Public Opposition to Foreign Acquisitions of Domestic Companies: Evidence from the United States and China

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The flow of capital across borders is one of the core subjects of International Political Economy research, but there has been little research into the determinants of support for and opposition to inward foreign direct investment (FDI) flows. Cross border investments are a growing area of international economic activity. Unlike trade, they are not governed by an international organization and hence countries have to bargain directly with one another, as the US and China are trying to do in their bilateral investment treaty (BIT). In order to study this topic, we embedded a conjoint experiment in a survey that we fielded in the United States and China. Our experiment asked respondents to evaluate hypothetical acquisitions of domestic companies by foreign firms, and produced several important results. First, reciprocity matters; respondents were consistently more likely to oppose foreign acquisitions when the foreign firm's home country does not provide reciprocal market access. Second, Chinese respondents were less opposed to foreign acquisitions of domestic firms than American respondents. Third, in both countries, economic factors had a smaller influence on the levels of opposition to foreign acquisitions than non-economic factors.

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INTRODUCTION

Recent research in International Political Economy (IPE) has sought to understand the determinants of support for international flows—like the flow of goods (e.g. Hainmueller & Hiscox 2006), foreign aid (e.g. Milner & Tingley 2013), and people across borders (e.g. Hainmueller & Hiscox 2010; Tingley 2013). Despite the fact that the flow of capital across borders is one of the core subjects of IPE research, however, there has been little research into the determinants of attitudes towards Foreign Direct Investment (FDI) (but see Scheve & Slaughter 2004; Pandya 2010). Moreover, the limited research that has been conducted on public support for FDI has not directly tested whether public support for FDI depends on the same factors that IR theorists, economists and legal scholars have theorized as driving countries' willingness to open their markets to other types of economic flows. Given that the US and China are trying to conclude an international agreement about foreign investment (BIT), understanding their domestic politics around such flows is important.

Most notably, one of the primary factors theorized as driving countries' willingness to open their markets is *reciprocity*. International relations scholars have long understood that reciprocity is an important driver of foreign policy generally, and of international economic policy specifically (Keohane 1986). Of course, academics are not the only ones who have recognized the importance of reciprocity in determining international economic policy. For example, former Secretary of Commerce Elliot Richards has argued that the reason it is important for the United States to welcome inward flows of FDI is that "[i]t is patently impossible to open doors for American business abroad while we slam shut the doors to foreign business in our own country" (Richards 1989). In other words, both scholars and policymakers believe that one of the primary reasons that states open their markets is to gain the rewards of reciprocal market access and to avoid the punishment of reciprocal market denial. Yet despite the importance of reciprocity in determining international economic policy, we are unaware of public opinion research in the IPE literature that has focused on it. Given that no international regime exists to regulate foreign investment, states have had to devise their own strategies and reciprocity may play an important role in this.

In this paper, we uses a series of survey experiments to evaluate the relative importance of factors—including reciprocity—that have been hypothesized as driving support for, and opposition to, inward foreign investment. Although the limited prior public opinion research has focused on foreign investments generally, we decided to focus on one type of inward foreign investments: Mergers & Acquisitions (M&As).[1] This is in part because we believe focusing on a specific type of foreign investment is likely to generate more concrete views than simply asking respondents about attitudes toward foreign investments generally. Given our decision to focus on a specific type of investment, we believe that it was logical to focus on M&As—as opposed to Greenfield investments—because we believe that these forms of investments are more likely to generate political opposition. Moreover, prior observational research has examined factors that influence political opposition to M&As (Tingley et al. 2015), which thus provides a series of testable hypotheses.

We fielded our survey in the United States and China. We chose these two countries for four reasons. First, the United States and China are the world's two largest recipients of inward flows of FDI (Feldman 2015). As a result, these are the two countries where it is arguably most important to understand opposition to foreign investment. Second, although the United States and China are both major recipients and providers of FDI, there is very little cross-investment between the two countries. In fact, recent research has suggested that only 1% of American FDI is invested in China, and only 3% of Chinese FDI is invested in the United States (Dollar 2015). Understanding public opposition to inward FDI flows in these two countries can thus help to explain the underinvestment between these two economic powers. Third, the United States is a democratic country that has relatively low barriers to foreign FDI, whereas China is a autocratic country that has relatively high barriers to foreign FDI. Since prior research has consistently found that democratic countries are more likely to receive inflows of FDI, but has disagreed over the reasons why (Pandya 2016), examining both countries allows us to contribute to an important debate on FDI flows. Fourth, the United States and China announced in March 2015 that they had largely completed the negotiation of a

[1] There are two basic types of FDI: M&As and "Greenfield" investments. The difference is that M&As investments focus on acquiring existing ventures, while Greenfield investments focus on starting new ones.

Bilateral Investment Treaty (BIT) to increase the reciprocal protections afforded to foreign investors (Hao 2015). Research on these attitudes in these two countries thus has the potential to influence important policy debates.

Our survey was fielded to a nationally representative sample of 2,010 adults in the United States and a stratified sample of 1,659 adults in China. The survey consisted of three parts. The first part asked respondents a number of questions about their general views on the impact of domestic firms being acquired by foreign companies. These questions allowed us to directly compare support for foreign acquisitions in the United State and China. The second part of the survey asked respondents whether they thought their government should oppose a series of hypothetical acquisitions of domestic firms by foreign companies. This part of the survey used a conjoint experimental design that allowed us to directly compare the relative influence of a number of factors previously theorized as driving opposition to foreign acquisitions. The third part of the survey used an experimental design to directly test the influence of reciprocity on support for foreign acquisitions.

The results of our surveys revealed several important patterns in the levels of support for and opposition to foreign acquisition of domestic firms. First, Chinese respondents were more supportive of foreign acquisitions of domestic firms than American respondents. More specifically, Chinese respondents were less likely than American respondents to think that foreign acquisitions either threaten national security or increase domestic unemployment. Second, reciprocity matters importantly in both countries. Respondents were consistently more likely to oppose foreign acquisitions when the foreign firm's home country does not provide reciprocal market access. Third, although learning that the foreign firm's home government guarantees market access marginally increased support for foreign acquisitions, learning that the foreign firm's home country prohibited market access resulted in dramatically increased opposition to potential foreign acquisitions. These results about reciprocity broadly parallel findings in other international issue areas such as climate politics, but are also consistent with findings from experiments in psychology and economics about interpersonal interactions. Fourth, in both the United States and China, economic factors had a relatively small impact on the levels of opposition to foreign acquisitions when compared to non-

economic factors. For example, learning that a foreign firm was targeting a domestic firm in an economically distressed industry increased opposition much less than learning that the foreign firm was targeting a firm in a national security sensitive industry.

This paper proceeds as follows. We first explain the motivation for our research, and then outline the six hypotheses that we tested in our survey experiments. Next, we describe our experimental design. After doing so, we present the results from our survey experiment. Finally, we discuss our results and conclude.

MOTIVATION & HYPOTHESES

Motivation

The flow of capital across borders is a core subject of international political economy, and as a result, a number of lines of research have examined international investment flows.[2] For example, there has been a considerable amount of research on the factors that make countries more likely to receive increased FDI flows (e.g. Pandya 2010; Büthe & Milner 2008). More specifically, political scientists studying this topic have focused on understanding the role that political institutions play in attracting FDI (e.g. Li & Resnick 2003). In addition to studying the determinants of FDI flows, researchers have also long examined the effects that FDI has on economic growth and development (e.g. Volker, Chase-Dunn, & Rubinson 1978; Jackman 1982; Aitken & Harrison 1999). More recently, scholars have begun to study why countries often oppose inward FDI (Pandya 2014), and attempts by foreign firms to aquire domestic firms specifically (Tingley et al. 2015). This research has found that non-economic considerations—like level of democratization or the national security sensitivity of the target industry—influence flows of inward FDI.

Although a large number of observational and theoretical studies have explored the political economy of investment flows, there have only been a handful of public opinion or experimental papers written on the topic. In one study, Scheve & Slaughter (2004) used surveys to show that British manufacturing workers reported lower job security when they worked in high FDI industries. In another study, Pandya (2010) used three years of public opinion data from 18 Latin American countries to show that

[2] For a comprehensive review of the political science literature on FDI, see Pandya (2016).

individual preferences towards FDI are a function of the distributional effects on income. Additionally, two recent working papers have used survey experiments to explore attitudes towards FDI. Jensen & Lindstädt (2013) conducted a number of surveys in the United States and United Kingdom to examine public support for inward foreign investment. Their study found, among other things, that the country that the foreign investment is from is a major determinant of opposition. In related work, Zhu (n.d.) studied attitudes towards FDI in China. Zhu found that attitudes towards investment in high-skilled and low-skilled sectors differ, and that individual attributes are an important predictor of attitudes towards both of these types of FDI.

These studies on the relationship between public opinion and foreign investment have generated a number of significant insights, but a number of important questions remain unanswered. First, these studies have focused on attitudes towards foreign investment generally, and have not studied the relationship between public opinion and foreign acquisitions of domestic companies. Investments made by foreign firms into domestic companies are both an important type of foreign investment, and also one that is perhaps more likely to generate political opposition. It is thus important that attitudes towards foreign acquisitions—rather than new investments that build facilities from the ground up, so called Greenfield investments—be independently studied. Second, the previous studies have only examined a few of the factors that have been hypothesized as influencing public opinion on foreign investments—like the individuals' skill level or the country the investment originated from—and have not yet examined a range of other important factors that have been hypothesized as influencing support for international economic flows—like concerns over reciprocity or the national security risk of the investment. Third, the research designs that have been used by previous studies do not allow for direct comparisons of the relative importance of the factors that influence support for FDI. Fourth, research has suggested that democratic countries are more likely to receive FDI, but there is considerable disagreement over why (Pandya 2016). Despite that fact, there has not yet been a unified effort to examine attitudes towards FDI across democratic and autocratic countries in a single study. By conducting a conjoint experiment in the United States and China, we are able to simultaneously test a number of hypotheses that have been identified as potentially driving views on international

economic flows, and consequently, address many of these important questions that have not been answered.

Core Focus: Reciprocity

A core interest of this project is to examine whether opposition to foreign acquisitions of domestic companies changes based on the level of *Reciprocity* the foreign government provides to domestic firms trying to conduct business within their territory.

Reciprocity has been posited as playing a crucial role in a broad array of fields from psychology to international relations. Within international relations, Robert Keohane most notably investigated the concept. Keohane argued that reciprocity is a fundamental concept for explaining state behavior, and that, under the right conditions, it can allow "cooperation to emerge in a situation of anarchy" (Keohane 1986, at 27). The basic reason is that even without hierarchical power structures, states can influence the actions of other states by reciprocally punishing or rewarding them, and that reciprocity thus can help enforce order within the existing structure of international relations. Reciprocity has most commonly been used to explain how the international trade system operates (Posner & Sykes 2013), but has also been used to explain why states comply with a wide range of international agreements.[3]

Despite the fact that reciprocity has long been theorized to be a fundamental driver of international relations and the fact that IR scholars have increasingly conducted public opinion research, reciprocity has only received limited attention in public opinion research in IR. The research that has been conducted, however, has found that public support for policies towards foreign countries changes based on whether those countries provide reciprocal benefits. For example, Tingley & Tomz (2014) found that reciprocity could effect attitudes towards climate change policy, and Chilton (2015) found that reciprocity may influence public support for complying with international legal obligations during the interstate conflicts.

In the case of foreign investment, research has documented the importance of reciprocity on the development of investment laws (Kang 1997; Crystal 2003; Tingley et

[3] For example, Morrow (2014) has argued that reciprocity largely explains compliance with the laws of war.

al. 2015). To our knowledge, however, previous public opinion research has not tested the effect of reciprocity on public opinion about foreign acquisitions of domestic companies. Our focus on reciprocity is thus important for a variety of reasons. It highlights the importance of institutional design features relevant to ongoing international negotiations. As with previous work on international climate politics (Bechtel & Scheve 2013; Tingley & Tomz 2014), reciprocity can help alleviate incentives to adopt strategies that undermine international cooperation. In the M&As case, countries overall might be better off if there were a free flow of capital. But just like with trade, there are incentives to adopt protectionist measures. As we discuss below, our findings about reciprocity have important implications for current negotiations between the United States and China on a BIT that would remove barriers to foreign investment, which in turn could lead to increased investment between these two major recipients and providers of FDI.

Additional Dimensions

Of course, reciprocity is not the only factor that might influence opposition to foreign acquisitions of domestic firms. Next we lay out five factors that previous research suggests might also have an influence on public opinion toward foreign acquisitions of domestic companies. These factors have all been identified by prior survey and observational research on attitudes towards international economic interactions generally, and foreign investment flows specifically.

First, we examine if the *Country* of origin of the foreign firm trying to acquire a domestic company influences public opinion about the transaction. Previous research has found that public attitudes towards a range of international economic activities change based on the foreign country involved. For example, Jensen & Lindstädt (2013) conducted survey research that found that American respondents were more open to foreign investments from certain countries (e.g. Americans were more receptive to foreign investments from Japan than China). Relatedly, Strezhnev (2013) and Umaña, Brenauer, & Spilker (2015) both found that support for preferential trade agreements changed based on whether the country is a democracy or autocracy. Li & Vashchilko (2010) showed that bilateral FDI flows are affected by national security concerns. We thus tested whether levels of opposition to foreign acquisitions of domestic companies

change based on whether the foreign firm was from China, Japan, or Saudi Arabia;[4] whether a country is democratic or not; or whether a country is a security or economic threat.

Second, we examine if the type of *Ownership* of the foreign firm influences public opinion about the acquisition of domestic companies. Previous research has suggested that American politicians are more likely to oppose foreign investments from state-owned enterprises (Tingley et al. 2015). This is perhaps because acquisition by state-owned enterprises are more likely to be viewed as negatively affecting economic or national security (Krugman 1994). As a result, we tested whether opposition towards foreign acquisitions of domestic companies changed based on whether the foreign firm was "privately owned" or "government owned."

Third, we examine if the domestic firm was in an industry that is sensitive for *National Security* influences public opinion about the acquisition of domestic companies. Exceptions that allow countries to suspend their commitments for national security reasons are common in international economic agreements. For example, the General Agreement on Tariffs and Trade (GATT) constrains a broad national security exception.[5] Moreover, previous research has shown that American politicians are more likely to oppose specific transactions when the target firm is in an industry that is important to national security (Tingley et al. 2015). We therefore tested whether opposition towards foreign acquisitions of domestic companies changed based on whether the foreign firm was in an industry that posed a "low" or "high" risk to national security.

Fourth, we examine if the *Firm Size* of the target firm influences public opinion about foreign acquisitions of domestic companies. It would be reasonable to believe that opposition to foreign acquisitions would be higher for large firms with national profiles. This could be the case, for example, if those firms are seen as being more important for the country's economic security or national identity. Relatedly, previous research has shown that American politicians are more likely to block specific transactions when the target firm has a value of over $200 million (Tingley et al. 2015). We therefore tested

[4] These three countries were selected for two reasons. First, foreign acquisitions from these countries have generated opposition in the United States (Tingley et al. 2015). Second, attitudes toward these countries have previously been examined in research on foreign investment generally (Jensen & Lindstädt 2013).
[5] Bilateral Investment Treaties commonly have national security exceptions (Zaring 2010).

whether opposition towards foreign acquisitions of domestic companies changed based on whether the target firm was a "small company based in your area" or a "large Fortune 500 Company."

Finally, we examine if whether the target firm's industry is in *Economic Distress* influences public opinion about foreign acquisitions of domestic companies. It has been previously theorized that opposition to foreign acquisitions of domestic firms is likely to be higher when the domestic firm has experienced an economic downturn relative to the rest of the country (Crystal 2003). Moreover, research has shown that American officials have specifically moved to block transactions when the targeted firms are experiencing economic distress and high rates of unemployment (Kang 1997; Tingley et al. 2015). We therefore tested whether opposition towards foreign acquisitions of domestic companies changed based on whether the target firm is in an industry that has "lower" or "higher" rates of unemployment than the national average.

While we are most interested in the role of reciprocity, a singular focus on this concept would miss alternative influences that might be more important to individual citizens. Furthermore, in the real world, any particular merger and acquisition attempt would come with a variety of information about the acquiring and target companies. Part of the research design discussed next lets us evaluate the impact of different types of reciprocity alongside these additional dimensions.

RESEARCH DESIGN

Subject Recruitment

Our survey was administered online to subjects recruited by Survey Sampling International (SSI). SSI conducts surveys for corporate and academic research in over 100 countries. The sample for the United States was designed to be representative of the adult population of Americans based on gender, age, ethnicity, and census region. The U.S. survey was specifically administered to a sample of 2,010 adults. The sample for China was also designed to be representative of the Chinese public by stratifying on gender, age, and region. The Chinese survey was administered to a sample of 1,659 adults. Both surveys were administered in the spring of 2015.

Survey Design

Our survey included three parts that were all designed to test different aspects of public responses to foreign acquisitions of domestic companies.[6] The first part of the survey asked all respondents four questions about their general attitudes towards acquisitions of domestic companies by foreign firms. The respondents were asked whether they thought foreign acquisitions of domestic firms helped or hurt national security, and also whether foreign acquisitions of domestic firms would create or destroy jobs. Additionally, the respondents were asked whether they would support an acquisition that resulted in the loss of jobs, and also whether they would support a transaction that would result in the creation of jobs. These questions were designed to allow us to directly compare the overall support for foreign acquisitions of the American and Chinese respondents.

The second part of the survey included a conjoint experiment. Conjoint analysis is a tool that was developed in marketing that has recently begun to be used in the social sciences (Hainmueller, Hopkins, & Yamamoto 2014). Conjoint analysis presents respondents with a profile or vignette where multiple attributes are randomly and independently varied. For example, respondents may be presented the biography of a hypothetical political candidate where features like the candidate's age, gender, profession, political positions, and party identification are randomly varied. The respondents are then asked to indicate their level of support for the profile (e.g. saying whether they would vote for the candidate based on the profile they just read). Each respondent is asked to evaluate several profiles or vignettes, and each time they are presented with a different random combination of attributes. For instance, the respondent

[6] It is worth noting three things about the design of our survey instrument. First, we designed the surveys fielded in the United States and China to be as comparable as possible. Due to legal restrictions on survey research in China, however, there were a few differences between the Chinese and American version of the surveys. Second, the order in which the subjects were asked the questions differs from the order in which we present the results here. In the actual survey, respondents were first presented with the conjoint element of the survey to reduce the risk of priming effects biasing the results of our primary analysis. In this paper, however, we begin with the general attitudes toward foreign acquisitions for the purpose of clarity. Third, our survey instrument also included a battery of standard demographic questions, as well as other questions on views towards international affairs.

will be asked to rate five hypothetical political candidates in a row, but each time the characteristics of the candidate will be changed.

There are at least six potential advantages of conjoint analysis (Hainmueller, Hopkins, & Yamamoto 2014). First, conjoint analysis improves causal inference because it is possible to identify the effect of factors on individual preferences without making functional form assumptions. Second, conjoint analysis allows researchers the ability to test many different hypotheses in a single research design. Third, conjoint analysis enhances realism by asking respondents to evaluate choices with multiple pieces of information, instead of traditional designs that attempt to isolate preferences along a single dimension. Fourth, conjoint analysis asks respondents to register a single behavioral outcome—like supporting or opposing a given policy—which makes it possible to evaluate the relative explanatory power of multiple theories. Fifth, conjoint designs give respondents multiple reasons to justify any policy decision. Sixth, conjoint analysis is an excellent way to evaluate policy designs because it makes it possible to predict which components of various policies are likely to have the most support. Moreover, in addition to these desirable properties, recent research has suggested that the realistic properties of conjoint analysis result in high degrees of external validity (Hainmueller, Hangartner, & Yamamoto 2015).

It is perhaps because of these desirable properties that conjoint analysis have recently gained traction in political science generally, and the study of international political economy specifically. For example, conjoint experiments have been used to study the factors that determine individual preferences on potential trade agreements (Strezhnez 2013; Umaña, Bernhauer, & Spilker 2015); the determinants of support for expanding immigration (Hainmueller & Hopkins 2015); and the types of countries that people prefer to send foreign aid to (Hansen et al. 2013).

Although conjoint analysis has been used to study the flow of goods, people, and aid, to our knowledge our experiment is the first to use a conjoint design to study the flow of capital. In our conjoint experiment, respondents were asked to evaluate five potential transactions where a foreign firm is proposing to buy a domestic company. We randomly varied features of each transaction that related to the six hypotheses that we previously

outlined. More concretely, respondents in the United States were presented with the following vignette:

> Company A is a company based in **[Country Treatment]** that is **[Ownership Treatment].** Company A is currently attempting to acquire an American company in an industry that is considered to pose a **[National Security Treatment]** risk to national security. The American company is a **[Firm Size Treatment].** The American company is in an industry that is experiencing **[Economic Distress Treatment]** than the American economy overall. The country that Company A is based in currently has **[Reciprocity Treatment]** on American companies acquiring corporations in the same industry.

The text for the six-bolded treatments was randomly and independently varied. The options for each of the six treatments are presented in Table 1.[7] In total, by randomly varying all of the options in Table 1, respondents in the United States were asked to evaluate 576 different company profiles.

[Table 1 Here]

Although we varied six features of the transactions in the survey fielded in the United States, we were only able to vary four features of the transactions in the survey fielded in China. This is because we could not gain legal approval to ask Chinese respondents questions that highlighted rivalries with foreign countries or national security concerns. Given this constraint, Chinese respondents were given an amended version of the vignette that did not contain the **Country Treatment** or the **National Security Treatment**.

After reading about the potential transaction, the respondents were asked whether their government should prevent the proposed acquisition. Respondents were only given two options to register their opinion: yes or no. The respondents were then asked to evaluate four more potential transactions, but each one presented the respondents with a different random set of treatments.

The third part of the survey asked an experimental question to directly test the effect of reciprocity on the respondents' views towards foreign investment more

[7] Table 1 presents the six treatments in the order we previously outlined our hypotheses.

generally. In this question, the respondents were told that their country is considering changing their policies on the purchase of domestic companies by foreign firms. The respondents were then randomly told that a foreign country has recently made one of five changes in their policies towards acquisitions of their companies. Specifically, the respondents were randomly told that their government had made it either: (1) "much harder", (2) "somewhat harder", (3) "no change in its process", (4) "somewhat easer", or (5) "much easier" for U.S. (Chinese) companies to buy companies in their country. The respondents were then asked whether the United States (China) should make their policies harder or easier for companies from that foreign country to acquire domestic companies in their country.

RESULTS

General Views on Foreign Acquisitions

[Figure 1 Here]

One part of our survey asked respondents their general views on the acquisition of domestic firms by foreign companies. Figure 1 presents the results of two of the questions designed to elicit these views. First, we asked respondents whether they thought that foreign acquisitions of domestic firms helped or hurt national security. As Figure 1 shows, respondents in China thought that foreign acquisitions were likely to hurt national security. Specifically, on a scale where 0 is the view that foreign acquisitions help national security and 1 is the view that foreign acquisitions hurt national security, the mean response for Chinese respondents was 0.58. American respondents also thought that foreign acquisitions were likely to hurt national security, but at a significantly higher rate than Chinese respondents. The mean response for American respondents was 0.67.

Second, we asked respondents whether they thought that foreign acquisitions of domestic firms would create or destroy jobs. Chinese respondents thought that foreign acquisitions were likely to create jobs in China. On a scale where 0 is the view that foreign acquisitions create jobs and 1 is the view that foreign acquisitions destroy jobs, the mean response for Chinese respondents was 0.30. In contrast, American respondents thought that foreign acquisitions were likely to destroy jobs in the United States. The

mean response for American respondents was 0.61. Again these differences were statistically significant across the countries.

There are two additional noteworthy things about the results in Figure 1. First, Chinese respondents were less likely to think that foreign acquisitions would have negative consequences for both national security and job creation. Second, respondents in both countries were more likely to think that foreign acquisitions are harmful to national security than they are for job creation. This perhaps explains why legal restrictions on foreign acquisitions are usually framed in national security terms, even if the underlying transactions do not pose a threat to national security (Tingley et al. 2015).

We also asked respondents whether they would support the foreign acquisition of a domestic firm when the specific transaction would create jobs, and also when the specific transaction would decrease jobs. The results from these two questions are presented in Figure 2.

[Figure 2 Here]

When told that the foreign acquisition would increase domestic jobs, respondents in China were supportive of the transaction. Specifically, on a scale where 0 is not supportive and 1 is supportive, the mean response for Chinese respondents was 0.62. American respondents, on the other hand, were still slightly against foreign acquisitions even when they were told that it would create jobs in the United States. The mean response for American respondents was 0.44.

When told that foreign acquisition would decrease domestic jobs, respondents in both China and the United States were not supportive of the transaction (although Chinese respondents were still more supportive than American respondents). Chinese respondents had a mean response of 0.25, and American respondents had a mean response of 0.11.

Taken together, the results from the first part of our study reveal important facts about support for foreign acquisitions of domestic firms. First, Chinese respondents were generally more supportive of foreign acquisitions of domestic firms than American respondents. Second, respondents in the United States felt that foreign acquisitions hurt national security and decreased jobs, and were against transactions even when they were

directly told that it would create jobs in America. In contrast, respondents in China did feel that foreign acquisitions would threaten national security, but were supportive of transactions when they were told that it would create jobs in China.

Conjoint Analysis

We also presented respondents with a conjoint experiment that asked them to evaluate hypothetical potential acquisitions of domestic companies. To analyze the results of this experiment, we use a statistical approach developed by Hainmueller, Hopkins, & Yamamoto (2014). As they show, since the attributes are randomly assigned in a conjoint analysis, it is possible to compare the relative importance of a given attribute with another given attribute by comparing their means. For example, because of random assignment, profiles that state that the foreign firm is "government owned" will have the same distribution of other attributes—like the level of economic distress or degree of reciprocity—as the "privately owned" profiles. As a result, to compare the relative importance of "government owned" and "privately owned" firms, we can simply take the difference in means between these two profiles. Hainmueller, Hopkins, & Yamamoto (2014) describe this quantity of interest as the Average Marginal Component Effects (AMCEs) and demonstrate how it can be non-parametrically identified when the attributes are independently randomized and the outcome of interest is binary. Both of those requirements are true of our experimental design.

Figure 3 presents the result for American respondents. The dots are point estimates, and the lines represent 95% confidence intervals for the influence that each attribute has on the probability that respondents would support the government blocking a proposed foreign acquisition of an American company. The option listed first for each treatment is our baseline categories, and thus do not have a point estimate or confidence interval. These serve as the benchmark for our estimates for the other attributes in a given category. For example, the baseline for the Country Treatment is a "foreign country." Figure 3 thus shows that when a firm is from "a country [that] is a security threat to the United States," respondents are 12% more likely to support the government blocking the acquisition than compared to the baseline category (that is, when the firm is from a "foreign country").

[Figure 3 Here]

Figure 3 reveals that levels of reciprocal market access in the foreign firms' home country have a substantial impact on levels of support for their own government blocking a target acquisition. Compared to a baseline of there being no restrictions, opposition increases by 12% when the foreign firms' home country has "a number of restrictions" on American firms acquiring their companies, and by 17% when the home country has "an absolute prohibition" on American firms acquiring their companies. Interestingly, although market access restrictions substantially increased opposition, support only increased by 2% when the foreign firms' home country had signed a treaty providing American companies the ability to acquire their companies.

Figure 3 also confirms prior research suggesting that the characteristics of the country of origin have a substantial effect on opposition to foreign investment (Jensen & Lindstädt 2013). Here the omitted category is just a generic "foreign country" and our estimates are relative to this baseline. Our results suggest respondents are 12% more likely to oppose an acquisition by firms from countries that are threats to the United States, and 15% more likely to oppose an acquisition when the firm is from a country of both a security and economic threat. Interestingly, firms that are from countries that are just economic threats—and not security threats—only have a 3.5% increased opposition over the baseline. Additionally, support increases by 7.5% when the firm is from a democratic country and decreases by 3% when the foreign firm is from a non-democratic country.

In addition to testing types of countries, we also asked about three specific countries: China, Japan, and Saudi Arabia. As previously noted, we selected these countries because proposed acquisitions of American companies by firms from these countries have generated controversy in the United States, and these three countries have all been the subject of previous survey research. Respondents in our sample were 5% more likely to oppose an acquisition by firms from China, 4% less likely to oppose an acquisition by firms from Japan, and 4.5% more likely to oppose an acquisition by firms from Saudi Arabia being blocked. Our results are consistent with previous research suggesting that Americans are more opposed to investments from China and Saudi

Arabia than generic "foreign countries", but more receptive to investments from Japan than generic "foreign countries" (Jensen & Lindstädt 2013).[8]

Figure 3 also reveals that the ownership of the foreign firm has minimal impact on support for blocking potential acquisitions. Opposition only increases by 2% when the foreign firm is government owned compared to privately owned firms. Unlike the ownership of the foreign firm, the national security risk of the industry being targeted had a large influence on responses. More specifically, opposition increased 18% when the targeted companies are in industries where the national security risk was high compared to industries where the national security risk was low.

In contrast to the large effect of the national security treatment, two treatments that are proxies for the economic impact of the transaction had relatively small effects on respondents' views. Opposition only increased by 2% when the foreign firm targeted a company that is a national Fortune 500 company compared to small, local companies. Additionally, support increased by 2% when the foreign firm targeted a company that is in an industry with higher rates of unemployment compared to companies in industries with lower rates of unemployment than the national average.

[Figure 4 Here]

In addition to conducting a conjoint analysis on American respondents, we also fielded a conjoint experiment in China. The results of that experiment are presented in Figure 4.[9] For the reciprocity treatment, the Chinese respondents' reactions were comparable to the American respondents' reactions. Once again we use a baseline of no restrictions in order to compare the effects of reciprocity. For the Chinese respondents, oppositions increases by 8% when the foreign firms' home country has "a number of restrictions" on Chinese firms acquiring their companies, and by 20% when the home country has "an absolute prohibition" on Chinese firms acquiring their companies. As

[8] There are several differences between the way Jensen & Lindstädt (2013) asked this question and our survey: (1) they did not use a conjoint design which prevented isolating the effect of the country of origin and other related factors; (2) they did not ask about all three countries in the same survey; and (3) they asked about investment generally and not foreign acquisitions of domestic firms.

[9] As previously noted, legal restrictions prevented us from including two of the treatment conditions in our Chinese survey. Although we were not permitted to include the Country and National Security treatment conditions, we still were able to present hypothetical foreign acquisitions to Chinese respondents that varied the Reciprocity, Ownership, Firm Size, and Economic Distress treatments.

with the American respondents, opposition decreased by 5% when the foreign firms' home country had signed a treaty providing Chinese companies the ability to acquire their companies. These results reveal that reciprocity is a major concern for both American and Chinese respondents.

The results for the Ownership treatment were also similar to the American sample: whether the foreign firm was privately or government owned had little impact on levels of support. In fact, opposition did not increase in a statistically significant way when the foreign firm was government owned. In contrast, the size of the firm being targeted did impact the levels of opposition. Opposition increased by 11% when the foreign firm targeted a company that is a large national company compared to a small, local company. Moreover, like with the American respondents, supported increased by 7% when the foreign firm targeted a company that is in an industry with high rates of unemployment compared to companies in industries with low rates of unemployment.

Reciprocity

Figures 3 and 4 show a strong effect of reciprocity: acquisitions by firms from countries with restrictions on acquisitions are especially opposed. In our U.S. survey, the size of these effects paralleled the effect sizes seen in the contrast between a "foreign government" and a "foreign government that is both a security and economic threat" for the Country treatment. In our Chinese survey, the effect of an "absolute prohibition" option for the reciprocity treatment was the largest single effect. However, it is interesting to note that responses to a positive reciprocal movement—signing a treaty to eliminate barriers—only marginally increased support for acquisitions.

To further probe these results, our survey included a separate experimental question focused on reciprocity. The reason for including this question is that our conjoint analysis tested the importance of reciprocity on respondents' support for blocking a specific transaction involving a single firm, but we also wanted to measure the importance of reciprocity on levels of support for broader restrictions on foreign acquisitions. Furthermore, we also wanted to frame government decisions in an active

way, by saying that the foreign government had changed (or not changed) its reciprocity policy.

[Figure 5 Here]

Figure 5 presents the American respondents' responses to the experimental reciprocity question. Each horizontal line represents a different level of restriction that respondents were randomly told the foreign country had recently implemented. The scale for the x-axis places responses on a scale from whether respondents thought the U.S. should make market access in America "Much Easier" (set at 0) or "Much Harder" (set at 1) for firms from the foreign country to acquire American companies. The dots represent the mean responses for each experimental treatment, and the lines represent the 95% confidence interval for the responses.

As Figure 5 clearly shows, reciprocal market access has a significant impact on the American respondents' views about how open the United States should be to foreign investment. When a foreign country has made it much harder for American companies to acquire their domestic firms, the mean response was 0.77. On the other end of the spectrum, even when the foreign country has made it "Somewhat easier" or "Much easier" for American firms to acquire their companies, American respondents still were more supportive of restricting access than increasing it. Specifically, both treatments had mean responses of nearly 0.60. Interestingly, the changes from "made much harder" to "made somewhat harder" produced different results, but a significant shift from "made somewhat easier" to "made much easier" was absent. While individuals on average rewarded improvements in bad behavior, there was no additional reward for improving already good behavior.[10]

[Figure 6 Here]

Figure 6 presents the Chinese respondents' responses to the experimental reciprocity question. There are several things worth noting about the results in Figure 6. First, for all five treatment conditions, Chinese respondents are less supportive of

[10] This is in contrast to some of the results in Tingley & Tomz (2014), which focused on similar reciprocity questions but related to carbon emissions.

increasing investment restrictions than the American respondents. As we will discuss bellow, this finding could be driven by Chinese respondents being more open to foreign investment than Americans generally, or instead driven by the reality that the baselines for the respondents are very different because China restricts foreign acquisitions of domestic companies more than the United States does. Second, as in the U.S. case, positive policy changes produce more moderate responses than negative changes. While individuals in China differentiated between "Made somewhat easier" and "Made much easier", this was smaller compared to conditions where the other country had made things harder. Further, the deviation from the baseline of no change was smaller in the case of positive changes versus negative changes.

Follow-Up Experiment on Reciprocity

The results from both our conjoint analysis and experimental reciprocity question suggested that respondents were more willing to punish negative policy changes than they were to reward positive policy changes. This finding is broadly consistent with the findings of experimental economics where "[t]here also seems to be an emerging consensus that the propensity to punish harmful behavior is stronger than the propensity to reward friendly behavior" (Fehr & Gächter 2000). It is possible, however, that this finding may be driven by beliefs about prior levels of market access. For example, if American respondents believed that the U.S. investment policies were already dramatically more open than foreign governments, they may consequently not feel the need to make the U.S. more open to foreign investment as a result of a foreign state opening up their own markets. In other words, beliefs about the current "level" of market access may influence willingness to offer positive reciprocity.

To test this possibility, we conducted a follow up experiment specifically designed to evaluate the effects of "levels" of prior market openness on positive and negative reciprocity. To do so, in June 2015 we fielded a survey to 838 respondents in the United States recruited through Amazon's Mechanical Turk service. In this experiment, respondents were told "[o]n a scale of 0 to 10, where 0 is no restrictions and 10 is an absolute ban on foreign ownership, in the past, Country A has had a score of **[Past Treatment]** for the ability of U.S. companies to buy companies in Country A. Today this

country is now a [**Present treatment**].” For both the Past Treatment and Present Treatment, respondents were randomly told that the levels were 6, 3, or 0. In other words, we had nine total treatment conditions. We then told the respondents that the U.S. is currently a 3 on this scale, and then asked respondents whether the U.S. should make it easier or harder for companies from this country to buy American companies. Figure 7 presents the results of this experiment.

[Figure 7 Here]

The horizontal axis of Figure 7 runs from 0 (make much harder) to 1 (make much easier). The vertical axis has each of the different treatment conditions. Each condition first lists that country’s score in the past and then the present score. For example, “3-6” means the country was previously a 3 but is now a 6. In other words, this means the country has increased restrictions.

First, note that when the other country was at the same level as the U.S. in both the past and present (“3-3”), the mean response was that the U.S. should make no change to its current policy. Second, the highest levels of support for the U.S. opening its market further are cases where the other country is currently at the most open level of “0”. Likewise, the lowest levels of support correspond to where the country currently has the highest score of a “6”.

Our focus, though, is on understanding the impact of either positive or negative moves by the other country. We want to understand if host countries that “make their policies worse” generate greater changes in preferred policies in the home country compared to host countries that “make their policies better”.

To do this, we calculate a set of differences utilizing the baseline “3-3” level that lets us answer this question. First, we compare the absolute difference between “3-3” and “6-0” (the latter being a country that was more closed than the U.S. but now is more open—i.e., a positive movement) to the absolute difference between “3-3” & “0-6” (the latter being a country that was more open than the U.S. but now is more closed—i.e., a negative movement). Which difference is greater? If it is the former, then this is evidence that positive reciprocity is more powerful. If the latter is greater, then negative reciprocity is more powerful. If they are equal, then both forces are equally important. To

statistically test this, we estimate a regression model with all the treatment conditions, cluster the standard errors at the individual level, and then difference the coefficients appropriately. In the end we get a difference in absolute differences, whereby a negative value indicates greater negative reciprocity effects, and a positive value indicates greater positive reciprocity effects. We then repeat the same process for the two other contrasts available in our design: difference between "6-3" & "3-6" or between "3-0" & "0-3".

[Figure 8 Here]

These results are plotted in Figure 8 with accompanying 95% confidence intervals. In two out of three cases ("6-3" & "3-6" and "6-0" & "0-6"), the estimated effect is negative, indicating that the influence of negative reciprocity was greater in magnitude compared to positive reciprocity. The "3-0" and "0-3" case had a positive effect, though its effect was smaller in absolute magnitude than the other two cases. While the results are mixed, the majority of cases once again show a greater role for negative reciprocity, which is consistent with previous findings in other empirical domains discussed above. Respondents seem willing to punish others for bad behavior but not as willing to reward good behavior. This may help restrain countries from adopting bad policies, but it seems less likely to induce them to adopt better ones.

CONCLUSION

The results from our surveys suggest several important findings about individual attitudes towards foreign acquisitions of domestic firms. First, respondents from China were consistently less likely to oppose foreign acquisitions of Chinese firms than respondents from the United States were to oppose foreign acquisitions of American firms. This fact is interesting because the United States currently has fewer restrictions on foreign investments than China does. There are several possible explanations for this finding. For one, respondents in China might be more concerned with generating foreign investment and maintaining economic growth, and as a result, be less opposed to foreign firms acquiring domestic industries. Alternatively, the fact that there are currently greater restrictions on foreign investments in China than the United States might mean that respondents are simply making their decisions from different baselines. Simply put,

Chinese respondents may want their government to block fewer transactions and American respondents may want their government to block more, but this does not necessarily mean that they prefer dramatic differences in the overall levels of government restrictions on foreign investments. More research will have to be done, however, to examine this finding and evaluate the potential mechanisms that could explain it.

Second, the results of our surveys suggest that reciprocity has a major influence on opposition to foreign acquisitions of domestic firms. When a foreign firm's home country restricts—or completely prohibits—investments from the respondents' country, respondents were dramatically more likely to oppose potential transactions. This was true in both our conjoint analysis and our additional experiment that focused on reciprocal market access. This result is consistent with findings in other issue areas that reciprocity is an important driver of public opinion about international relations (Tingley and Tomz 2014; Chilton 2015), and also suggests that international negotiations to eliminate market access restrictions, which tend to require reciprocal policy modifications, may reduce opposition to foreign investments.

Third, economic factors had a relatively small impact on opposition to foreign acquisitions compared to non-economic factors in both the United States and China. Specifically, the ownership type of the foreign firm, the size of the foreign firm, and levels of unemployment in the target industry all had a relatively small impact on the levels of opposition to the foreign acquisition of domestic firms. In contrast, the country the investment is from, the level of national security risk, and the level of reciprocity were comparatively large factors in generating opposition to potential transactions. These findings are perhaps consistent with the fact that the primary legal restrictions on foreign investments (at least in the United States) are based on national security concerns (Zaring 2010).

These results have several important implications for future research and international economic policy. First, our results suggest that efforts to understand international investment flows should continue to explore the importance of non-economic factors. Although respondents did express concerns that foreign acquisition of domestic firms could negatively affect local jobs, respondents also opposed transactions based on the county of origin and concerns over reciprocal market access.

Second, although there were many similarities in the answers given by Chinese and American respondents, our results suggest that there may be important differences between the views of Chinese and American respondents. This suggests that efforts to understand the relationship between public opinion and international relations should increasingly recognize that there may be heterogeneous views across countries, and scholars should thus attempt to conduct research in multiple countries. As our experiment helps to demonstrate, improvements in survey technology and lower costs of subject recruitment should make this increasingly possible.

Finally, our results show that public attitudes are changed based on policies towards FDI. This result has important implications for current economic negotiations between the United States and China. As previously noted, even though the United States and China are the top two destinations for FDI in the world, there is relatively little cross-investment between these two countries (Dollar 2015). Although there are a number of economic and political explanations for this fact (Feldman 2015), our research suggests that current investment negotiations between the United States and China may have potential to increase FDI flows between these two countries. If a Bilateral Investment Treaty were to lower reciprocal barriers to foreign investment, this in turn may reduce opposition to specific foreign investments. If this were to happen, it could then reduce pressure on government officials to block potential foreign acquisitions of domestic firms when there are neither economic nor national security concerns at play. In short, reducing barriers to foreign investment may help to increase support for foreign acquisitions of domestic firms.

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Table 1: Treatment Options (as presented to U.S. respondents)

Treatment	Options
Reciprocity	• no restrictions on American companies acquiring corporations • a number of restrictions on American companies acquiring corporations • an absolute prohibition on American companies acquiring corporations • signed a treaty that allows American companies to acquire corporations
Country (*)	• a foreign country • a country that is a security threat to the United States • a country that is an economic competitor and security threat to the United States • a country that is an economic competitor to the United States • a democratic country • a non-democratic country • China • Japan • Saudi Arabia
Ownership	• privately owned • government owned
National Security (*)	• low • high
Firm Size	• small company based in your area • national Fortune 500 company
Economic Distress	• lower rates of unemployment • higher rates of unemployment

* Indicates that this treatment was not presented to respondents in China.

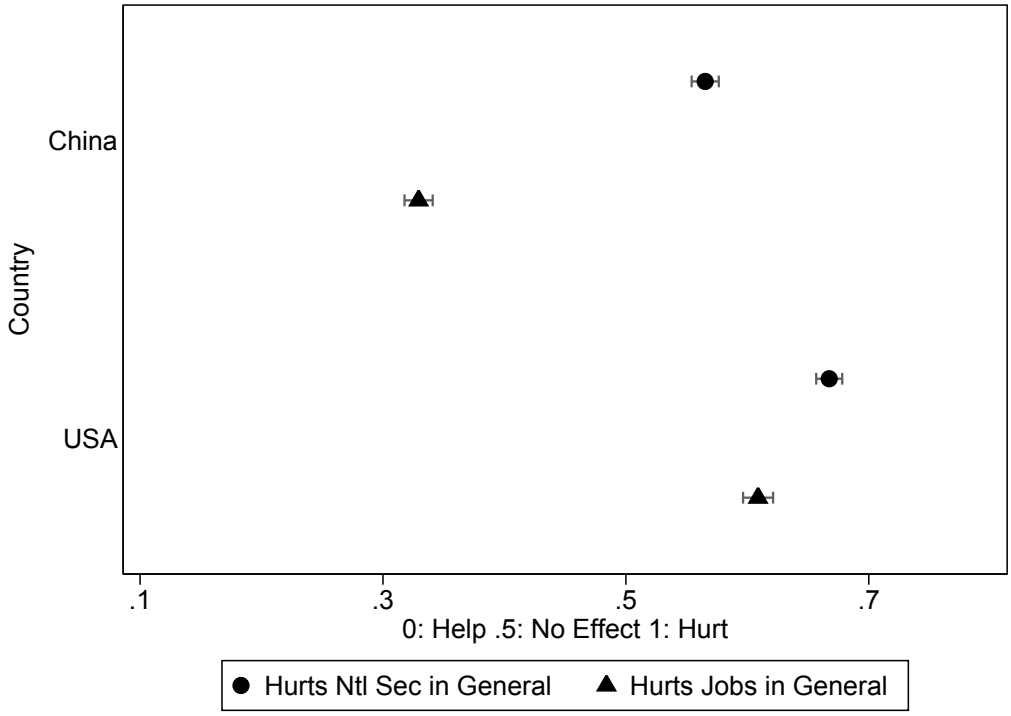

Figure 1: Responses to whether a foreign acquisition of a company in respondent's country in general helps or hurts national security or jobs. Responses broken out by country of the respondent. Horizontal lines indicate 95% confidence intervals.

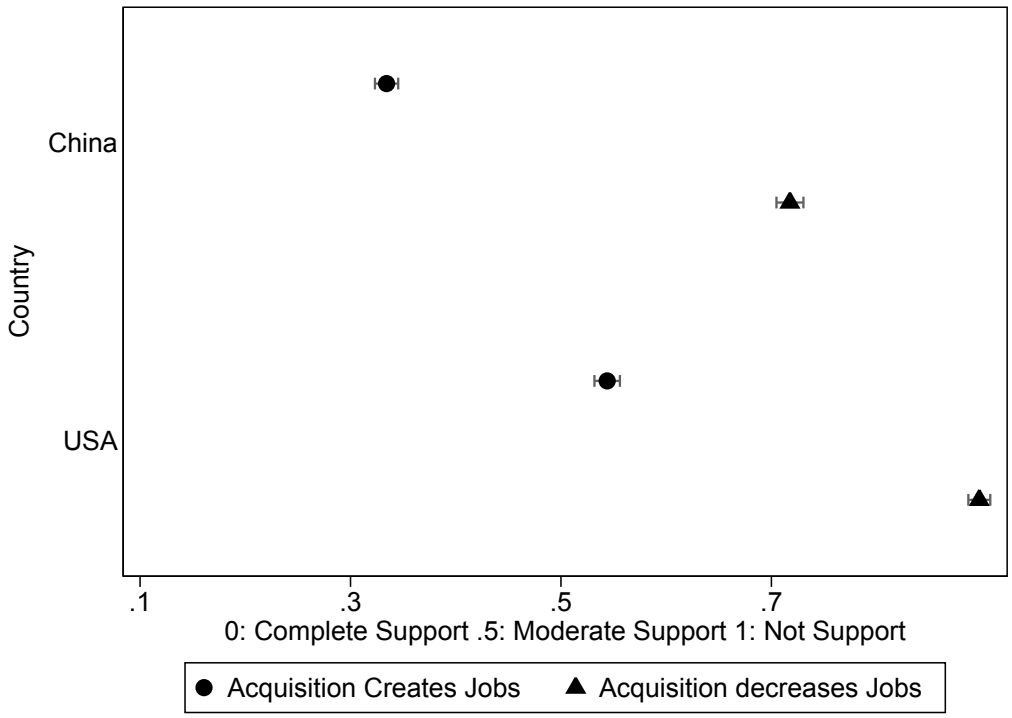

Figure 2: Responses to whether a foreign acquisition of a company in respondent's country, that either creates jobs or decreases jobs, is opposed or supported. Responses broken out by country of the respondent. Horizontal lines indicate 95% confidence intervals.

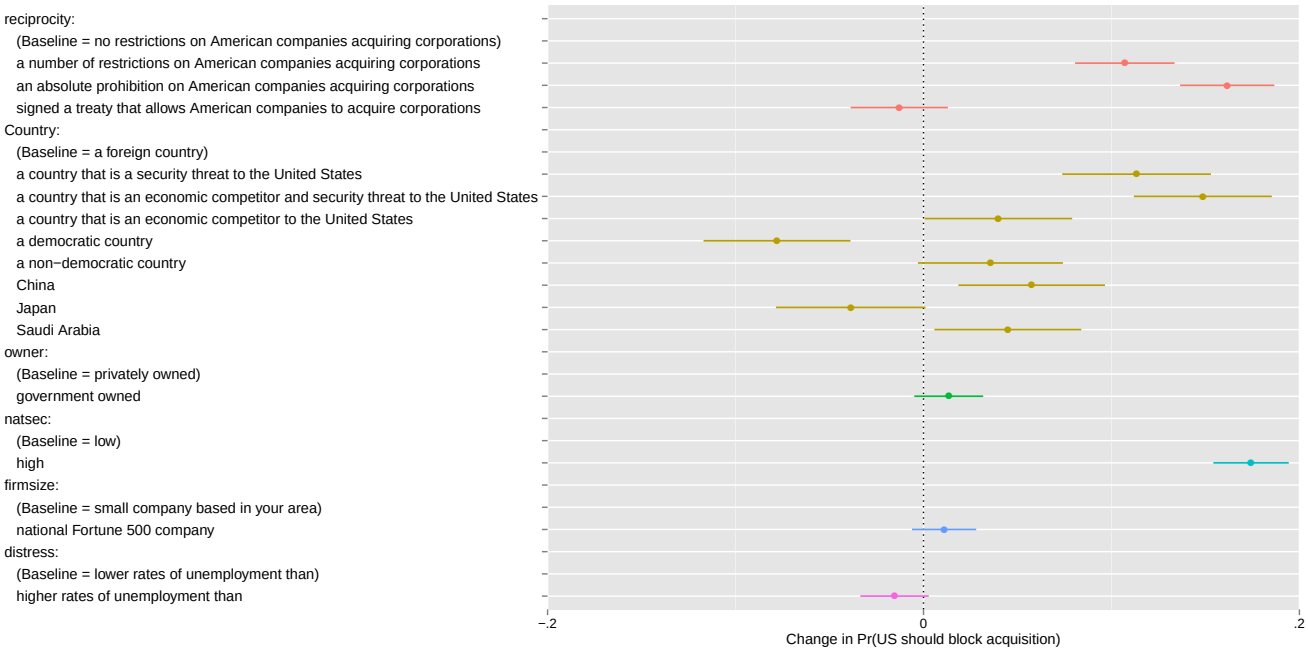

Figure 3: US conjoint experiment results. Figure plots the average marginal component effect relative to baseline conditions for each treatment condition. Standard errors clustered at individual level. Horizontal lines indicate 95% confidence intervals.

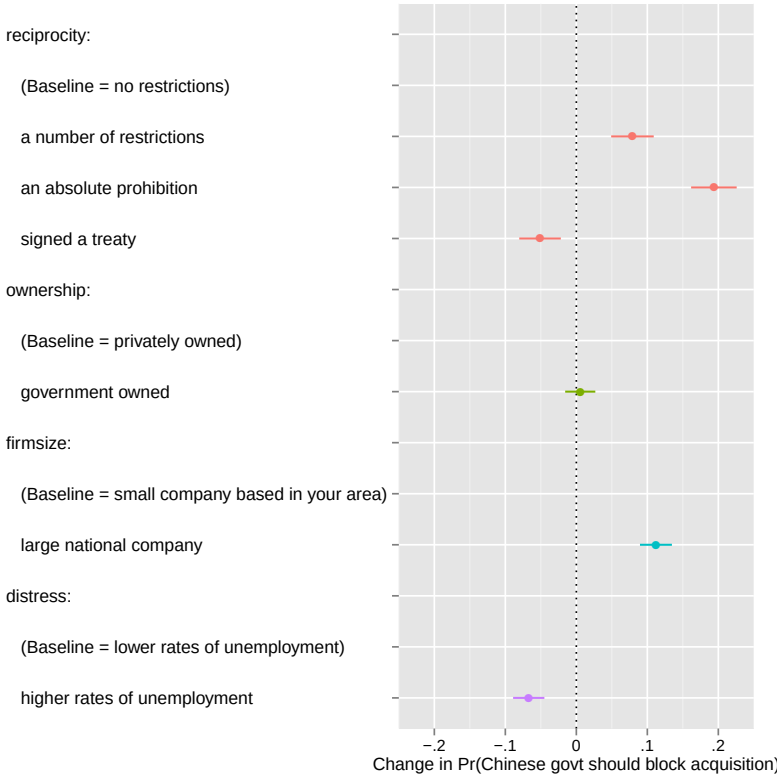

Figure 4: Chinese conjoint experiment results. Figure plots the average marginal component effect relative to baseline conditions for each treatment condition. Standard errors clustered at individual level. Horizontal lines indicate 95% confidence intervals.

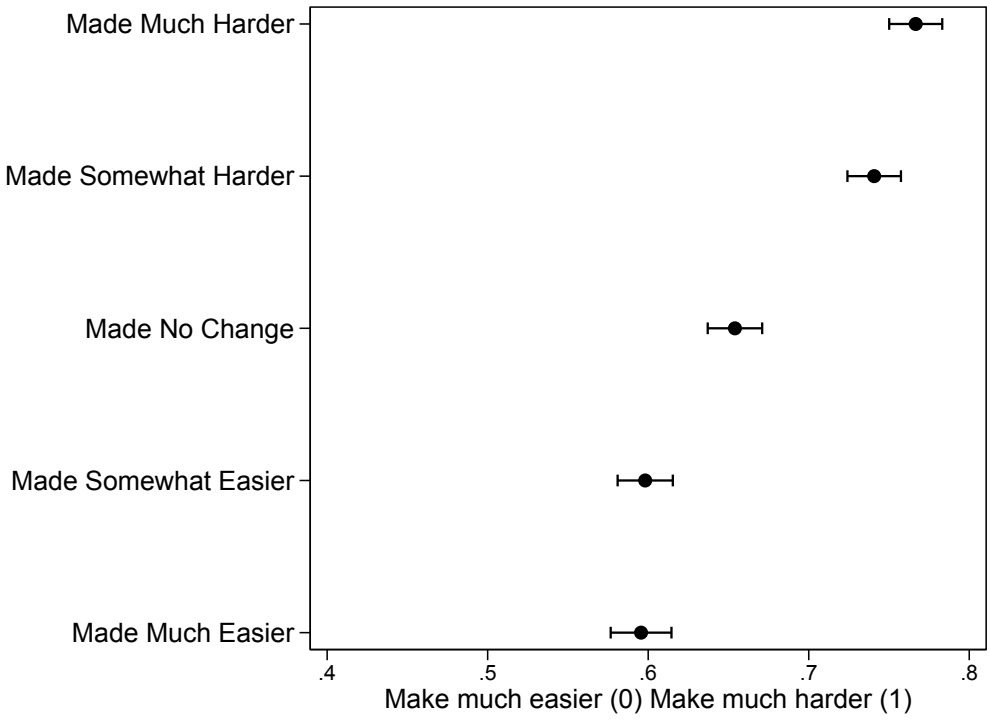

Figure 5: Reciprocity question with US respondents. Subjects told that a country has recently made some change to their policy (different horizontal lines) for how easy it is for a foreign firm to buy a domestic firm. What should the response of their own country be? Horizontal lines indicate 95% confidence intervals.

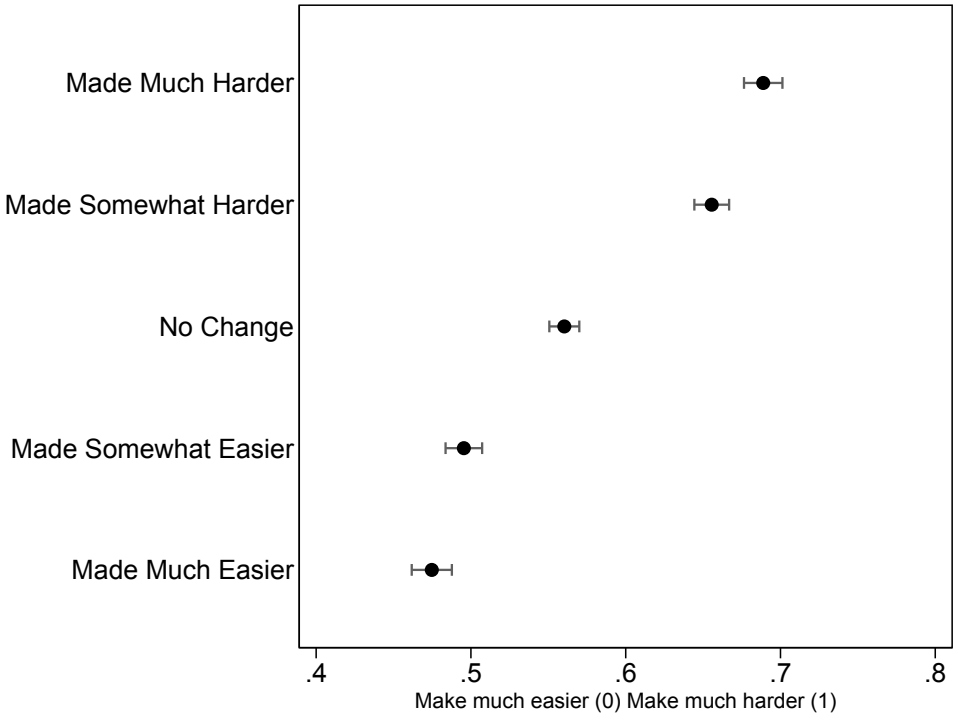

Figure 6: Reciprocity question with Chinese respondents. Subjects told that a country has recently made some change to their policy (different horizontal lines) for how easy it is for a foreign firm to buy a domestic firm. What should the response of their own country be? Horizontal lines indicate 95% confidence intervals.

Figure 7: Reciprocity follow-up experiment. Preferred US position (x-axis) versus other country past and present position (y-axis, 0 (no restrictions) to 10 (complete restrictions)). Horizontal lines indicate 95% confidence intervals.

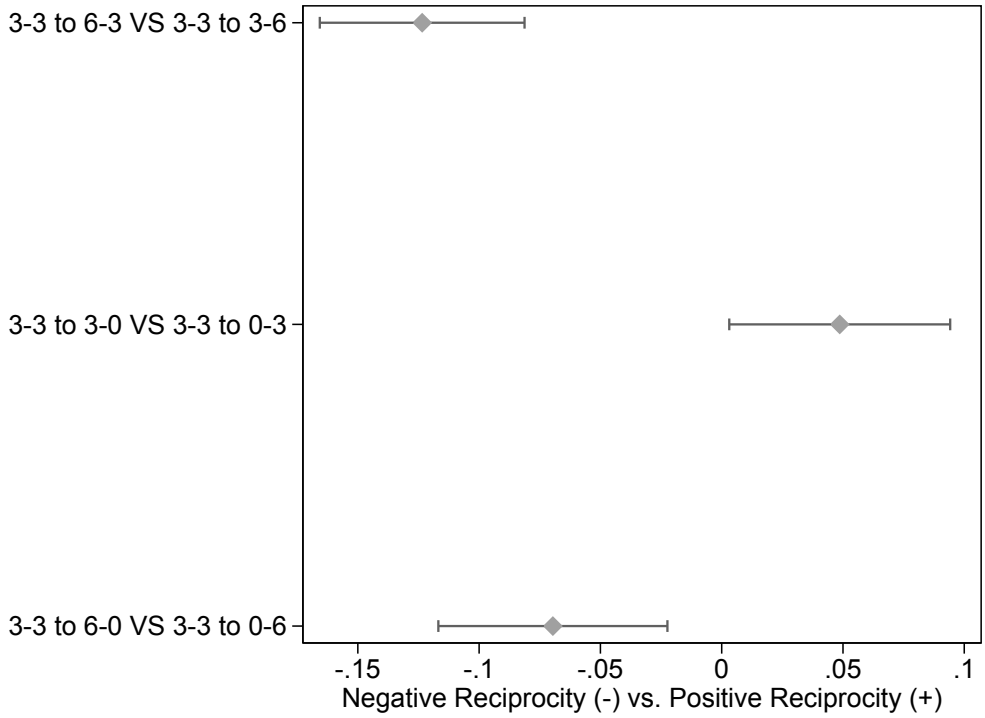

Figure 8: Positive or negative reciprocity? Difference in absolute deviations from baseline position of country at 3-3. Positive values indicate that the magnitude of change was greater in responding to positive changes by a country (positive reciprocity larger). Negative values indicate that the magnitude of change was greater in responding to negative changes by a country (negative reciprocity larger).