support. In the survey, I ask the respondents for their opinions on a statement. The questions and response options are presented in Box 2.

This question allows me to asses the relevance of the proposed theoretical mechanism to the real world. If the proposed mechanisms are correct, the majority or more of respondents should choose "Somewhat Agree" and "Agree". The results are presented in Figure 4.

Among 699 respondents who do not choose "Do Not Know", 73% choose either "Some-

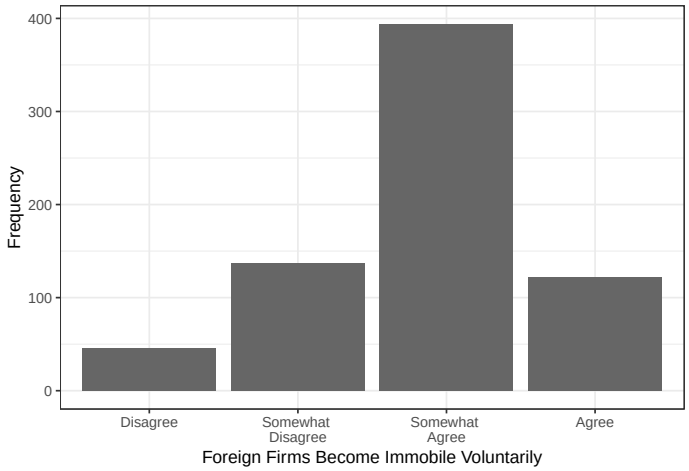
Box 2

Question:

Do you agree or disagree that foreign firms can signal their commitment by increasing their exit costs (e.g., purchase lands, office buildings, or factories) in exchange for better government support?

- Disagree
- Somewhat Disagree
- Somewhat Agree
- Agree
- Do Not Know

Figure 4: Firm Strategy



what Agree" (56%)or "Agree" (17%), while only 6% of respondents choose "Disagree". This evidence provides consistent support for the proposed mechanisms.

4.3 Asset Mobility and Government Support

Last, I use the survey data to re-examine the relationship between government treatment and asset mobility. I employ two indicators to measure government treatment. First, I use whether the firm received government incentives within the previous five years as

Table 5: Asset Mobility and Government Treatment

	Government Support		*Policy Influence*	
	OLS	Logit	OLS	Logit
Exit Cost	0.09^{***}	0.86^{***}	0.02	0.22
	(0.03)	(0.29)	(0.02)	(0.21)
Firm Age	-0.03	-0.23	0.05^{***}	0.36^{***}
	(0.02)	(0.20)	(0.02)	(0.12)
Profit	0.02^{***}	0.25^{***}	0.02	0.15
	(0.01)	(0.06)	(0.01)	(0.09)
Fixed-effects				
Province	✓	✓	✓	✓
Industry	✓	✓	✓	✓
Home Country	✓	✓	✓	✓
R^2	0.18		0.12	
Adj. R^2	0.10		0.03	
N	555	522	555	501

$^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

an indicator of government support. Second, I measure policy influence of the firm using whether the firm participated in drafting industry regulations in the past. Then, I regress the two indicators of government treatment on the self-reported asset mobility while controlling for firm characteristics.

Table 5 shows the regression results. In all models, I include firm age, profit, province, industry, and home country as covariates. OLS and logit models show that higher exit costs are associated with obtaining government support and policy influence. However, the effect is only significant when using government support as the dependent variable. In other words, the survey data also confirm that foreign firms with lower asset mobility are more likely to obtain government support, which directly supports my hypotheses.

5 Conclusions

In this paper, I re-examine the relationship between asset mobility and government treatment. Synthesizing the canonical wisdom and recent studies, I show that foreign investors may choose low asset mobility in a politically risky environment to obtain gov-

ernment support. Using firm-level data from 47 countries, I find empirical support for these arguments.

A major contribution of this paper is that I establish asset mobility as a strategic choice made by foreign investors to manage political risk. Most of the existing studies treat asset mobility as an industry-level characteristic exogenous to individual investors. However, I show that foreign investors can choose asset mobility, although firms in different industries face varying degrees of constraint. I utilize novel survey data to provide evidence to demonstrate how asset mobility can be used strategically by foreign firms. Therefore, this study extends existing discussions on asset mobility and offers a potentially new pathway for examining the business-government relationships.

Empirically, this paper also significantly extends the scope of the findings in Ge (2021). Ge (2021) demonstrates that the Chinese government treats immobile foreign firms better than their mobile counterparts. In this paper, I show that the effect of asset mobility is more observable in countries with higher political risk. Therefore, the strong positive effect of asset mobility discovered in China echoes the theoretical predictions, while my empirical findings show the generalizability of Ge (2021)'s work.

Finally, the paper adds to the debate on the effect of mobility. The majority studies in the field assume that low asset mobility undermines the bargaining power of investors. Following recent studies, I show that this (over)simplified assumption deserves more scrutiny, as the preferences and strategies of host governments change considerably after the 1970s. In this paper, I propose an extension to the canonical framework by incorporating non-predatory preferences of host governments. This new setup could serve as a workhorse model for future studies on this topic.

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Appendix A Robustness Tests

Subsection A.1 PRS Data

The Political risk rating from the PRS group is a popular measurement of political risk in the literature. The PRS group offers monthly ratings of countries' political risk levels since 1992. The political risk index score from the PRS group includes 12 components: government stability, socioeconomic conditions, investment profile, internal conflict, external conflict, corruption, military in politics, religious tension, law and order, ethnic tensions, democratic accountability, bureaucracy quality. A country with the lowest political risk is assigned a score of 100, while a country with the highest political risk is assigned a score of 0. Thus, a higher rating signifies lower political risk.

I follow the official guide and classify the political risk ratings into five groups: countries rated 0 to 49.9 have very high risk; countries rated 50 to 59.9 have high risk; countries rated 60 to 69.9 have moderate risk; countries rated 70 to 79.9 have low political risk; countries rated 80 and above have very low political risk. In the regression, I code countries with very high risk as 1 and countries with very low risk as 5. Results in Table A.1 show that the interaction term between asset mobility and political risk remains negative and statistically significant. Thus, my hypothesis is supported by this alternative measurement strategy.

Table A.1: PRS Data Robustness Tests

	Model 1	Model 2	Model 3	Model 4
Asset Mobility	41.43***	36.45***	69.85***	62.91***
	(11.83)	(10.37)	(17.17)	(16.68)
Profit	0.00***	0.00***	0.00***	0.00***
	(0.00)	(0.00)	(0.00)	(0.00)
Employee		0.10*		0.09
		(0.06)		(0.06)
Revenue		−0.00***		−0.00***
		(0.00)		(0.00)
ln GDP		−487.71*		−556.32**
		(278.24)		(259.48)
ln GDP pc		605.28**		677.66***
		(267.14)		(258.56)
FDI Stock		0.00		0.00**
		(0.00)		(0.00)
Trade/GDP		0.08		0.22
		(0.38)		(0.37)
Corruption		−1.48***		−1.21***
		(0.40)		(0.38)
Democracy		7.71		21.92
		(28.68)		(34.34)
Political Risk			−14.72**	−17.96**
			(7.21)	(8.74)
Asset Mobility × Political Risk			−13.76***	−12.61**
			(5.12)	(6.22)
Fixed-effects				
Firm	✓	✓	✓	✓
Home Country	✓	✓	✓	✓
Year	✓	✓	✓	✓
R^2	0.87	0.88	0.87	0.88
Adj. R^2	0.84	0.85	0.84	0.85
N	1,038,253	974,438	1,038,253	974,438

$^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

Subsection A.2 Bribery

Studies show that firms in fixed-asset-intensive industries are favored in dictatorships (Wright and Zhu 2018). Scholars also argue that firms with lower mobility pay more bribes to protect their assets due to their vulnerability (Hiscox 2002; Zhu and Deng 2020). Thus, one may argue that my findings are solely driven by this bribery and renting-sharing mechanism. To address the concern, I conduct a placebo test in which I regress the tax amount on asset mobility interacted with countries' corruption levels. If bribery is the main mechanism, the observed effect of asset mobility should be larger in countries with a higher corruption level. To measure corruption, I use the corruption transparency index from transparency international. A higher corruption transparency index signifies a lower corruption level.

Results in Table A.2 suggest that the effect of asset mobility is not significantly attenuated in countries with lower corruption levels. The interaction term "Asset Mobility $\times$ Corruption" no longer reaches the conventional statistical significance level after I include country-level covariates, although the point estimates remain negative. Therefore, the effect of political risk on asset mobility cannot be solely explained by corruption. However, the observed effect is likely driven by corruption and my proposed mechanism together.

Table A.2: Placebo Test: Political Connection

	Model 1	Model 2
Asset Mobility	51.01^{***}	38.06^{***}
	(12.38)	(11.10)
Corruption	-1.22^{***}	-1.41^{***}
	(0.37)	(0.43)
Profit	0.00^{***}	0.00^{***}
	(0.00)	(0.00)
Asset Mobility × Corruption	-0.38^{***}	-0.06
	(0.13)	(0.12)
Judicial Independence		33.91
		(46.11)
Employee		0.10^{*}
		(0.06)
Revenue		-0.00^{***}
		(0.00)
ln GDP		-416.34
		(273.64)
ln GDP pc		535.47^{**}
		(259.82)
FDI Stock		0.00
		(0.00)
Trade/GDP		0.06
		(0.38)
Democracy		-25.80
		(45.06)
Fixed-effects		
Firm	✓	✓
Home Country	✓	✓
Year	✓	✓
R^2	0.87	0.88
Adj. R^2	0.84	0.85
N	$1,041,645$	$983,704$

$^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$