

# “Yes-Man” Firms: How Government Campaigns Shape Firms’ Positions on Globalization in China

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Abstract: What shapes firms’ positions on public policies in an authoritarian system? In contrast to the bottom-up view of preference formation, we demonstrate that firm policy preferences arise endogenously to a government policy campaign and reflect firms’ efforts to extract policy benefits and perks. We test this argument using a within-subject survey experiment with 600 firms in China. We asked two differently-framed questions about how the liberalization of inward foreign direct investment (FDI) will affect their businesses: neutral wording, versus policy-campaign wording that emphasizes the government commitment to welcoming FDI. The policy-campaign treatment increases the proportion of firms that report to “benefit” from inward FDI by 36 points, yet the effects vary in *directions* and *sizes* across firms with different bargaining positions with the government. With the campaign treatment, firms with voice options (state-owned enterprises) and exit options (foreign firms) shift opinions to conform to campaign message the least; unproductive and import-competing private firms are most likely to shift their opinions to support FDI. (158 words)

## Introduction

How do firms in an authoritarian system form positions on public policies? Despite the fact that developing economies without competitive elections or freedom of press are the fastest growing economies today (IMF, 2015), we still know very little about how firms form policy positions beyond what economic models have taught us (Melitz 2003). Political scientists and economists alike have assumed that firm policy preferences are determined by their standing in the international economy (e.g. Milner 1988; Alt et al. 1999; Mosley 2000; Melitz 2003; Malesky 2008; Kim 2013; exceptions are Bauer et al. 1964; Jo Martin 1995; Woll 2008; Kenyon and Naoi 2010; Fisman et al. 2012; Kuno and Naoi 2015). Yet, this assumption diverges from policymaking in authoritarian systems, where governments actively promote their policy agendas while suppressing contending opinions against them (we call this “policy campaign” throughout this paper) (King et al. 2013).

In contrast to the bottom-up view of preference formation, this paper demonstrates a top-down mechanism where firms express policy preferences endogenously to a government policy campaign in an authoritarian system. We develop and test an argument that firms shift policy positions with the presence of campaigns to extract policy benefits or perks from the government. We hypothesize that the directions and sizes of this shift differ across firms with different bargaining positions with the government. Unproductive and import-competing firms, who are highly vulnerable to the government discretions, are more likely to shift their opinions in conformity with the campaign to extract perks or avoid getting punished than firms that are `productive and possess comparative advantage (“loyalty”). Firms with voice (i.e., powerful firms with influence over policymaking) are less likely to shift opinions to conform and express their positions more sincerely to influence policy directions (“voice”) than firms without a voice

in the policy process. Similarly, firms with exit options (e.g., foreign firms who can divest from the host country) should also be less likely to conform than firms without exit options (e.g. domestic firms, which are typically less mobile and more vulnerable to punishment by the regime) (“exit”). This model thus considers firms’ expressed opinion shifts as a rational, not ideological, response to a government campaign.

To test this argument, we conducted a within-subject, survey experiment with 600 firms in China that are mainly in the manufacturing and service sector, which asked two differently-worded questions about how the liberalization of inward foreign direct investment (FDI) will affect their businesses: neutral wording versus policy-campaign wording that emphasizes the government commitment to welcoming FDI. The results suggest that the policy-campaign treatment increases the proportion of firms that report to “benefit” from inward FDI by 36 percentage points. The effects, however, vary in directions and sizes across firms with different bargaining positions with the government, consistent with our argument. Firms that stand to lose from the global economy (unproductive firms and firms in comparative disadvantaged industries) are more likely to shift opinions from standing to “lose” to “benefit” from inward-FDI with the policy-campaign treatment. Firms with voice options (operationalized as state-owned enterprises) are less likely than private firms to shift their opinions with the campaign and report consistent and relatively negative opinion about the inward-FDI. Consistent with our expectation, firms with exit options (operationalized as foreign firms) are also less likely than domestic firms to shift position to conform to the campaign. In fact we find that these firms shift their opinions *against* the policy campaign (from standing to “benefit a lot” to “benefit” or to “no effect”) with the campaign treatment. These results are robust to different specifications, inclusion of measures of ideology of firm executives in our survey, and to addressing design effects and

possible self-censoring in the survey.

Our findings suggest that a government policy campaign can substantially affect the formation of policy positions of economic actors in an authoritarian system. The top-down mechanism underlying the effect of policy campaigns identified in this paper, however, is not informational or ideological persuasion, in contrast to recent works on propaganda in autocracies (Geddes and Zaller 1989; Kenez 1985)<sup>1</sup> or policy campaigns in democracies (Hicks, Tingley and Milner 2013 on Costa Rica; Kuno and Naoi 2015 on Japan). Rather, the government policy campaign signals to firms the government's commitment to a certain position and an opportunity for rent extraction and policy influence, which in turn shape firm policy-positioning. We show accordingly that loyalty to an authoritarian government arises among firms that are most vulnerable to the government's policy and regulatory discretion (e.g., unproductive private firms), not among firms that are ideologically aligned with the government (i.e., state-owned enterprises).

The findings highlight the role of government side payments and perks in mobilizing support for open economy among losers, similar to what scholars have found in democracies (Ruggie 1988; Evans 1994; Naoi 2015). As long as firms are concerned about financial profits or losses, such concerns are mutable with the government's policies. The results also challenge the conventional wisdom that state-owned enterprises are better agents of the government than private firms (Shi 2015). Finally, the results call for extra caution in wording survey questions in firm-level surveys in authoritarian systems.

The rest of this paper proceeds as follows. Section I discusses key literature on how firms form policy positions. Section II develops a theory of top-down formation of firm policy

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<sup>1</sup> Huang (2014) provides a notable exception. Analogous to our argument, Huang proposes that propaganda by authoritarian governments is not used for indoctrination, but instead signal their strengths in maintaining social order and political control.

positions in authoritarian systems. Section III discusses the design of the survey experiment we conducted in China to test the argument. Section IV summarizes the results and how we ruled out alternative hypotheses. We conclude by discussing broader implications of our findings and generalizability beyond the Chinese case and beyond specific policy issues.

## **I. Business Interests and Public Policy: The Bottom-up View of Preference Formation**

The influence of corporations on public policies has long been one of the central questions in political economy. Yet, the development of this research program has been lopsided with an accumulation of studies on firm influence yet relatively few on how firms form policy positions. In the past two decades, behavioral and survey-based data have generated a series of studies on firms' position-taking on issues such as financial regulation (Mosley 2000), trade (Davis and Shirato 2007; Woll 2008; Milner 1988; Alt et al. 1999; Bernard and Jensen 2004; Bernard et al. 2009; Kim 2013; Tingley et al. 2015; Kuno and Naoi 2015), social insurance (Jo Martin 1995; Mares 2004), political risks and property rights (Malesky 2008; Kenyon and Naoi 2010; Gueorguiev and Malesky 2012; Gueorguiev et al. 2014), governance (Gourevitch and Shinn 2005), and exchange rate regimes (Broz and Plouffe 2010).

The majority of these studies, however, assume that firm preferences are determined by their standing in the economy, such as whether they export or import, or, whether firms are productive or unproductive. Accordingly, scholars continue to test which economic models account for firms' preferences, such as the Ricardo-Viner model of trade or the Melitz model of heterogeneous firms ("Open Economy Politics" approach, see Frieden et al. 2009; Lake 2009; Kim 2013). The use of firm executive surveys to get at firms' policy positions has also flourished recently, but the majority of these studies have continued to treat firm executives' responses to

survey questions as more or less sincere expressions of their economic interests (exceptions are Woll 2008; Kenyon and Naoi 2010; Gueorguiev et al. 2014; Zhou and Oostendorp 2014). While analytically convenient, these assumptions of “bottom-up” preference formation diverge from policy-making in the real world, especially in authoritarian systems, where a government runs policy campaigns to mobilize support for a policy while suppressing the expression of contending views.

Three studies are noteworthy exceptions, although none of them studied firms in autocracies. Jo Martin (1995) shows that institutional and social contexts shaped firms’ responses to President Clinton’s healthcare reform in the United States. With the case of service trade liberalization, Woll (2008) has shown that firms formed their policy positions based on their interactions with governments and other firms in Europe. Kuno and Naoi (2015) show that local governments’ policy campaigns in Japan shaped firm positions on a forthcoming preferential trade agreement. These findings challenge the bottom-up approach and force us to reconsider the role of government in shaping preferences of economic actors.

## **II. Government Policy Campaigns and Firm Preferences: Endogenous Preference Formation**

We develop and test a top-down mechanism of preference formation, where the presence of a policy campaign makes firms express their policy preferences strategically to extract policy benefits or perks from the government. While the bottom-up approach has assumed that firms express their policy preferences sincerely based on their standing in the economy, we consider conditions under which firms express policy preferences strategically for material gains.

We begin with the exact same assumption of the bottom-up approach that firms seek to maximize their profits. In the absence of a government policy campaign (i.e., no publicly

announced information about what a government's policy position is and how much the government is committed to realizing the policy goal), we assume that firms in authoritarian systems take their policy positions relatively sincerely based on past experience in the market (i.e., "pocketbook" position-taking) and based on their expectations about the economy and policy changes. Although firms might still second guess what a government's policy preference might be, we assume that this second-guessing is harder in the absence of a policy campaign than with the presence of a campaign. This is a reasonable assumption, because in authoritarian systems, firms typically lack access to information about the policy-making process, such as intra-elite disagreements and objective policy evaluations for past policy programs (Kennedy, 2009).

In the low information environment described above, a government policy campaign signals two key pieces of information to firms: (i) a government's policy preference and how committed the government is to the policy; (ii) how much resources a government commits to achieving its policy goals. The first function of a campaign is to change the costs and benefits calculation for firms to express dissent. Public announcements of the government policy preference raise the costs of dissent for firms – expressing that a proposed policy might harm their business is costlier with the presence of campaign than without it. This is especially the case in China where the government has direct control of most resources. Opposition to government policies could involve direct financial costs, such as loss of government contracts and withdrawing of favorable treatments in terms of tax breaks, bank loans, and land use. It could also incur severer punishments such as investigation of tax evasion and other economic

crimes (Chen and Dickson, 2010: 32-33).<sup>2</sup> Policy campaigns are thus expected to shift firm opinions toward conformity with the government's campaign. The second function of a campaign is to signal an opportunity for firms to extract policy benefits or perks. Because a government policy campaign generally comes with subsidies, perks, and side-payments to mobilize support for the program (or to buy off the opposition) (Naoi 2015), firms respond to such campaigns strategically by taking positions that allow them to extract such benefits the most.

This strategic policy positioning by firms arises under two conditions that are common in authoritarian systems. First, firms strategically express their policy preferences when the government criteria for allocating resources is at least partially subjective and contingent on the firm's self-reported policy preferences rather than based on their objective performance (Prendergast 1993). The example of such subjective criteria is when a government rewards firms that show support to the policy agenda or compensates those who express potential losses from (or opposition to) the policy. The subjectivity of the criteria is a key condition, because if the government allocation of privileges is formulaic and/or based on perfectly observable, objective criteria, there is no point for firms to express their policy positions strategically to influence a government resource allocation (Chen et al. 2012).<sup>3</sup> Second, relatedly, the government is not accountable to citizens or firms in justifying their allocation criteria or making the information public. These two conditions are prevalent in authoritarian systems, where governments use discretionary resource allocation to mobilize support or coopt oppositions (Magaloni 2006; Gandhi 2008; Blaydes 2011).

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<sup>2</sup> As Chen and Dickson (2010: 32-33) put, economic crimes are so prevalent in the business world in China that investigations often signal firms' poor political relations rather than their commitment to crimes.

<sup>3</sup> Chen et al. 2012 found that even with objective criteria to evaluate performance, such as China's environmental agency's program to evaluate "blue sky days" in major cities, local leaders still tried to game the system by over-reporting the air quality.



Theoretically, we can think of two ways in which a government allocates perks based on firms' expressed preference. One is to reward firms for their loyalty (i.e., conformity with the campaign position) and another is to compensate those who are against the campaign position. We see the latter (compensation for losers/dissents) as more prevalent in democracies due to legislators' high responsiveness to organized losers (Olson 1965). We argue that rewarding loyalty is more prevalent than compensating the losers/dissents in authoritarian systems because authoritarian governments are concerned about compensation fueling further dissent. While authoritarian governments might use a mix of reward and compensation strategies (Lu et al. 2012; Magaloni 2006, Chen and Dickson 2010), we expect an authoritarian government to publicize its reward-for-loyalty allocation more than the compensation-to-dissent allocation.

We thus expect that government policy campaigns in authoritarian systems generally lead firms to shift their expressed policy preferences toward conformity with the government. The direction and size of this campaign effect, however, differs across firms due to the difference in their bargaining positions with the government. The government responds to firm preferences differently due to firms' diverging access to policy elites as well as their varied importance in the economy. Firms are aware of this power differential and choose one of three strategies to express their policy positions: *Voice*, *Exit* and *Loyalty* strategies (Hirschman 1970). The *Voice* strategy is to express their sincere policy preference to influence the policy outcome. The *Exit* strategy is to express their policy preference against the policy campaign, particularly if the government's position is against the private interest of the firm. The threat of exiting the country (e.g., divestment by foreign firms) combined with their expression of dissents allows these firms to extract more policy concessions or perks.<sup>4</sup> The *Loyalty* strategy is to conform to the policy

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<sup>4</sup> Hirschman (1970) also discusses how having exit options enhance the power of voice options.

campaign, regardless whether the government's policy position is consistent with the firm's interest, in order to enhance one's eligibility for perks or side payments. These strategies differ in what firms seek to influence (policy direction and perks for *Exit* and *Voice* vs. perks only for *Loyalty*) because firms differ in what they *can* influence.

We summarize our hypotheses as follows:

***Average Treatment Effects:*** An authoritarian government's policy campaign shifts firms' expressed policy preferences toward conformity with the campaign compared to their preferences expressed in the absence of the campaign.

***Voice Hypothesis:*** Firms that can influence policy outcomes are more likely to express consistent policy preferences with or without a government policy campaign.

***Exit Hypothesis:*** Firms that can credibly threaten to exit from a country are more likely to express dissent against the campaign.

***Loyalty Hypothesis:*** Firms without policy influence or an exit option are more likely to shift opinions in conformity with the government policy campaign.

Testing these hypotheses with observational data from an authoritarian country case poses several challenges. First, there is a general lack of data on firms' expressed policy preferences due to the non-transparent nature of the policy-making process. Second, even if we can perfectly observe firm policy preferences, comparing firm preferences before and after the launch of a campaign is not sufficient to identify the causal effects of the campaign. This is true because the launching of one campaign often coincides with other policy campaigns and various policy changes that might also cause firms' expressed preferences to shift. We thus conducted a within-subject survey experiment in China that asks firms to express their policy preferences twice in the survey. The first time firms were presented with a neutral description of the policy issue; the second time they were reminded of the government campaign on the exact same policy issue.

### III. Research Design

We conducted a within-subject survey experiment with 600 manufacturing and service sector firms in China in 2014. China is an ideal case to test the theory, because it meets the two conditions discussed above that are necessary for firms' strategic expression of preference to arise: (i) subjectivity of reward/compensation allocation that is partially tied to firm's expressed policy preference;<sup>5</sup> and (ii) the lack of accountability for the government's resource allocation. Moreover, the Chinese economy is only second to the United States in size and highly integrated globally (IMF 2015). It is only natural to extend our theory and empirical tests of firms' position taking on globalization outside the universe of democracies. Finally, the China case allows us to proxy firms' bargaining positions with their ownership status (state-owned enterprise, private, and foreign-owned firms). We elaborate on the correspondence between ownership and bargaining power in the Section IV.

A within-subject design is appropriate for this study because it allows us to compare treatment effects across firms within each industry, even at a granular, two-digit industry classification. When fewer number of observations are available due to low response rate, which is common in firm-level surveys, a within-subject design allows us to hold all firm-level characteristics constant and attribute their preference shift solely to the treatment (Tomz and Weeks 2013; Grose et al. 2015).

We embedded this design in the 2014 wave of the China Outward Direct Investment Survey (CODIS), implemented between June and August 2014. Weiyi Shi and Boliang Zhu

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<sup>5</sup> One of the earliest examples of this phenomenon in the republic was Rong Yiren, China's first "red capitalist." By demonstrating loyalty to the communists, Rong was given a loan under the direct order of the then Shanghai mayor Chen Yi when Rong's textile factory suffered in 1950 (Sina News, August 5, 2009. 荣毅仁接受改造 陈毅称其为“红色资本家”, [http://news.sina.com.cn/c/sd/2009-08-05/160318371056\\_2.shtml](http://news.sina.com.cn/c/sd/2009-08-05/160318371056_2.shtml)).

conduct CODIS annually in collaboration with China Council for the Promotion of International Trade (CCPIT)<sup>6</sup> and the School of Public Policy and Management of Tsinghua University.<sup>7</sup> It is worth noting that CCPIT is a semi-governmental organization with no budgetary resource or regulatory power to subsidize or tax firms. We can be sure that firms' shift in opinion is in response to the signal of the government campaign and not to the utility or authority of CCPIT as an organization.

Respondents for the 2014 wave were drawn using a combination of stratified random sampling (by industry, ownership, and size) and non-random recruitment by CCPIT. A more detailed description of the sampling strategy and response rates is provided in Appendix 1. The survey was ultimately answered by 601 respondents, 11% of which came from the stratified random sample list. The rest came by CCPIT's non-random recruitment. We used this sampling approach to balance the needs to ensure an adequate sample size and to strive for a nationally representative sample. Appendix 2 demonstrates the representativeness in comparison to recent data from China's Third Economic Census, concluded in 2014. Consistent with our sampling strategy detailed in Appendix 1, our sample has a higher percentage of manufacturing firms and a greater share of state-owned enterprises (SOEs) than the Economic Census (Table A2-1). Within manufacturing, our sample exhibits similar distribution of industries at the two digit level as the Economic Census (Table A2-2). It is worth noting that, in spite of CCPIT's mandate to promote trade, our sample is not skewed against import-competing industries even with CCPIT's

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<sup>6</sup> The CCPIT is a trade body founded by the Chinese government in 1952. It is a semi-governmental organization. CCPIT promotes trade and investments through consulting services, trade shows, and legal assistance. Its prescribed function is to promote international economic cooperation on behalf of Chinese firms as well as the Chinese government.

<sup>7</sup> Weiyi Shi and Boliang Zhu coauthor the instrument and co-manage survey implementation. The CCPIT headquarters in Beijing and its provincial branches provide the institutional and logistical platforms for survey distribution. A research assistant (RA) team operates out of the CCPIT headquarters to manage the survey's daily operations.

non-random recruitment among member firms. Geographically, our sample also has similar regional composition to that of the Economic Census (Table A2-1).

The survey was conducted both online and on paper. Paper responses account for approximately 29% of the total responses. The two different survey modes provide an opportunity to explore the effect of varying degrees of confidentiality on firms' expressed policy position in an authoritarian environment. Compared to the online responses, which are submitted directly to us via Qualtrics, paper responses were subject to potentially greater scrutiny by CCPIT staff at both the local and central levels. At the beginning of the survey instrument, the firms were informed that their responses would be shared with CCPIT and their collaborative partners on this survey project. They were also required to fill firm contact information. Like many other surveys in authoritarian systems, CODIS is a non-anonymous survey with limited assurance of confidentiality.

The survey experiment asked two differently worded questions about how further liberalization of inward foreign direct investment (FDI) will affect their businesses. We chose the liberalization of inward FDI as it is a highly salient and divisive issue for firms and citizens in democracies and autocracies in two dimensions: (i) liberalization generates economic beneficiaries and losers (Pandya 2010; Pinto 2013; Zhu 2012; 2013), and (ii) incoming FDI is also a symbolic and cultural issue (Tingley et al. 2015). In addition, the Chinese government's commitment to inward FDI is very well known among firm executives as well as ordinary citizens. China has encouraged FDI inflow since Deng Xiaoping initiated Reform and Opening in 1979. Familiarity with the campaign language on welcoming FDI is universal. This gives us confidence that our treatment effect is not confounded by baseline differences in prior exposure to treatment.

We use politically neutral wording for the pre-treatment question to gauge firms' general positions toward the liberalization of inward FDI: "Tell us how the following policy impacts your business: further relaxation of FDI entry [rules]". This question was part of a series of nineteen policy questions, which also included issues such as import liberalization, exchange rate policy, environmental regulation, and corruption. After seventy unrelated questions following the pre-treatment question, the survey asks the exact same question with a different preface that uses the exact wording from the government policy campaign that emphasizes the government's commitment to welcoming FDI: "*Zouchuqu* [outward FDI] and *yinjinlai* [inward FDI] are fundamental state policies. How does further relaxation of *zhaoshangyinzi* [inward FDI] impact your business". Note that the policy-campaign treatment does not convey any information about policy benefits or costs (e.g., consideration such as employment generation or threat to China's economic security); respondents are asked to evaluate the impact of policy on their own firm. The campaign question simply communicates two facts, one about the government's preference and another about its strong commitment to the policy.<sup>8</sup> The precise format of the two questions, as presented in the questionnaire, is provided in Appendix 3.

For both neutral and campaign-treatment questions, respondents answer in five-point Likert scale: 1. Very bad, 2. Bad, 3. No Effects, 4. Good, and 5. Very Good. 9.6 percent of firms (n=58) chose "Don't Know" or chose not to answer this question, and are treated as missing.

The two questions are located seventy questions apart from one another to minimize any carryover effects. Although the seventy questions are cognitively demanding, it is quite possible that respondents retain memory of the earlier neutral question when presented with the campaign

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<sup>8</sup> Although the campaign treatment (i.e., the announcement of government policy position and commitment) does not contain any information about policy benefits and costs, the campaign treatment might still make firms think about the different distributional implication of inward-FDI policy when the government is heavily involved compared to when the government is not heavily involved (i.e., pre-treatment, neutral state). We explore this possibility further later.

treatment. They may interpret inward FDI as a more important policy issue than the rest: it was asked twice in two different ways in a survey implicitly endorsed by the Chinese government. If that is the case, our average treatment effect may be slightly inflated compared to a between-subject design with a true control group, because what we capture is a compounded effect. The effect of campaign language amplified by repeating the question, which in itself may signal governmental resolve in the absence of campaign language.<sup>9</sup> The heterogeneity of treatment effects across firms, however, should remain similar to those identified by a between-subject design, since our design strengthens the treatment for all groups. As is stated earlier, we adopt the within-subject design to make the most of the limited sample size.

## **IV. Results**

In Figure 1, we compare the distribution of responses for the neutral FDI question and for the FDI question in campaign language. In the neutral FDI question, 36 percent of the firms report that inward FDI is either good or very good for their businesses (see the top panel). The campaign treatment increases the proportion of such firms to 72 percent (see the bottom panel). This average treatment effect (36 percentage points) is substantively large and statistically significant at the 1 percent level. The results are consistent with our argument that government campaigns in an authoritarian system boost firm support for its policies by signaling the government's resolve and raising the cost of dissent.

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<sup>9</sup> Another potential concern with the within subject design, in addition to the carryover effect, is the possibility of respondents revising earlier answers. This possibility directly threatens the validity for our measure for the dependent variable, which is a shift in opinion. Fortunately, it is only possible to go back and forth to revise answers for paper responders. For online responders, respondents would have to relinquish the entire survey to start over, which is highly unlikely. As we show in the results section, paper responders are indeed less likely to shift opinion to conform to the campaign. We control for survey medium in our empirical models.

We further test our hypotheses by demonstrating heterogeneous treatment effects across firms. Our theory suggests that firms with either voice (e.g., SOEs) or exit options (e.g., foreign firms) are least likely to shift their preferences to conform to the campaign, while “loser” firms (e.g., unproductive; comparatively disadvantaged) and system outsiders (e.g., private firms) are more likely to shift their positions to signal loyalty and obtain policy benefits or perks.

To test our hypothesis, we create a binary variable called “Pleaser”, which is coded one if the campaign treatment shifts a firm’s preference toward a more positive response on a five-point Likert scale (i.e., Campaign FDI Response minus Neutral FDI Response >0) and zero otherwise. We estimate the following linear probability model:

$$Pleaser_i = \alpha + \beta_1 * CompDisadv_i + \beta_2 * Productivity_i + \beta_3 * SOEs_i + \beta_4 * Foreign_i + \beta_5 * COEs_i + X_i\gamma + \epsilon_i$$

$\alpha$  is the intercept to be estimated.  $\beta_1, \beta_2, \beta_3, \beta_4$ , and  $\beta_5$  are coefficients for the dummies of comparatively disadvantaged industries, firm’s productivity, and a set of ownership dummies, respectively.  $X$  is a matrix of covariates and  $\gamma$  is a vector of coefficients for  $X$ .  $\epsilon$  is the error term. To address ceiling and design effects in the Likert scaled survey questions, in all the model specifications we include a full set of dummy variables for each of the five-point response categories that firms chose for the neutral FDI question. The summary statistics on our dependent and independent variables are presented in Appendix 4.

### **Independent Variables: Firm Ownership Status as Proxy for Bargaining Position**

We proxy firms’ bargaining positions with their ownership status (state-owned enterprise, private, and foreign-owned firms). SOEs are powerful actors in China’s political economy. In spite of their limited number (4.5% of all industrial enterprises), SOEs account for nearly 27% of



China's industrial output and control 42% of the country's industrial assets in 2010 (World Bank, 2013). They control strategic industries (e.g. energy, banking, telecom) and, under a regime that is preoccupied with social stability, employ nearly 20% of the workforce (World Bank, 2013). SOEs are insiders to China's political system: The chief executives of SOEs are political appointments and often enjoy the same rank as ministers at the central level and as provincial leaders at the local level. SOEs' soft budget constraint (Kornai 1987, Lin and Tan 1999, Shi 2015) also means that they can access preferential financing with minimal repayment concerns (Hericourt and Poncet 2008, Cull and Xu 2003, Steinfeld 2000, Lin 2011), reducing their need to extract additional perks and side payments from the government. Thus, we expect that SOEs to use the *voice* strategy to express their sincere preferences to influence policymaking.

Compared to SOEs, China's private firms face many constraints. These include difficulties in securing credit and subsidies (Cull and Xu 2003, Yu et al 2010), excessive tax or "extra-tax" financial burdens (Li et al 2006), informational deficit on government policies (Kennedy 2009), and restricted access to certain sectors.<sup>10</sup> While the government appropriates these limits, private firms try to obtain exceptions to these limits from the government. For example, SOEs' control over strategic sectors means that there is lucrative monopoly rents in these sectors. To share these rents, however, a private firm must maintain good terms with governmental actors in order to obtain contracting opportunities with SOEs. The success of a private firm in China hinges to a large extent on its political connections (Li et al 2008). Private entrepreneurs thus have strong incentives to build good relations with the government and identify themselves as "red capitalists" (Dickson 2003; Chen and Dickson 2010). We therefore

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<sup>10</sup> Historically, private firms were illegal during the pre-reform era and only achieved its legal status in 1988. The government continues to treat private firms as "obscure" and less legitimate entities and expropriate when she can (Gallagher 2004; Huang 2008). Private enterprises had struggled to secure legal legitimacy and stable property rights (Tsai 2006; 2007).

expect that private firms are most eager to show *loyalty* in the hopes of extracting policy benefits and privileges.<sup>11</sup>

Foreign firms' bargaining position is enhanced by their cross-border mobility (Bates and Lien 1985) and possession of assets valuable to the government, such as capital, technology, and management know-how, though they do not have institutional channels to access policy elites. In China, multinational corporations have strategically played with the exit option and leveraged their bargaining power for favorable institutional changes (e.g. Gallagher 2005; Wang 2015). We expect that foreign firms that can credibly threaten to *exit* are less likely to shift positions toward the conformity of the campaign or even against to strategically to extract more policy benefits or perks.

## Baseline Results

In Model 1 of Table 1, we report the results of our basic model specification with the dummy of comparatively disadvantaged industries, Approximate Total Factor Productivity (ATFP),<sup>12</sup> ownership (SOEs, foreign, and COEs),<sup>13,14</sup> three sector dummies (manufacture,

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<sup>11</sup> Tsai (2002) shows that private enterprises in China are a diverse group that lacks a collective identity. Depending on their backgrounds and political connections, private firms adopt different coping strategies—*avoidant*, *assertive*, *loyally acceptant*, and *grudgingly acceptant*—to deal with discriminatory policies. We do not deny the heterogeneity of private firms. Yet, when compared to SOEs or foreign firms, private enterprises as a group are discriminated and lack access to capital and markets, and thus have strong incentives to show loyalty to extract policy benefits or privileges.

<sup>12</sup> Approximate Total Factor Productivity (ATFP) is a firm-level measure of labor productivity adjusted by capital intensity, and is defined as follows:  $ATFP = \ln(Q/L) - s \ln(K/L)$  ( $0 \leq s \leq 1$ ). Q is defined as sales, L is defined as labor input, and K/L is a measure for capital intensity. We calculate ATFP for each firm by using  $s = 1/3$ , following Head and Ries (2003).

<sup>13</sup> Private firms are excluded as a reference category.

<sup>14</sup> COE, or collectively owned enterprise (*jiti qiye*), is a special remnant of China's planned economy. They exist at the township or village levels. These enterprises prospered from 1979 to 1989, and were dismantled en masse between 1989 and 1996 as part of reform and transition (Kung and Lin 2007, Huang 2008). Many face bankruptcy or pressure to restructure and privatize. Remaining COEs today are highly vulnerable to governmental discretion.

wholesale, and other services),<sup>15,16</sup> and firms' initial responses to the neutral FDI question. The results lend strong support to our hypotheses. First, firm ownership type is a strong predictor for whether a government campaign shifts firm opinions toward conformity with the campaign. When compared to private firms, SOEs, which have access and means to influence government policy-making, are approximately 15 percent less likely to shift opinions in conformity with the government with the policy campaign treatment. Foreign firms that can credibly threaten to divest ("exit") are around 12 percent less likely than private firms to shift opinions with the campaign treatment. These treatment effects are statistically significant at the 5 percent level.<sup>17</sup>

These results suggest that private firms, who lack policy influence or exit options (Huang 2003), have stronger incentives to conform to the government campaign in an effort to build a good relationship and extract perks. Moreover, firms that stand to lose from globalization are significantly more likely to shift their positions toward the policy campaign. For instance, firms in comparatively disadvantaged industries (net import values exceed net export values) are 10 percentage points more likely to shift opinions toward the campaign position with the campaign treatment and the effect is significant at the 5 percent level. Unproductive firms, measured by Approximate Total Factor Productivity (building on Head and Ries 2003), are more likely to shift opinions with the campaign treatment (i.e., negative coefficients of *AFTP*). An increase in firm productivity from the median to the maximum value in the sample is associated with a 14 percent lower likelihood of shifting opinions toward the campaign when all other variables are

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<sup>15</sup> Primary sector is excluded as a reference category.

<sup>16</sup> In alternative specifications, we control for industry-specific effects at the two digit level. Results are reported in Appendix 5 (Table A5-1).

<sup>17</sup> We also find that collectively-owned enterprises (COEs) are more likely to shift opinions with the campaign than private firms, but the coefficient is only significantly at the 10% level. COEs as a historical remnant arguably have even less bargaining power vis-a-vis the government than private firm in China today. Their being more likely to shift opinion toward campaign is consistent with our theoretical expectation.

held constant at their medians. Finally, firms in both manufacturing and service sectors are less likely to shift preferences when compared to those in the primary sector.

In Model 2, we use an alternative measure of firm productivity, logged sales values in 2013 (“Ln Sales 2013”). The results are consistent with those in Model 1, although statistical significance of firm productivity drops to the 10 percent level. Substantively, increasing the sales values from the mean to the maximum value in the sample is associated with a 9 percent drop in the probability of shifting opinions toward the campaign.

We further test whether these heterogeneous treatment effects are driven by firm executives’ ideological alignment with (or distance from) the government, rather than their rational response to extract material benefits. We do so by including measures of firm ideologies, which are scaled from five-point Likert responses to nineteen policy issues asked using neutral language in our survey, including the question about the liberalization of inward FDI. The specific issues were presented in Appendix 3. We use Poole’s (1998b) extension of the Aldrich-McKelvy scaling technique (Aldrich and McKelvy 1977), which allows us to identify multiple issue dimensions and missing data in the input matrix (Poole et al. 2009).<sup>18</sup> The results summarized in Appendix 6 suggest that the first dimension captures issues related to the government’s regulatory role in the economy (liberalization of trade and investment, and labor and environmental regulations), and the second dimension captures policy issues related to macroeconomic management (exchange rates and interest rates policies) and corruption. We include firms’ ideal points in each of the two dimensions,  $c_1$  and  $c_2$  ( $0 < c_1, c_2 < 1$ ), as measures of their ideal points. The results summarized in Models 2 and 3 of Table 1 suggest that firms’ ideologies do not account too much for the variation in how the campaign treatment shifts their

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<sup>18</sup> To scale responses, we use the Basic Space Scaling program made available by Poole et al. (2009) here: [http://voteview.com/AM\\_and\\_basicspace\\_in\\_R.htm](http://voteview.com/AM_and_basicspace_in_R.htm) (last accessed November 10, 2015).

opinions toward conformity with the government.<sup>19</sup> Rather, the shift of firms' reported policy preferences are mainly driven by economic incentives (i.e. their standing in the economy and bargaining positions vs. the government).

Models 5 and 6 include survey modes (paper-based versus on-line) as a control variable to address potential concerns that in the paper version respondents are more likely to pay attention to the consistency of their responses for the two FDI questions and to worry more about the confidentiality of their responses.<sup>20</sup> A dummy variable "Paper" is coded 1 if responses were collected using a paper instrument and 0 otherwise. Results summarized in Models 5 and 6 show some evidence that firms that used paper instruments are less likely to shift opinions with the campaign treatment. Yet, our main findings remain substantively and statistically the same with the inclusion of the survey modes as a control. SOEs and foreign firms, compared to private firms, are significantly less likely to shift opinions with the campaign treatment. Losers from globalization (i.e. firms in comparatively disadvantaged industries and low productivity firms) are more likely to shift their positions with the campaign treatment. In Models 7 and 8, we introduce a full set of region dummies<sup>21</sup> to control for potential regional heterogeneity. The results are robust and consistent with the previous models.

## **Who Rebels Against Government Campaigns?**

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<sup>19</sup> Adding the two ideology variables does not contribute to the improvement of model fit, though the second dimension of the ideology is statistically significant. The values of R-squared are almost the same as those in Models 1 and 2.

<sup>20</sup> In the online instrument, respondents are not allowed to go back to the previous section. The neutral and campaign-language FDI questions are located in different sections. Thus, it is unlikely that respondents could change their responses for the neutral FDI question after seeing the campaign treatment.

<sup>21</sup> East Coast is excluded as reference category. For classification of economic regions in China, see [http://www.stats.gov.cn/zjtj/zthd/sjtjr/dejtjkfr/tjkg/201106/t20110613\\_71947.htm](http://www.stats.gov.cn/zjtj/zthd/sjtjr/dejtjkfr/tjkg/201106/t20110613_71947.htm).

This subsection provides a finer test of our argument by using a categorical dependent variable, which indicates 1 if the campaign treatment shifts a firm's position toward a more positive response in the five-point Likert scale than its original position for the neutral FDI question, and -1 if the treatment shifts a firm's position toward a more negative response. Firms who report the same preference for the neutral and campaign questions are coded as 0. We estimate a multinomial logistic model for this categorical dependent variable and results are shown in Table 2. Models 1 and 2 use ATFP (Models 1 & 3) and logged sales (Models 2 & 4) as alternative measures of firm productivity. The results reported in Table 2 lend further support to our hypotheses.

The results summarized in Model 1 show that for a median firm that is not in a comparatively disadvantaged industry and whose response to the neutral FDI question was "3: No Effect," a change from a private to state ownership will decrease the probability of shifting opinion toward "Good or Very Good Effects" by 21 percentage points [-37%, -6%],<sup>22</sup> and increase the probability of reporting the same preference for the two questions by 17 percentage points [5%, 30%] and of shifting positions toward "Bad or Very Bad" by 4 percentage points [-3%, 11%]. Similarly, a change of firm's ownership from private to foreign will lower the probability of being a pleaser by 16 percentage points [-33%, 1%],<sup>23</sup> while increase the probability of consistent reporting of preferences by 10 percentage points [-6%, 26%] and being a rebel by 6 percentage points [3%, 8%].

Overall these results suggest that SOEs and foreign firms are significantly less likely than private firms to shift opinions with the government campaign. Moreover, we find that the campaign treatment shifts opinions of foreign firms against the campaign. These results lend

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<sup>22</sup> Numbers in brackets indicate the 95% confidence interval.

<sup>23</sup> The 90% confidence interval is [-30%, -1%].

strong support to our argument that firm responses to government policy campaigns are rationally, not ideologically, driven by their attempt to extract policy benefits or perks. Firms' responses (*Voice, Exit or Loyalty*) differ depending on their bargaining positions with the government. Firms with a voice option (e.g., SOEs) report their sincere policy preference in an effort to influence policy outcomes. Firms with an exit option (e.g., foreign firms) are more likely to communicate their unhappiness with the government policy. A couple of factors may account for foreign firms' unhappiness with the government campaign. First, as existing players in the market, they may be concerned about increasing competition from future foreign entrants. Second, they may strategically play with the exit card to extract more policy benefits. Consistent with our Loyalty hypothesis, private firms are more likely to shift opinions with the campaign than the SOEs and this effect is most pronounced among private firms that stand to lose from globalization. Due to the lack of bargaining power and exit options, private firms have stronger incentives to signal loyalty to the government to reap any benefits.

### **“Loyalty for Perks” for Private Firms**

Our theory predicts that private firms, especially those that are most vulnerable to government discretion, are more likely to shift opinions with the policy campaign toward conformity with the campaign. This section explores further whether this shift is motivated in part by their appetite for governmental perquisites. Specifically, we test whether private firms with more business ties with the government shift their policy preference to a greater extent with the campaign treatment. The variable (*Govt Contract*) is constructed from our survey question regarding the percentage of firm sales earned through their businesses with the government. This variable ranges from 0 to 60 percent. We interact this variable with the ownership dummies

(private, foreign, collective, and state-owned) to test whether firms with a higher proportion of sales tied to government contracts are more likely to shift opinions in conformity with the campaign, and whether this effect is only present among private firms.

In Table 3, we re-estimate the binary pleaser index model by introducing three interaction terms between the proportion of firm sales to the government and private, foreign, and collective ownership respectively. Models 1 & 2 are estimated with sector dummies and Models 3 & 4 with 2-digit industry specific effects.<sup>24</sup> We can see that, when industry heterogeneity is controlled for (Models 3 & 4), the coefficient of the interaction term between sales to the government and private ownership become significant at the 1 percent level, while the coefficient on the interaction terms between sales to the government and foreign ownership is insignificant. In Figure 2, we plot the marginal effects of private ownership along the proportion of firm sales to the government. The graph clearly shows that the likelihood of being a pleaser for private firms increases with their level of sales to the government. This finding is consistent with our theory that private firms have incentives to please the government in order to extract perks.

### **Additional Robustness Checks**

To further check the robustness of our findings, we have experimented with different model specifications and an alternative measure of the dependent variable. First, to account for possible industry-specific effects, we re-estimate the model by introducing a full set of 2-digit industry dummies. Second, given the binary nature of the pleaser variable, in alternative specifications we utilize the probit estimator. Third, we create an alternative dependent variable, “Pleaser Index,” which is the difference between the responses for the campaigns FDI question

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<sup>24</sup> Estimates in Models 3 & 4 are obtained using the within estimator with clustered standard errors. This mean-differenced model actually removes all group (such as industry, sector, and region) specific fixed effects.



and the neutral FDI question (i.e. Pleaser index= Campaign FDI Response - Neutral FDI Response). Our results are consistent and robust to the use of the probit estimator, inclusion of industry dummies, and alternative measure of the dependent variable. Detailed results and discussions are presented in Appendix 5 (Table A5-1 - Table A5-3).

## **V. Conclusions**

This paper has demonstrated a top-down mechanism of firms' position taking on globalization in authoritarian China. The mechanism underlying the firm's shift in expressed preferences with the government campaign is not ideological or informational, but instead derives from the firms' material incentives to obtain side-payments and policy concessions. Consistent with our material theory, private-owned firms, whose policy preferences for inward-FDI diverge from the government campaign the most (e.g., unproductive firms), are more likely to shift their reported preferences toward conformity with the government campaign. Our findings suggest that firms in authoritarian systems are sophisticated and strategic actors who adjust their expressed policy preferences to extract perks and side-payments from the government.

The findings have broader implications beyond the study of firms in the global economy and beyond China. We note its contribution to three research programs in particular. First, studies on democracies have found the importance of government side-payments and welfare programs for globalization losers to reduce opposition for open economies (Ruggie 1982; Hays et al. 2005; Ehrlich and Hearn 2010; Naoi 2015). Our study identified a similar, active role that an authoritarian government can play in shaping firm preferences for globalization through the allocation of side-payments.

However, our evidence also points to potential key differences between “embedded liberalism” in authoritarian systems and in democracies. First, the subjectivity of side-payment allocation fuel “Yes-man” behavior among the firms that stand to lose from global economy in authoritarian systems (Prendergast 1993). In democracies, compensation to losers is often formulaic (e.g., Trade Adjustment Assistance in the United States, see Margalit 2011) or universalistic (Iversen 2005), which makes citizens’ (or firms’) expression of policy preferences relatively exogenous to what their government offers for compensation. Second, the experimental evidence on democracies have shown that priming respondents with information about the existence of a government’s compensation program (such as Trade Adjustment Assistance Program) can change their *support* for a government’s trade *policy* (Ehrlich and Hern 2014). What we have shown, however, is that informing firms of the presence of a government campaign in China can substantially change their reported assessments on how liberalization will affect their *own* business. The effect of government campaigns in authoritarian systems, thus, seems to run deeper than in democracies. Finally, the key difference between “embedded liberalism” in authoritarian systems and democracies might be that authoritarian governments could also use extralegal means to punish dissent, such as withdrawing financial support, not renewing licenses, or strategically deployed tax audit. While we developed a theory that addresses both reward and punishment possibilities in Section III (see footnote 3), we did not test the punishment story empirically due to the difficulty in formulating survey instruments that get at respondents’ fear of being punished without self-censoring. Anecdotal evidence, however, is abundant in China and in other authoritarian systems that “not getting into trouble with the government,” rather than obtaining side-payments, is the primary motivation for citizens or firms

to stay loyal to the government (Chen and Dickson 2010).<sup>25</sup> Testing this argument systematically is our task for future research.

The second contribution of our paper is methodological. Measuring firm policy preferences via surveys has flourished in the past two decades, but scholars have considered their responses to surveys as relatively sincere expressions of their preferences. Beyond the issues of desirability bias and censorship (self or the government) issues, we identify a larger role that a government can play in turning self-reported losers into supporters of globalization. Although speculative, this campaign effect might be particularly pronounced when surveys are conducted jointly with government agencies, which is very common in firm-level surveys.

Finally, our findings push forward a research program on a government-business relationship in authoritarian systems (Kennedy 2009). We have shown that ownership status of firms is the best predictor of how they shift their policy preferences with the presence of campaign. Contrary to what some have believed (Lin and Tan 1999, Davis et. al. 2012), however, state-owned enterprises are not puppets of the government, but rather, strategic actors who seek profit and rents (Shi 2015). Somewhat paradoxically, private firms, who are supposed to be independent economic actors, have to demonstrate loyalty to the government more than state-owned enterprises due to the former's higher vulnerability to the government discretions.

In concluding, we note several promising extensions of our research. First, replicating our experiment with other policy areas, especially in which a government promotes protectionism, would be important for external validity. Second, replicating similar experiments in democracies where a government allocates resources somewhat subjectively, such as in clientelistic systems,

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<sup>25</sup> See also China Youth Daily, February 28, 2008, “企业被公安局查账致关门？专家吁监督行政权力”，[http://news.xinhuanet.com/politics/2008-02/28/content\\_7682358.htm](http://news.xinhuanet.com/politics/2008-02/28/content_7682358.htm))

would be a fruitful step to disentangle the effects of regime type (democracy vs. autocracy) and resource allocation systems (objective vs. subjective). Finally, developing a better benchmark to identify winners and losers of a policy without relying on self-reporting in the survey would be a critical step forward.

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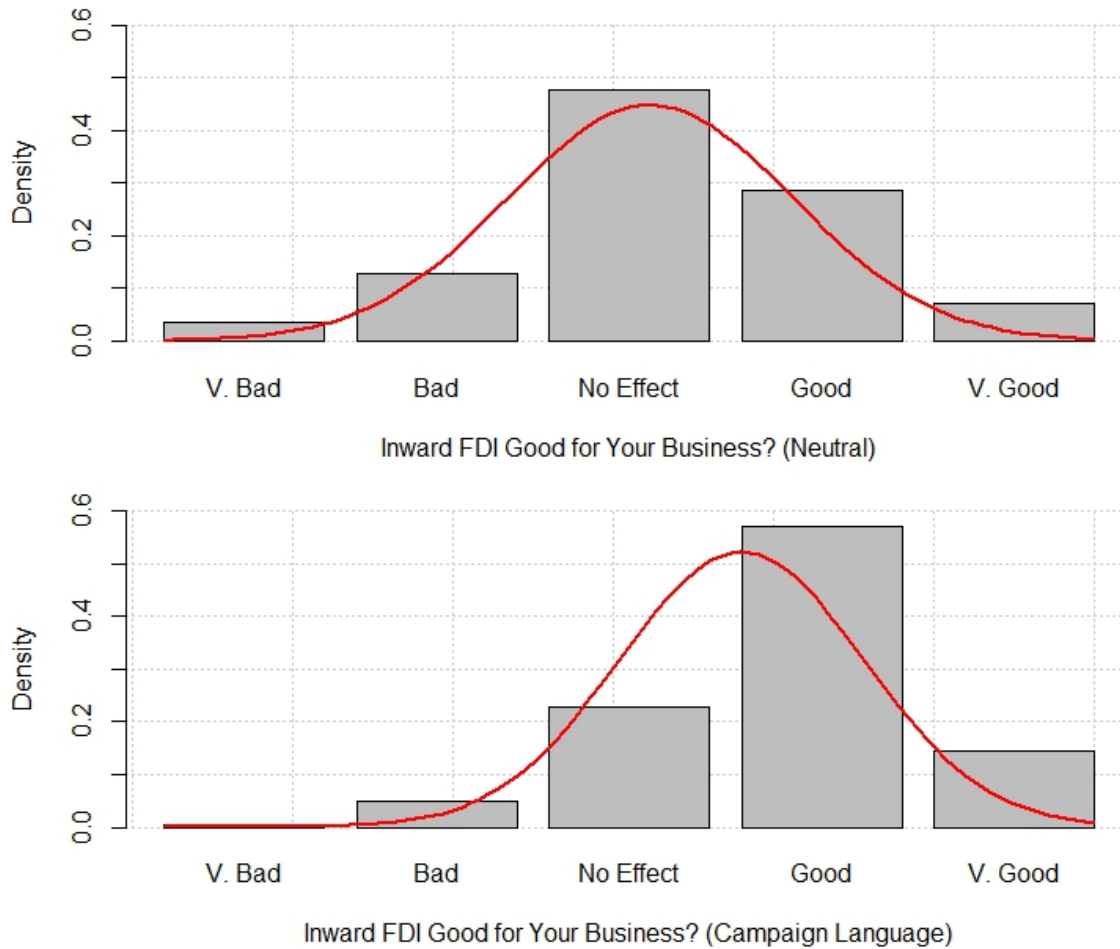
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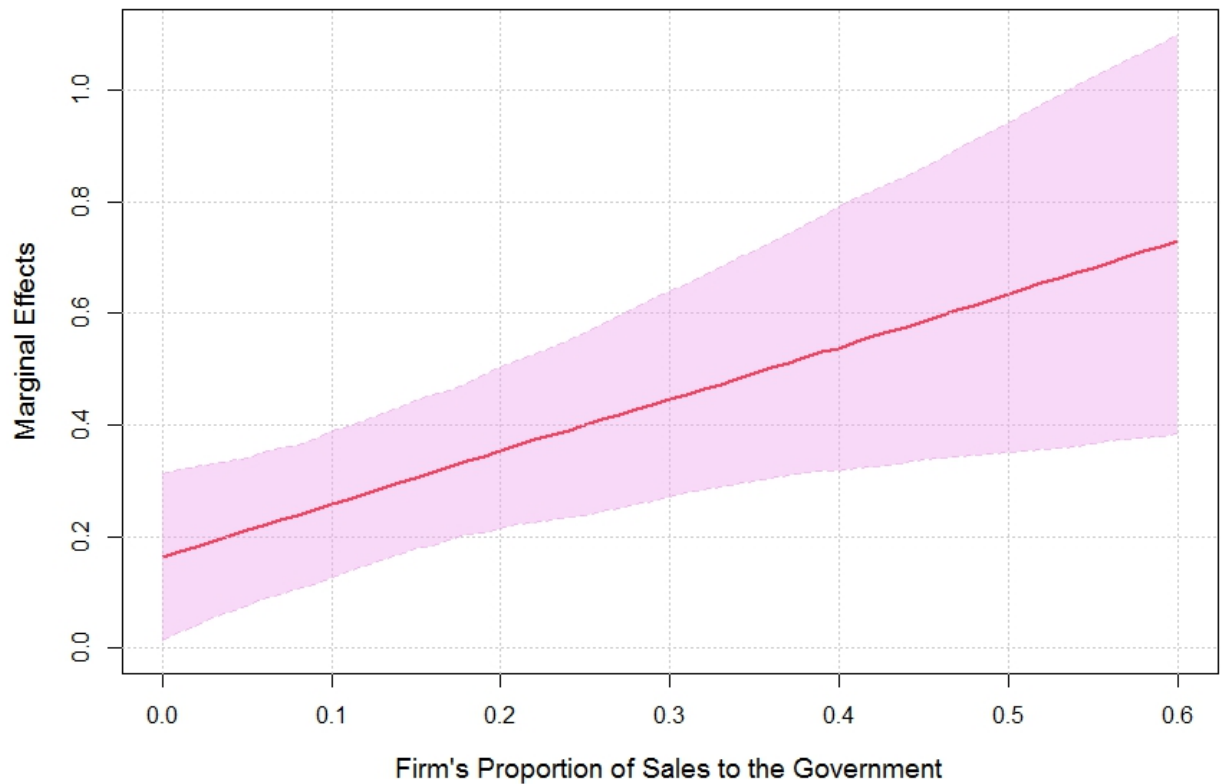
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Figure 1: Distribution of Responses in the Neutral and Campaign-Language FDI Question



Notes: Distribution of firms' responses to the neutral FDI question (upper panel) and the campaign FDI question (bottom panel) regarding the effect of further FDI liberalization on their businesses. The X-axis is a five-point Likert response scale, and the Y-axis shows the density of each response category.

Figure 2: The Marginal Effects of Government Contracts on the Probability of Shifting Preferences among Private Firms



Notes: The plot shows the marginal effects of private ownership on the probability of shifting toward a more positive response in the campaign FDI question as opposed to the neutral FDI question (i.e., being a pleaser). The effect increases with the firm's proportion of sales to the government (shown on the horizontal axis). Marginal effects and their 95% confidence intervals are simulated using the estimates in Model 3 of Table 3.

Table 1: Government Campaign and the Shift of Firm Preferences Toward Inward FDI (OLS)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Comparative Disadv.	0.10** (0.04)	0.09* (0.05)	0.11** (0.05)	0.11** (0.05)	0.11** (0.05)	0.09* (0.05)	0.10** (0.05)	0.09* (0.05)
ATFP	-0.03** (0.01)		-0.03** (0.01)		-0.03*** (0.01)		-0.03*** (0.01)	
Sales 2013 (log)		-0.02* (0.01)		-0.02 (0.01)		-0.02* (0.01)		-0.02* (0.01)
SOEs	-0.15** (0.06)	-0.14** (0.05)	-0.14** (0.06)	-0.14** (0.06)	-0.14** (0.06)	-0.12** (0.06)	-0.14** (0.06)	-0.13** (0.05)
Foreign	-0.12** (0.06)	-0.13** (0.06)	-0.14** (0.07)	-0.15** (0.07)	-0.12** (0.06)	-0.12** (0.05)	-0.12** (0.06)	-0.13** (0.06)
COEs	0.14 (0.08)	0.14* (0.08)	0.14 (0.09)	0.14 (0.09)	0.15* (0.08)	0.15* (0.08)	0.14* (0.08)	0.14* (0.08)
Employees (log)	0.03** (0.01)	0.05*** (0.01)	0.03** (0.01)	0.05*** (0.01)	0.02** (0.01)	0.05*** (0.01)	0.02** (0.01)	0.04*** (0.01)
Manufacture	-0.26*** (0.04)	-0.26*** (0.04)	-0.25*** (0.04)	-0.23*** (0.04)	-0.26*** (0.04)	-0.26*** (0.04)	-0.27*** (0.04)	-0.27*** (0.05)
Wholesale	-0.41*** (0.03)	-0.41*** (0.03)	-0.39*** (0.04)	-0.40*** (0.03)	-0.41*** (0.03)	-0.41*** (0.03)	-0.44*** (0.04)	-0.44*** (0.03)
Other Services	-0.38*** (0.02)	-0.37*** (0.02)	-0.38*** (0.03)	-0.37*** (0.02)	-0.38*** (0.03)	-0.36*** (0.02)	-0.38*** (0.02)	-0.37*** (0.02)
Ideology1			0.05 (0.06)	0.03 (0.06)				
Ideology2			-0.14*** (0.05)	-0.14*** (0.05)				
Paper					-0.08*** (0.03)	-0.08*** (0.03)		
Central							-0.06* (0.04)	-0.05 (0.03)
Western							-0.02 (0.04)	-0.03 (0.04)
Northeast							-0.09 (0.14)	-0.10 (0.13)
Constant	0.91*** (0.11)	0.88*** (0.10)	0.89*** (0.12)	0.85*** (0.12)	0.94*** (0.10)	0.92*** (0.10)	0.96*** (0.11)	0.93*** (0.11)
N	480	496	430	444	480	496	479	495
R-squared	0.47	0.46	0.46	0.46	0.48	0.47	0.47	0.46

Notes: OLS regression. The dependent variable is a binary *pleaser* index. *Pleaser* is coded 1 if firms shift to a more positive preference in the campaign FDI question compared to the neutral FDI question; 0 if otherwise. All models include a full set of dummy variables for each of the five response categories that firms chose in the neutral FDI question. The coefficients of these dummy variables are not shown. Robust standard errors are reported in parentheses, clustered at the 2-digit industry level. \* significant at 10%, \*\* significant at 5%; \*\*\* significant at 1%.

Table 2: Government Campaign and Change of Firm Preferences toward Inward FDI (Multinomial Logit)

VARIABLES	(1)		(2)	
	Pleaser	Rebel	Pleaser	Rebel
Comparative Disadv.	0.71** (0.35)	-1.47** (0.72)	0.56 (0.36)	-1.57** (0.71)
ATFP	-0.23** (0.09)	0.05 (0.13)		
Sales 2013 (log)			-0.14* (0.08)	0.06 (0.11)
SOEs	-1.06*** (0.40)	0.21 (0.82)	-0.95*** (0.36)	0.29 (0.80)
Foreign	-0.65 (0.49)	0.85** (0.34)	-0.71 (0.46)	0.76** (0.31)
COEs	0.94 (0.78)	-13.92*** (0.61)	0.92 (0.74)	-13.91*** (0.62)
Employees (log)	0.23*** (0.08)	0.13 (0.11)	0.36*** (0.10)	0.07 (0.17)
Manufacture	-1.88*** (0.32)	-1.55*** (0.55)	-1.99*** (0.31)	-1.54*** (0.53)
Wholesale	-2.81*** (0.27)	0.16 (0.35)	-2.93*** (0.26)	0.15 (0.33)
Other Services	-2.73*** (0.22)	-0.35 (0.32)	-2.73*** (0.22)	-0.27 (0.32)
Constant	2.52*** (0.75)	-1.08 (1.02)	2.55*** (0.72)	-1.17 (1.01)
N	464	464	479	479
Pseudo R-squared	0.31	0.31	0.31	0.31

Notes: Multinomial logistic regression. The dependent variable is coded 1 (*Pleaser*) if firms shift toward a more positive preference in the campaign FDI question compared to the neutral FDI question; -1 (*Rebel*) if firms change to a more negative position; and 0 if firms report the same preferences for the two FDI questions. All models include a full set of dummy variables for each of the five response categories that firms chose in the neutral FDI question. Observations with *Neutral FDI Q* = 1 are dropped in the regression as they are completely determined. Robust standard errors are reported in parentheses, clustered at the 2-digit industry level. \* significant at 10%, \*\* significant at 5%; \*\*\* significant at 1%.

Table 3: Government Dealings and Shift of Firms Preferences toward Inward FDI (OLS)

	(1)	(2)	(3)	(4)
Govt Contract	-0.60 (0.46)	-0.56 (0.42)	-0.80** (0.35)	-0.76** (0.30)
Private	0.14** (0.06)	0.13** (0.05)	0.14* (0.07)	0.13** (0.06)
Private*Govt Contract	0.61 (0.46)	0.62 (0.41)	0.78** (0.36)	0.79** (0.31)
Foreign	0.01 (0.09)	-0.00 (0.08)	0.03 (0.10)	0.00 (0.09)
Foreign*Govt Contract	0.91 (3.52)	1.37 (3.50)	0.53 (4.44)	1.11 (4.31)
COEs	0.21** (0.10)	0.20** (0.10)	0.24** (0.11)	0.23** (0.10)
COEs*Govt Contract	3.34* (1.92)	3.48* (1.93)	3.87* (2.20)	3.98* (2.21)
Comp. Disadvantage	0.11** (0.05)	0.09* (0.05)		
ATFP	-0.03*** (0.01)		-0.03** (0.01)	
Sales 2013 (log)		-0.02* (0.01)		-0.02 (0.01)
Employees (log)	0.03*** (0.01)	0.05*** (0.01)	0.03** (0.01)	0.05*** (0.01)
Manufacturing	-0.25*** (0.04)	-0.25*** (0.04)		
Wholesale	-0.41*** (0.04)	-0.41*** (0.03)		
Other Services	-0.38*** (0.03)	-0.36*** (0.02)		
Constant	0.76*** (0.11)	0.75*** (0.11)	0.52*** (0.10)	0.50*** (0.10)
N	480	496	480	496
R-squared	0.47	0.46	0.46	0.45

Notes: OLS regression. The dependent variable is a binary *pleaser* index. *Pleaser* is coded 1 if firms shift to a more positive preference in the campaign FDI question compared to the neutral FDI question; 0 if otherwise. All models include a full set of dummy variables for each of the five response categories that firms chose in the neutral FDI question. The coefficients of these dummy variables are not shown. Robust standard errors are reported in parentheses, clustered at the 2-digit industry level. \* significant at 10%, \*\* significant at 5%; \*\*\* significant at 1%.

## Appendix 1 Survey Sampling and Implementation

The China Outward Direct Investment Survey (CODIS) was conducted in cooperation with China Council for the Promotion of International Trade (CCPIT)<sup>26</sup> and the School of Public Policy and Management of Tsinghua University. Weiyi Shi and Boliang Zhu co-authored the instrument and co-managed survey implementation. The CCPIT headquarters in Beijing and its provincial branches provided the institutional and logistical platform for survey distribution. A research assistant (RA) team operated out of the CCPIT headquarters to manage the survey's daily operations. The 2014 wave of CODIS was conducted between June and August 2014.

CODIS is a firm-level survey. The sampling frame consisted of three parts: the universe of firms in China's Industrial Census (non-listed firms), firms listed on Shanghai and Shenzhen Exchanges, and firms logged in China's Outward Direct Investment Registry published by China Ministry of Commerce (used to identify actual overseas investors). After pooling these sources and eliminating overlapping firms, we drew a random sample of 4,000 firms stratified by industry (at the two digit level), ownership, size, and whether firms have already invested overseas. We oversampled state-owned firms and larger firms to deal with the low response rate among these firms. In addition, firms that have already invested overseas were also oversampled to ensure we have enough observations to analyze responses on certain survey questions that pertain only to overseas investors.

The CCPIT headquarters were responsible for facilitating the participation of provincial branches. The provincial offices were given a list of sampled firms within their provincial territory. However, in order to ensure a minimum sample size, branches were also permitted to recruit firms on their own. The survey achieved 601 responses in total, of which 65 (11%) were by firms on the sample list.

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

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<sup>26</sup> The CCPIT is a trade body founded by the Chinese government in 1952. As such it is a semi-governmental organization. CCPIT promotes trade and investments through consulting services, trade shows, and legal assistance. Its prescribed function is to promote international economic cooperation on behalf of Chinese firms as well as the Chinese government.

## Appendix 2 Survey Sample Representativeness: Comparison with China's Economic Census

Table A2-1 Distribution of Firms in 2014 CODIS vs. Economic Census

		Survey Sample	China 3rd Economic Census
Sector	Agriculture	1%	
	Mining	2%	1%
	Manufacturing	74%	21%
	Wholesale	18%	26%
	Other	5%	51%
Ownership	SOE	7%	1%
	COE	4%	2%
	Foreign	14%	2%
	Private Domestic	75%	68%
Region	East	74%	55%
	Central	13%	20%
	West	11%	18%
	Northeast	3%	7%

Note: China 3rd Economic Census data are compiled by authors from the Third National Economic Census Main Data Report (第三次全国经济普查主要数据公报), published in 2014 and available at <http://www.stats.gov.cn>. The Report does not report agriculture as separate sector. The percentage of SOEs and COEs are very low according to the Report and the percentage of firms across the four ownership types do not sum up to 100. This is because the official classification used by China's Statistics Bureau defines SOEs and COEs narrowly and exclude firms with any type of shareholding. The CODIS survey, however, counts firms as SOE or COE as long as state or collective capital exceeds 50%. Since firm-level shareholding is not available in the census report, we cannot make the categorization of SOEs and COEs in the survey vs. the census comparable. The definitions of foreign and private domestic enterprises are similar across the two sources.



Table A2-1 Industry Distribution of Manufacturing Firms in 2014 CODIS vs. Economic Census

Manufacturing Industry Classification (制造业国民经济行业分类)				China 3rd Economic Census			Survey Sample		
2-digit industry code	Description	Description (Chinese)	Disadvantage	Number of establishments	Percent of establishments	Percent of establishments in disadvantaged industry	Number of establishments	Percent of establishments	Percent of establishments in disadvantaged industry
(1)	(2)	(3)	(5)	(7)	(8)	(9)	(10)	(11)	(12)
13	Agro-food processing	农副食品加工业	N	104000	4.6%	0.0%	29	6.5%	0.0%
14	Food Manufacturing	食品制造业	N	47000	2.1%	0.0%	19	4.3%	0.0%
15	Wine, soft drinks and refined tea manufacturing	酒、饮料和精制茶制造业	N	38000	1.7%	0.0%	8	1.8%	0.0%
16	Tobacco	烟草制品业	N	400	0.0%	0.0%	2	0.4%	0.0%
17	Textile	纺织业	N	108000	4.8%	0.0%	34	7.6%	0.0%
18	Garment and apparel	纺织服装、服饰业	N	121000	5.4%	0.0%	15	3.4%	0.0%
19	Leather, fur, feather and related products and footwear	皮革、毛皮、羽毛及其制品和制鞋业	N	56000	2.5%	0.0%	7	1.6%	0.0%
20	Wood processing and wood, bamboo, rattan, products	木材加工和木、竹、藤、棕、草制品业	N	70000	3.1%	0.0%	7	1.6%	0.0%
21	Furniture manufacturing	家具制造业	N	46000	2.0%	0.0%	7	1.6%	0.0%
22	Paper, pulp, and paper products	造纸和纸制品业	Y	54000	2.4%	2.4%	3	0.7%	0.7%
23	Printing and recorded media	印刷和记录媒介复制业	Y	67000	3.0%	3.0%	4	0.9%	0.9%
24	Culture, education, sports and entertainment products	文教、工美、体育和娱乐用品制造业	N	75000	3.3%	0.0%	27	6.1%	0.0%
25	Petroleum processing, coking and nuclear fuel processing	石油加工、炼焦和核燃料加工业	Y	7000	0.3%	0.3%	2	0.4%	0.4%
26	Chemical materials and chemical products	化学原料和化学制品制造业	Y	102000	4.5%	4.5%	31	7.0%	7.0%
27	Pharmaceutical	医药制造业	N	19000	0.8%	0.0%	10	2.2%	0.0%
28	Chemical fiber manufacturing	化学纤维制造业	Y	6000	0.3%	0.3%	1	0.2%	0.2%
29	Rubber and plastic products	橡胶和塑料制品业	N	139000	6.2%	0.0%	18	4.0%	0.0%
30	Non-metallic mineral products	非金属矿物制品业	N	213000	9.5%	0.0%	16	3.6%	0.0%

31	Ferrous metal smelting and rolling processing	黑色金属冶炼和压延加工业	N	37000	1.6%	0.0%	11	2.5%	0.0%
32	Non-ferrous metal smelting and processing	有色金属冶炼和压延加工业	N	26000	1.2%	0.0%	2	0.4%	0.0%
33	Fabricated Metal Products	金属制品业	N	191000	8.5%	0.0%	37	8.3%	0.0%
34	General equipment	通用设备制造业	N	217000	9.6%	0.0%	31	7.0%	0.0%
35	Specialty equipment	专用设备制造业	N	143000	6.3%	0.0%	41	9.2%	0.0%
36	Automobile	汽车制造业	Y	54000	2.4%	2.4%	28	6.3%	6.3%
37	Railwas, shipping, aerospace and other transportation equipment	铁路、船舶、航空航天和其他运输设备制造业	N	26000	1.2%	0.0%	8	1.8%	0.0%
38	Electrical machinery and equipment	电气机械和器材制造业	N	138000	6.1%	0.0%	33	7.4%	0.0%
39	Computer, telecommunications and other electronic equipment	计算机、通信和其他电子设备制造业	N	73000	3.2%	0.0%	9	2.0%	0.0%
40	Instruments Manufacturing	仪器仪表制造业	N	30000	1.3%	0.0%	5	1.1%	0.0%
41	Other Manufacturing	其他制造业	N	23000	1.0%	0.0%	0	0.0%	0.0%
42	Recycling	废弃资源综合利用业	N	9000	0.4%	0.0%	0	0.0%	0.0%
43	Metal products, machinery and equipment repair	金属制品、机械和设备修理业	N	13000	0.6%	0.0%	0	0.0%	0.0%
<b>All</b>				<b>2252400</b>	<b>100.0%</b>	<b>12.9%</b>	<b>445</b>	<b>100.0%</b>	<b>15.5%</b>

Note: Column (5) “disadvantage” refers to industries that are net importers. We calculate net import and export using OECD trade data: <http://stats.oecd.org/mei/default.asp?lang=e&subject=12&country=CHN>

### Appendix 3 Format of Survey Questions: Neutral vs. Campaign Language

The neutral presentation of the policy is embedded in a list of 19 economic policies broadly defined:

D6. Please evaluate how the following economic policies or trends impact your business:

	1=Very bad	2=Bad	3=Neutral	4=Good	5=Very good
1. China's accession to WTO	1	2	3	4	5
2. RMB's appreciation against the dollar	1	2	3	4	5
3. Maintaining a high interest rate	1	2	3	4	5
<b>4. Further relaxing FDI entry (rules)</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
5. Strengthening anti-corruption efforts	1	2	3	4	5
6. Further lowering import tariffs	1	2	3	4	5
7. Further lowering export tariffs	1	2	3	4	5
8. Signing FTA with Japan	1	2	3	4	5
9. Signing FTA with Korea	1	2	3	4	5
10. Progress in TPP negotiations	1	2	3	4	5
11. Developing Shanghai Free Trade Zone	1	2	3	4	5
12. State support of strategic industries	1	2	3	4	5
13. Industrial restructuring to reduce overcapacity	1	2	3	4	5
14. Accelerating state enterprise reform	1	2	3	4	5
15. Strengthening local fiscal autonomy	1	2	3	4	5
16. Growing middle class	1	2	3	4	5
17. Shifting development to less developed inland areas	1	2	3	4	5
18. Strengthening environmental regulations	1	2	3	4	5
19. Strengthening labor regulations	1	2	3	4	5

After answering 70 unrelated questions, respondents are presented with the following question:

**E6. *Zouchuqu* [outward FDI] and *yinjinlai* [inward FDI] are fundamental state policies. How does further opening *zhaoshangyinzi* [inward FDI] impact your business?**

1. Very bad      2. Bad      3. Neutral      4. Good      5. Very good

The survey was conducted in Chinese. The original Chinese text is as follows:

D6. 请评价以下经济政策动态对您的企业经营的影响:

	1=很不利	2=不利	3=无影响	4=有利	5=很有利
1. 中国加入世界贸易组织 (WTO)	1	2	3	4	5
2. 人民币对美元升值	1	2	3	4	5

3.维持相对较高的利率	1	2	3	4	5
<b>4.放宽外商投资准入</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
5.反腐倡廉力度加大	1	2	3	4	5
6.进一步降低进口关税	1	2	3	4	5
7.进一步降低出口关税	1	2	3	4	5
8.中日自由贸易协定的签订	1	2	3	4	5
9.中韩自由贸易协定的签订	1	2	3	4	5
10.跨太平洋伙伴关系(TPP)的推进	1	2	3	4	5
11.上海自由贸易区的建设	1	2	3	4	5
12.国家对战略性行业的扶持	1	2	3	4	5
13.产业结构调整,减轻过剩产能	1	2	3	4	5
14.加快国有企业体制改革进程	1	2	3	4	5
15.地方财税自主性加强	1	2	3	4	5
16.国内中等收入人群扩大	1	2	3	4	5
17.发展重心由沿海向欠发达地区转移	1	2	3	4	5
18.环境立法加强	1	2	3	4	5
19.劳动立法加强	1	2	3	4	5

**E6. “引进来”和“走出去”并重是基本国策。您认为我国进一步放开招商引资对您的企业总体经营的影响:**

1. 很不利      2. 不利      3. 无影响      4. 有利      5. 很有利

#### Appendix 4 Descriptive Statistics on Main Variables used in Empirical Models

Variable	Obs	Mean	Std. Dev.	Min	Max
Pleaser	528	0.52	0.50	0	1
FDI's Impact on Business (neutral wording)	543	3.23	0.89	1	5
FDI's Impact on Business (campaign language)	531	3.80	0.76	1	5
Comparative Disadv	601	0.37	0.48	0	1
ATFP	510	2.89	1.49	-5.73	8.76
Govt Contract	572	0.11	0.22	0	1
Manufacturing	601	0.74	0.44	0	1
Wholesale	600	0.18	0.38	0	1
Other Services	600	0.05	0.22	0	1
Mining	600	0.02	0.14	0	1
Agriculture	600	0.01	0.10	0	1
Central	601	0.13	0.33	0	1
Northeast	601	0.03	0.17	0	1
West	601	0.11	0.31	0	1
SOE	600	0.07	0.26	0	1
COE	600	0.04	0.20	0	1
Foreign	600	0.14	0.34	0	1
Employees (log)	569	5.22	1.83	0.00	10.00
Sales 2013 (log)	541	9.07	2.15	0.92	15.53
Paper Survey	601	0.29	0.46	0	1

Appendix 5 Additional Empirical Specifications

Table A5-1: Government Campaign and Shift of Firm Preferences toward Inward FDI  
(Models with Industry Fixed Effects)

	(1)	(2)	(3)	(4)	(5)	(6)
ATFP	-0.03** (0.01)		-0.03** (0.01)		-0.03** (0.01)	
Sales 2013 (log)		-0.02 (0.01)		-0.02 (0.01)		-0.02 (0.01)
SOEs	-0.16** (0.07)	-0.15** (0.06)	-0.18** (0.07)	-0.17** (0.06)	-0.15** (0.07)	-0.13** (0.06)
Foreign	-0.11* (0.06)	-0.12* (0.06)	-0.13* (0.07)	-0.15** (0.07)	-0.11* (0.06)	-0.12* (0.06)
COEs	0.17* (0.09)	0.17** (0.08)	0.17* (0.10)	0.17* (0.09)	0.18** (0.09)	0.18** (0.08)
Employees (log)	0.03** (0.01)	0.04*** (0.01)	0.03* (0.01)	0.04** (0.02)	0.02** (0.01)	0.04*** (0.01)
Ideology1			0.06 (0.07)	0.04 (0.07)		
Ideology2			-0.12** (0.05)	-0.13** (0.05)		
Paper					-0.08*** (0.03)	-0.08*** (0.03)
Constant	0.66*** (0.08)	0.63*** (0.08)	0.65*** (0.09)	0.63*** (0.09)	0.69*** (0.08)	0.66*** (0.08)
N	480	496	430	444	480	496
R-squared	0.45	0.45	0.44	0.44	0.46	0.45

Notes: OLS regression with the mean-differenced model. The dependent variable is a binary *pleaser* index. *Pleaser* is coded 1 if firms shift to a more positive preference in the campaign FDI question compared to the neutral FDI question; 0 if otherwise. All models include a full set of dummy variables for each of the five response categories that firms chose in the neutral FDI question. The coefficients of these dummy variables are not shown. Robust standard errors are reported in parentheses, clustered at the 2-digit industry level. \* significant at 10%, \*\* significant at 5%; \*\*\* significant at 1%.

Table A5-2: Government Campaign and Shift of Firm Preferences toward Inward FDI (Probit)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Comparative Disadv.	0.47** (0.20)	0.39* (0.21)	0.49** (0.21)	0.49** (0.20)	0.48** (0.21)	0.40* (0.22)	0.46** (0.21)	0.38* (0.21)
ATFP	-0.14*** (0.05)		-0.14*** (0.05)		-0.14*** (0.05)		-0.14*** (0.05)	
Sales 2013 (log)		-0.09* (0.05)		-0.09* (0.05)		-0.09** (0.04)		-0.09** (0.04)
SOEs	-0.66*** (0.23)	-0.60*** (0.21)	-0.61** (0.26)	-0.63** (0.25)	-0.61** (0.25)	-0.54** (0.23)	-0.62*** (0.24)	-0.56*** (0.21)
Foreign	-0.51** (0.25)	-0.54** (0.24)	-0.59** (0.28)	-0.62** (0.28)	-0.50** (0.24)	-0.52** (0.24)	-0.53** (0.25)	-0.56** (0.24)
COEs	0.61 (0.40)	0.61 (0.38)	0.59 (0.40)	0.58 (0.38)	0.68 (0.42)	0.67* (0.39)	0.63 (0.40)	0.63* (0.38)
Employees (log)	0.11** (0.05)	0.20*** (0.06)	0.11** (0.05)	0.19*** (0.06)	0.10** (0.05)	0.19*** (0.05)	0.10** (0.05)	0.19*** (0.06)
Manufacture	-1.00*** (0.19)	-1.07*** (0.17)	-0.91*** (0.19)	-0.94*** (0.19)	-1.09*** (0.20)	-1.15*** (0.18)	-1.14*** (0.23)	-1.21*** (0.21)
Wholesale	-1.64*** (0.17)	-1.71*** (0.16)	-1.53*** (0.19)	-1.68*** (0.18)	-1.71*** (0.17)	-1.75*** (0.16)	-1.83*** (0.22)	-1.87*** (0.19)
Other Services	-1.54*** (0.13)	-1.55*** (0.13)	-1.50*** (0.16)	-1.57*** (0.16)	-1.58*** (0.13)	-1.58*** (0.13)	-1.57*** (0.13)	-1.57*** (0.13)
Ideology1			0.13 (0.27)	0.09 (0.25)				
Ideology2			-0.61*** (0.22)	-0.64*** (0.21)				
Paper					-0.34*** (0.13)	-0.31*** (0.11)		
Central							-0.35** (0.16)	-0.28** (0.13)
Western							-0.10 (0.20)	-0.16 (0.20)
Northeast							-0.35 (0.60)	-0.36 (0.54)
Constant	1.42*** (0.48)	1.44*** (0.46)	1.30*** (0.50)	1.31*** (0.50)	1.63*** (0.47)	1.63*** (0.45)	1.69*** (0.54)	1.70*** (0.52)
N	432	445	387	398	432	445	431	444
Pseudo R-squared	0.31	0.31	0.31	0.31	0.31	0.31	0.31	0.31

Notes: Probit regression. The dependent variable is a binary *pleaser* index. *Pleaser* is coded 1 if firms shift to a more positive preference in the campaign FDI question compared to the neutral FDI question; 0 if otherwise. All models include a full set of dummy variables for each of the five response categories that firms chose in the neutral FDI question. Observations with *Neutral FDI Q*=1 or 5 are dropped because the outcome is predicted perfectly. The coefficients of these dummy variables are not shown. Robust standard errors are reported in parentheses, clustered at the 2-digit industry level. \* significant at 10%, \*\* significant at 5%; \*\*\* significant at 1%.

Table A5-3: Government Campaign and Shift of Firm Preferences  
Toward Inward FDI (DV: Pleaser Index)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Comparative Disadv.	0.34*** (0.08)	0.31*** (0.09)	0.33*** (0.09)	0.33*** (0.09)	0.35*** (0.08)	0.32*** (0.09)	0.34*** (0.08)	0.31*** (0.09)
ATFP	-0.04** (0.02)		-0.04** (0.02)		-0.05** (0.02)		-0.04** (0.02)	
Sales 2013 (log)		-0.03 (0.02)		-0.03 (0.02)		-0.03* (0.02)		-0.03 (0.02)
SOEs	-0.29** (0.13)	-0.27** (0.13)	-0.24* (0.12)	-0.23* (0.12)	-0.24* (0.14)	-0.22 (0.13)	-0.26* (0.13)	-0.25* (0.13)
Foreign	-0.32*** (0.08)	-0.30*** (0.08)	-0.33*** (0.09)	-0.31*** (0.09)	-0.30*** (0.08)	-0.28*** (0.08)	-0.32*** (0.07)	-0.31*** (0.08)
COEs	0.27* (0.14)	0.27* (0.14)	0.29* (0.15)	0.30* (0.15)	0.30* (0.15)	0.31** (0.15)	0.26* (0.14)	0.27* (0.14)
Employees (log)	0.05* (0.03)	0.09** (0.03)	0.05 (0.03)	0.08** (0.04)	0.04* (0.02)	0.08** (0.03)	0.05* (0.02)	0.08** (0.03)
Manufacture	-0.37*** (0.06)	-0.31*** (0.05)	-0.37*** (0.06)	-0.28*** (0.06)	-0.38*** (0.06)	-0.33*** (0.05)	-0.39*** (0.06)	-0.36*** (0.06)
Wholesale	-0.75*** (0.08)	-0.66*** (0.07)	-0.71*** (0.08)	-0.63*** (0.07)	-0.74*** (0.07)	-0.66*** (0.07)	-0.81*** (0.07)	-0.72*** (0.07)
Other Services	-0.78*** (0.05)	-0.69*** (0.04)	-0.76*** (0.06)	-0.67*** (0.06)	-0.76*** (0.05)	-0.68*** (0.04)	-0.77*** (0.05)	-0.69*** (0.05)
Ideology1			0.16 (0.10)	0.14 (0.09)				
Ideology2			-0.37*** (0.12)	-0.33** (0.13)				
Paper					-0.21*** (0.08)	-0.23*** (0.08)		
Central							-0.20* (0.10)	-0.16* (0.09)
Western							-0.07 (0.07)	-0.09 (0.08)
Northeast							-0.20 (0.24)	-0.26 (0.24)
Constant	0.99*** (0.19)	0.89*** (0.19)	0.99*** (0.22)	0.85*** (0.21)	1.07*** (0.18)	1.00*** (0.17)	1.09*** (0.19)	1.01*** (0.19)
N	480	496	430	444	480	496	479	495
R-squared	0.53	0.53	0.55	0.55	0.54	0.53	0.54	0.53

Notes: OLS regression. The dependent variable is a *pleaser index*, which is the difference between firm responses for the campaign FDI question and the neutral FDI question. All models include a full set of dummy variables for each of the five response categories that firms chose in the neutral FDI question. The coefficients of these dummy variables are not shown. Robust standard errors are reported in parentheses, clustered at the 2-digit industry level. \* significant at 10%, \*\* significant at 5%; \*\*\* significant at 1%.



## Appendix 6 Summary Results for Ideal Point Estimates

	N	c	First Dimension		Second Dimension	
			w1	R2	w2	R2
1.China's accession to WTO	542	3.868	-1.219	0.244	-0.067	0.244
2.RMB's appreciation against the dollar	543	2.508	-0.984	0.075	3.9	0.782
3.Maintaining a high interest rate	543	2.825	-0.931	0.077	3.238	0.636
4.Further relaxing FDI entry (rules)	543	3.232	-1.221	0.179	1.607	0.363
5.Strengthening anti-corruption efforts	543	3.958	-1.342	0.277	-0.844	0.343
6.Further lowering import tariffs	543	3.715	-1.481	0.272	0.062	0.272
7.Further lowering export tariffs	543	3.941	-1.495	0.285	-0.534	0.308
8.Signing FTA with Japan	543	3.576	-1.709	0.433	-0.453	0.452
9.Signing FTA with Korea	543	3.637	-1.789	0.489	-0.563	0.52
10.Progress in TPP negotiations	543	3.713	-1.785	0.512	-0.66	0.555
11.Developing Shanghai Free Trade Zone	543	3.552	-1.819	0.533	-0.336	0.544
12.State support of strategic industries	543	3.836	-1.851	0.522	-0.266	0.529
13.Industrial restructuring to reduce overcapacity	542	3.717	-1.943	0.538	-0.284	0.545
14.Accelerating state enterprise reform	543	3.575	-1.74	0.484	-0.328	0.494
15.Strengthening local fiscal autonomy	543	3.617	-1.752	0.477	-0.127	0.478
16.Growing middle class	543	3.565	-1.814	0.475	-0.169	0.477
17.Shifting development to less developed inland areas	543	3.587	-1.759	0.462	-0.306	0.47
18.Strengthening environmental regulations	543	3.634	-2.034	0.556	-0.208	0.559
19. Strengthening labor regulations	543	3.576	-2.032	0.56	-0.092	0.56

Note: Table above summarizes the loading of each of 19 policy issues on first and second dimension. High R-squares for the first dimension (e.g., issues such as signing FTA with Japan or Korea, industrial restructuring, and labor and environmental regulation) are concentrated in issues related to industrial and regulatory policies, and high additional R-square for the second dimension (e.g., RMB appreciation and FDI entry, of which R-square jumped up by more than 0.5) are concentrated in capital movement and monetary policy. "c" indicates mean coordinate and "w1" and "w2" are weights attached to for each of the policy issues.