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Emma Aisbett and Lauge Poulsen

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Abstract

Using a novel econometric estimator and extensive firm-level surveys, we show that foreign firms' experiences at the hands of host governments tend to be as good, or better, than those reported by their domestic counterparts. Even when foreign firms are exposed to significant political risks in the developing world, domestic firms remain even worse off on average. Our findings are corroborated by local lawyers who work with both foreign and domestic firms in developing countries. The advantage enjoyed by foreign firms is observed in both middle- and low-income hosts, and is greatest in the latter. However, while low-income countries tend to treat foreign firms best *relative* to comparable domestic firms, they still treat foreign firms worse than middle-income countries do in an absolute sense. This contrasting pattern means that the findings of the large and growing literature on the cross-country causes and consequences of the absolute treatment of foreign firms cannot be transferred to the question of relative treatment.

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[1] University of Hamburg.
[2] University College London.

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Introduction

Foreign firms routinely complain about mistreatment by host state governments in the developing world. Yet, opaque, unpredictable, and intrusive government treatment is not just a concern for foreign firms. Domestic firms are also exposed to these risks. So is one group of firms treated better than the other? Even when foreign firms are treated poorly, they may still be treated better by host governments than local firms – and vice versa.

There are two main reasons why developing country governments might discriminate in favour of domestic firms. In the presence of clientilist networks between domestic firms and political elites in host states, bureaucrats, judges, and politicians can make life harder for foreign firms resulting in a competitive advantage for local business interests. In addition, to the extent foreign investments involve high sunk costs, host governments can be incentivised to extract greater value from the foreign investment after it has taken place.

Yet, there could also be significant political advantages from a being foreign firm. Political elites in the host state may expect that foreign investment brings specific advantages compared with domestic investment. Equally, whereas some foreign firms may be subject to hold-up problems others can have more bargaining power than local firms due to the greater mobility of foreign firms. In addition, foreign firms can have unique sources of economic and political power over host states stemming from their connections with international financial institutions and home state governments. Finally, foreign firms often have considerable resources to negotiate favourable terms with host state officials. These potential advantages of foreign firms should be particularly pronounced in the poorest developing countries, where foreign capital is scarce, host governments poorly resourced, and domestic firms and industries small. In these countries, in particular, foreign firms may be treated considerably better than their domestic counterparts. Furthermore, in countries with weak legal systems local courts may also treat foreign firms better than comparable domestic firms due to the higher profile of cases involving aliens.

Understanding the relative treatment of foreign firms is not only relevant for literature on the political economy of foreign investment, but also has important policy implications for governments seeking to achieve competitive equality between firms. A political liability of foreignness could under some circumstances justify incentives and subsidies targeted at foreign firms so as to level the playing field. If there is an advantage of foreignness, on the other hand, such policies would be even more difficult to justify on economic terms. A case in point is the global web of investment treaties, which provide potent property right protections for foreign, but not domestic, investors. Investment treaties give foreign investors the right to avoid domestic courts in host states and file compensation claims against a wide range of government behaviour. One premise of this regime is that courts are biased against foreigners and, more generally, that political risks are particularly pervasive for foreign firms. Yet, this has not been subject to rigorous empirical testing.

Our study is the first to systematically assess the relative government treatment of foreign firms across a wide range of indicators – including by courts - and show how this treatment evolves in line with economic development. Our primary analysis is based on the World Bank's Enterprise Surveys, where we find that foreign firms receive better treatment than domestic firms in both low and middle-income countries. Moreover, the political advantage of foreignness is particularly prevalent in the poorest countries of the world.

To cross-check our results, we show that subjective and objective measures in the data align well – as has been the case in previous studies using the World Bank Enterprise Surveys. In addition, we show that whereas foreign firms are treated relatively better than domestic firms as host income decreases, the absolute treatment of foreign firms improves as host income increases. This fits the well-established stylized fact that the investment climate is better in higher income countries, and shows that the determinants of relative treatment are not the same as those of absolute treatment. Moreover, our findings are backed up by qualitative feedback from private lawyers who act on behalf of foreign and domestic firms vis-à-vis host governments in developing countries.

In addition to these substantive findings, we offer a methodological contribution in our matching of foreign firms with comparable domestic firms. In particular, we address the concerns about specification bias in generalized linear models raised by Gary King and co-authors (Ho, Imai, King, and Stuart 2007; Iacus, King, and Porro 2011). Models like tobit and probit are widely used, including in previous studies using the Enterprise Services. But whereas the linear specification of these models can incorporate higher order terms and interactions between variables, such changes can have major impacts on the results obtained. The researcher is then left to choose which set of results to report, giving rise to the potential for substantial (intentional or otherwise) researcher bias. We avoid these model selection issues by employing a novel conditional likelihood estimator of relative risk (CLERR), introduced by Aisbett, Aisbett & Steinhauser (2016), that is useful not just for our study but whenever exact matching or coarsened exact matching can be used.

1. Expectations

A growing literature focuses on the nature and determinants of host government treatment of foreign firms. The bulk of studies assess how host state governments constrain the activities of foreign firms. Models are often rooted in obsolescent bargain theory and typical concerns relate to uncompensated expropriation (e.g. Jensen 2008; Li 2009) and breach of contract (e.g. Johns and Wellhausen 2016). Related literature focuses on constrains imposed by host states through targeted 'performance requirements', such as requirements to transfer technology or use domestically sourced inputs (e.g. UNCTAD, 2003; Moran, 2002).

In contrast, another strand of literature focuses on the incentives offered by governments to foreign firms. This could be through tax breaks and targeted public infrastructure investments (e.g. Blomstrom and Kokko 2003; Tavares-Lehmann et al. 2016), favourable contractual terms in utility and natural resource sectors (e.g. Shemberg 2008), and red carpet treatment provided by investment promotion agencies (e.g. Harding and Javorcik 2011). Case studies also highlight how some multinationals have been able to almost unilaterally set the terms of their investments when bargaining with developing country governments, particularly in the poorest countries in the world (e.g. Coll 2012).

Common to practically all studies, however, is a focus on the absolute level of government treatment of foreign firms.[3] This is often appropriate. For instance, studies seeking to assess the relevance of policy variables for the flow of foreign investment - such as democracy or tax breaks - are right to focus on the absolute level of treatment (e.g. Busse and Hefeker 2007). For other purposes, however, it is the relative treatment of foreign firms compared to domestic firms, which is important. For instance, standard economic theory suggests that non-discriminatory treatment of competitors is often welfare-enhancing, so assessments of whether investment policies promote efficiency often need a comparative dimension (e.g. Caves 1996, ch. 10). Relative treatment is also of obvious interest when seeking to understand whether foreigners are subject to liabilities or advantages when interacting with host governments – the subject of our paper.

Although there are plenty of anecdotes where host governments discriminate in favour of domestic firms, we do not expect that there is a political liability of foreignness in many developing countries, and foreign firms may even have an advantage over local firms. This for several reasons. First, and crucially, foreign firms are often believed - by both

[3] For exceptions, see Huang 2005; Desbordes and Vauday 2007. In the current paper we understand government 'treatment' more broadly to mean all conduct by all levels of government that directly or indirectly affects firms operating within its jurisdiction.

government officials and much of the public - to bring advantages over domestic firms in terms of more and better jobs, technology transfer, and management know-how. The skills and experience gained by employees of the foreign firms - and of local firms who interact with them - can provide positive spill-overs for the host economy (e.g. Javorcik 2004; Kugler 2006; Newman, Rand, Talbor, and Tarp 2015). Even in industries not typically associated with positive spillovers, host governments value the influx of foreign capital and the expectation of foreign revenue earnings associated with foreign investment. In some countries, like China, Singapore and Vietnam, the attraction of foreign investment is even used as a criteria when considering promotions for provincial policy-makers (Malesky and Jensen 2016).

Second, foreign firms are more likely to move their investment elsewhere than domestic firms, which can give them greater bargaining power over host state governments (for classic works, see Hymer 1976; Kogut 1983).[4] And although obsolescent bargaining models remind us that foreign firms with a high share of illiquid assets can lose bargaining power post-establishment (Vernon 1971; Dixit and Pindyck 1994; Henisz 2000), governments tend to be more concerned with reputation and repeated interactions than the ability to reap the benefits from a one-off obsolescent bargain (Eden, Lenway and Schuler 2004; Yackee 2008).

Third, foreign firms can have close links with their home government, which can incentivize host states to treat such firms particularly well for diplomatic reasons, including because of concerns over future aid flows (Ramamurti 2001; Maurer 2013; Gertz 2016). Fourth, and related, some foreign firms enjoy the political support of international financial institutions and major international banks that have co-financed or insured them (West 1996; Wells and Gleason 1995; Woodhouse 2006; Peinhardt and Allee 2016).

Fifth, although local firms may be more politically connected to political elites in some countries, this is not necessarily the case for all countries.[5] For instance, foreign firms are a core part of the political elite in many authoritarian regimes (Huntington 1968; Evans 1979; O'Donnell 1979; Bornschier and Chase-Dunn 1985; Oneal 1994), which is important as such regimes are particularly likely to favour politically connected firms due to their reliance on narrow elites (Choi and Thum 2009) and the prevalence of corruption (Faccio 2006; Faccio and Parsley 2009).

Sixth, foreign firms have more experience managing institutional idiosyncrasies than domestic firms (Henisz 2003) and their multi-country operations prompt them to employ highly skilled negotiators and lobbyists to ensure favourable government treatment in host states (Boddewyn 1988; Desbordes and Vauday 2007; see also Aisbett and McAusland 2013).

Finally, a political advantage for foreign firms could even extend to courts. Ever since *The Merchant of Venice*, where Shylock suspected that the courts of Venice were biased against foreigners, foreign firms and international lawyers have raised similar concerns (Brower and Steven 2001, 196; Hale 2015).[6] In weak legal systems a liability of foreignness could arise if local firms are better able to influence legal outcomes (e.g. through bribes) (Bardsley and Nguyen 2005) and in all legal systems judges could be influenced by nationalist sentiments. Remarkably, however, we are aware of no systematic evidence on the extent to which courts are in fact biased against foreigners, and one could equally expect that many judges give foreigners more favourable treatment. Not only may some judges have an internationalist outlook, the greater exposure to disputes involving foreign firms could make

[4] On 'home bias' of investment decisions, see e.g. Huberman 2001.
[5] On the value of firms' political connections, see e.g. Kroszner and Sratmann 1998; Johnson and Mitton 2001; Fisman 2001; Masulis and McConnell 2006; Faccio, Masulis and McConnell 2006; Faccio 2006; Faccio 2010.
[6] In disputes between firms and states, lacking independence could make local courts partial to the executive branch, as well, although the same would be the case for domestic firms resolving disputes with their government.

judges more likely to produce a defensible result (Lan 2012). For instance, American embassy officials closely monitor court proceedings involving American citizens and firms,[7] which increases the potential costs for a judge to engage in denial of justice when American interests are involved. Moreover, some developing countries, like Nigeria and Ghana, have initiated fast-track courts for urgent disputes, among which they include all those disputes involving foreign firms or investors. So while there are indeed cases where foreign firms appear to be discriminated against by local courts (e.g. Nandkumar and Bala 2016), they could very well be the exception rather than the rule.

On balance we therefore expect that in many developing countries host state governments treat foreign firms at least as well, and often better, than comparable domestic firms. Moreover, and importantly, we expect that particularly low-income countries are likely to favour foreign over domestic firms. This is for two reasons. First, the mechanisms described above resulting in better treatment of foreign firms are all augmented at lower levels of income. Poor countries are in desperate need for capital and have fewer 'locational' advantages when bargaining with mobile firms. Moreover, they often depend on support by home governments and international financial institutions and have lower levels of expertise when negotiating with multinationals. In addition, judicial treatment that depends partly on the nationality of the firm should be most pronounced in the weakest legal systems, which again tend to be in poorer countries.[8] So although the absolute level of treatment should deteriorate at lower levels of income for all firms - due to weaker infrastructure, bureaucracy, institutions, and policy stability – the relatively level of treatment of foreign firms should be better in the poorest countries in the world.

Secondly, the power of domestic lobbies is positively related to the size of their industry (Grossman and Helpman 1994). Since poor countries have smaller domestic industries than middle-income countries, they have weaker domestic lobby groups, which provides an additional reason why we expect foreign firms should be relatively better treated at the lowest levels of income.

In short; we expect that there is a political advantage of foreignness in developing countries, which will be most pronounced at lower levels of economic development.

2. World Bank Enterprise Survey Data

To test this argument, we utilise the latest standardized data from the World Bank's Enterprise Surveys (WBES). The surveys were conducted through direct interviews with firm managers from over 130,000 firms across 552 industry sectors in 135 countries.[9] WBES provide the best quality, standardized measure of the business climate across countries, especially with regards to government-firm interactions. Using subjective survey data to assess actual treatment of foreign investors presents well-known challenges however. Respondents may be unwilling to truthfully answer sensitive questions, or refuse to answer such questions outright. In addition, there is potential for different understandings of core concepts (such as 'predictable' regulation) and idiosyncratic factors among respondents (e.g. general pessimism).

[7] In some cases, US officials even sit in on court cases; see e.g. https://search.wikileaks.org/plusd/cables/09BRIDGETOWN369_a.html.

[8] In theory, there could also be an income effect through our fifth suggested mechanism as there is a strong positive correlation between income and democracy (Acemoglu, Johnson, Robinson, and Jared 2008).

[9] See Appendix A for full list of the countries included in the dataset by income class. See www.enterprisesurveys.org/data for further information about the World Bank Enterprise Surveys.

Yet, the growing literature making use of WBES for other research questions than ours have found that these potential sources of bias are not substantial. Self-reported measures in the surveys have been found to correlate highly with objective measures in studies on service performance (Arnold, Mattoo, and Narciso 2008), bank lending corruption (Barth, Lin, Lin and Song 2009), access to and use of banking services (Beck, Demirguc-Kunt, and Peria 2007; see also Aterido and Hallward-Driemeier 2009), as well as labour regulations (Pierre and Scarpetta 2004). In addition, the surveys are internally consistent, as respondents do not contradict themselves when analysts cross-check inter-linked questions (Bignebat and Gouret 2008). Finally, the surveys are not biased by respondent bias as a result of pessimism (Desbordes and Vauday 2007). Rather, respondents “do not complain indiscriminately” and response “patterns correlate reasonably well with several other country-level indicators related to the business climate.” (Gelb, Ramachandran, Kedia-Shah and Turner 2007).

The final potential concern about the subjective nature of WBES is the possibility of anchoring bias (Bertrand and Mullainathan 2001), as foreign firms may anchor their responses relative to their experiences in other countries. If this distorts the responses, it would bias our analysis toward finding that foreign firms are treated worse than domestic firms. This is because source countries of most foreign investment are high income, which means anchoring effects would prompt foreign firms to answer questions more negatively than domestic firms with the same experiences. Anchoring effects thereby make it harder for us to find evidence for our expectations.

Confident that the surveys are useful for our purpose, we proceed to focus on responses about the predictability of host state governments and impartiality of host state courts. In addition, we compare responses to six potential obstacles: Tax Rates, Tax Administration, Business Licencing and Permits, Political Instability, Corruption, and Courts. Together these variables constitute a broad and representative set of the key concerns voiced by business regarding political aspects of the investment climate. We examine independently the relative responses of foreign and domestic firms to all of these questions.

An initial view of the data is provided in Table 1. The three columns indicate fully-domestic, foreign, and all firms. For example 41.6% of full-domestic firms and 42.4% of firms with foreign ownership agreed that the domestic courts were fair. The upshot of Table 1 is that foreign firms comprise a little over ten percent of the valid responses for each question and that there is little systematic difference between foreign and domestic firms in terms of agreement with the statements. If anything, foreign firms give responses that reflect a more favourable relationship with government institutions in five out of eight questions.

These differences may be artefacts of sampling biases or other confounding influences however. It is well known that foreign firms differ systematically from purely local firms and Appendix B confirms that in our dataset – as in the population at large - foreign-owned firms are substantially more likely than domestic firms to be large and to be directly engaged in exporting (e.g. e.g. Horst 1972; Griffith and Simpson 2001).[10] There are also differences on a range of other measures, such as sector, level of government ownership, and legal organization (e.g. whether firm is public listed). These are some of the characteristics known to influence the government-firm relationship. We non-parametrically control for all of the characteristics in Appendix B in order to isolate the impact of foreign ownership.[11]

[10] Faccio (2006) finds that large domestic firms – the local business elite - tend to be more politically connected than smaller domestic firms.

[11] An example of the importance of controlling for such characteristics is provided by Wellhausen (2015). Using data related to ours, Wellhausen finds that foreign firms are more likely to experience contract breaches. However, when we added controls for firm size and government ownership to her analysis, this result disappeared. Results available from authors upon request.

	All	Domestic	Foreign	F-D Difference
		Courts are fair, impartial, and uncorrupted		
% of Firms Agreeing	41.7	41.6	42.4	0.8
Total Observations	92,465	83,467	8,998	
		Government officials' interpretations of laws and regulations are consistent and predictable		
% of Firms Agreeing	45	44.7	47.4	2.7
Total Observations	23,565	20,572	2,993	
		Tax rate is an obstacle		
% of Firms Agreeing	58.1	58.4	55.7	-2.7
Total Observations	100,016	89,984	10,032	
		Tax administration is an obstacle		
% of Firms Agreeing	44.6	44.6	44.8	0.2
Total Observations	99,659	89,653	10,006	
		Licenses and permits are an obstacle		
% of Firms Agreeing	32.4	32.2	34.2	2
Total Observations	97,952	88,064	9,888	
		Political instability is an obstacle		
% of Firms Agreeing	48	48.2	46.1	-2.1
Total Observations	98,327	88,569	9,758	
		Courts are an obstacle		
% of Firms Agreeing	28.9	28.5	32.4	3.9
Total Observations	92,997	83,508	9,469	
		Corruption is an obstacle		
% of Firms Agreeing	52.3	52.5	50	-2.5
Total Observations	98,066	88,263	9,803	

NOTES: In the first two questions "Strongly disagree" and "Tend to disagree" are coded as negative (zero) responses, and "Tend to agree" and "Strongly agree" as positive (one). The six obstacles are coded as negative (zero) when responses were "No" or "Minor" obstacle, and positive (one) when responses were "Major" or "Very Severe" obstacle.

TABLE 1 - PROPORTION OF POSITIVE RESPONSES AND NUMBER OF NON-MISSING RESPONSES BY FOREIGN OWNERSHIP

3. Conditional likelihood estimation of relative risk (CLERR)

Our principle empirical objective is to determine the causal impact of foreign ownership - a binary variable – on host state treatment. In other words, our objective is to estimate a treatment effect. The best way to estimate treatment effects depends on the data at hand. In our case we have a large number of observations, and many of the variables whose influence we wish to control for are categorical. This type of data is ideally suited for Coarsened Exact Matching (CEM), the advantages of which are discussed at length by Iacus, King, and Porro (2011; 2012). CEM involves first coarsening any continuous control variables into categorical variables, and then creating strata which are the intersection of all the relevant (now all categorical) control variables. Thus treated observations (in our case, foreign firms) are matched within strata with controls (in our case, domestic firms), which share the same set of characteristics.

While exact (or coarsened exact) matching has important advantages in terms of model balance and thus bias avoidance, these advantages come at a cost of losing some treated observations from the analysis. Specifically, any treated observation that does not have at least one control observation within the same matched strata will be excluded from the analysis. In our case 20-50% of treated observations are "lost" for this reason, depending on the stringency of our specification (see below). While this is an acceptable price to pay for avoiding the biases which can arises from alternative approaches, there is still the possibility of bias arising from non-randomness in terms of the foreign firms that have no domestic counter-part. Thankfully, political economy theory gives us a firm basis on which to sign the direction of any such bias. Domestic political pressure is known to be increasing in the size of the domestic industry. Thus those strata where matching domestic firms are absent are likely to be those where anti-foreign bias was least. Thus, if anything, the excluded observations will bias our results toward finding foreign firms are relatively worse treated than they really are.

After having matched the data, the researcher is left with the question of exactly which treatment effect to estimate, and how best to estimate it. Again, the choice here depends on the data type, and treatment effects on binary dependent variables like ours are typically estimated as relative risk or odds ratios.

Relative risk has a number of advantages; the most important being its intuitive interpretation compared to odds ratios. The probability of an event occurring to a member of the treatment group is simply the relative risk times the base rate (where 'base rate' is the probability of the event occurring to a member of the control group). Thus if the relative risk of foreign firms exporting is 1.2, then foreign firms can be understood to be 20% relatively more likely to export than domestic firms. In contrast, the meaning of an odds ratio is difficult to explain without resorting to mathematics. Nevertheless, many authors interpret odds ratios produced by logit or conditional logit estimators as if they were relative risk, something that can lead to substantive biases where the baseline and/or relative risk are high.[12]

Despite the advantages of relative risk, odds ratios have nevertheless dominated political science and economics research for decades. For whereas estimation software is readily available for logit and conditional logit, there has not been an equivalent estimator for relative risk. This lack has recently been addressed by the introduction of the conditional likelihood estimator of relative risk (CLERR) by Aisbett, Aisbett and Steinhauser (2016). The CLERR works similarly to the conditional logit estimator in that it uses a conditional maximum likelihood approach to remove the influence of 'nuisance' strata effects on the estimated effect of the treatment variable.

Despite the similarity in underlying approach, the CLERRs statistical properties are far superior to those of the conditional logit estimator. Unlike the conditional logit, the CLERR is fully efficient in both small and large samples. Perhaps more importantly, the CLERR is unbiased in small samples while the conditional logit is not (see proofs in Aisbett, Aisbett and Steinhauser 2016).

Finally, CLERR can be derived from either assuming an underlying binomial or underlying Poisson distribution of the data. The application in Aisbett, Aisbett, and Steinhauser (2016) demonstrates the first case, whereas one of the applications below focusing on the relative number of days firms wait for licences demonstrates CLERR as a generalization of the 'fixed effects' Poisson estimator of Hausman, Hall and Griliches (1984).

In short; apart from the relevance of the substantive findings, our matching of foreign and domestic firms below serves to illustrate the use of a novel estimator that should have wide appeal in political science and economics.

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[12] As a rule of thumb it is not advisable to treat odds ratios as relative risks when either baseline or relative risk is greater than about 0.1.

4. Experiences of foreign firms relative to those of similar domestic firms

Results for the full sample of countries

Table 2 presents the results of our comparison of foreign firms' perceptions of government and institutions with those of like domestic firms for the full sample of low and middle-income countries in the Enterprise Survey data. The variables used to define the conditioning strata are listed at the top of each column. Thus the first column of estimates has conditioned out the impacts of country of operation, sector, size quintile, and government ownership as well as all possible interactions between those variables. This is our least conservative estimate, whereas our most conservative estimate includes all these factors plus Legal Organisation (e.g. publicly listed or limited partnership), Exporting, and City/Region within country of operation.

	Strata Definition			
	Country Sector Size Gov. own	Country Sector Size Gov. own Legal org.	Country Sector Size Gov. own Legal org. Exports	City/town Sector Size Gov. own Legal org. Exports
	Courts are fair, impartial, and uncorrupted			
Rel. Risk	1.0478***	1.0534***	1.0576***	1.0400
Std. Err.	(0.0177)	(0.0199)	(0.0221)	(0.0246)
ID treated obs.	[7201]	[6250]	[5391]	[4671]
	Government officials' interpretations of laws and regulations are consistent and predictable			
Rel. Risk	1.0443	1.0601**	1.0639*	1.0814**
Std. Err.	(0.0272)	(0.0302)	(0.0329)	(0.0373)
ID treated obs.	[2625]	[2374]	[2110]	[1789]
	Corruption is an obstacle			
Rel. Risk	0.9962	0.9826	0.9856	0.9847
Std. Err.	(0.0139)	(0.0153)	(0.0170)	(0.0185)
ID treated obs.	[7929]	[6866]	[5887]	[5099]
	Courts are an obstacle			
Rel. Risk	1.0419**	1.0210	1.0248	1.0302
Std. Err.	(0.0187)	(0.0205)	(0.0229)	(0.0247)
ID treated obs.	[7602]	[6615]	[5697]	[4931]
	Licenses and permits are an obstacle			
Rel. Risk	1.0293*	1.0267	1.0343	1.0229
Std. Err.	(0.0176)	(0.0196)	(0.0219)	(0.0235)
ID treated obs.	[7990]	[6911]	[5912]	[5136]
	Political instability is an obstacle			
Rel. Risk	0.9875	0.9782	0.9790	0.9578**
Std. Err.	(0.0145)	(0.0159)	(0.0176)	(0.0188)
ID treated obs.	[7849]	[6801]	[5827]	[5049]
	Tax administration is an obstacle			
Rel. Risk	0.9570***	0.9483***	0.9578**	0.9491***
Std. Err.	(0.0144)	(0.0159)	(0.0177)	(0.0192)
ID treated obs.	[8089]	[6997]	[6002]	[5211]
	Tax rate is an obstacle			
Rel. Risk	0.9468***	0.9415***	0.9527***	0.9402***
Std. Err.	(0.0128)	(0.0141)	(0.0158)	(0.0172)
ID treated obs.	[8109]	[7024]	[6020]	[5223]

NOTES: "ID treated obs." is the number of foreign firms whose response could be identified statistically because there was at least one domestic firm in the same strata. "Rel. Risk" stands for risk/propensity of foreign firms agreeing with the statement relative to that of domestic firms. Stars on the relative risk indicate statistical significance of test of whether the relative risk is unity. *** p<0.01 ** p<0.05 * p<0.1.

TABLE 2 – RELATIVE PERCEPTIONS OF HOST GOVERNMENT INSTITUTIONS AMONG COMPARABLE FOREIGN AND DOMESTIC FIRMS

The results show that by most measures foreign firms are more likely to have a positive perception of government and institutions in the host country than comparable domestic firms. For example, the relative risk estimated for the "Courts are fair" variable ranges from 1.0400 (column 4) to 1.0576 (column 3). This means foreign firms are roughly 4-6% relatively more likely to agree with the statement "The court system is fair, impartial and uncorrupted."[13] Statistically significant advantages for foreign firms are evident in Table 2 for predictability of government, as well as reduced perceived obstacle from tax administration, and tax rate, and political instability. Meanwhile foreign firms are generally neither significantly more nor less likely to agree that corruption, courts, or licences and permits are obstacles to their operations.

One potential concern with Table 2 is that the results therein could be driven primarily by differences between foreign and domestic firms in reporting mildly positive or negative responses. From a policy perspective, however, it is arguably the avoidance of strongly negative experiences that matters. Of relevance to policy discussions about the investment treaty regime, for instance, foreign investors are unlikely to bring negligible disputes with the host state to international arbitration. For these reasons, Table 3 summarises the relative propensity of foreign firms to give strongly negative responses about their relationship with government and courts.

The pattern of responses is very similar to that in Table 2 (noting that the "Courts are fair" and "Government is predictable" variables are now coded so that negative rather than positive responses are counted). There is again no evidence to suggest that foreign firms are systematically disadvantaged compared to their domestic counterparts. Rather, foreign firms appear to be at an advantage in terms of perceived fairness of courts, predictability of government decisions, and insulation from the impediments of political instability, tax administration, and tax rates. Foreign firms show no significant advantage or disadvantage in terms of the obstacles caused by courts or corruption.

The only measure on which there is some evidence that foreign firms perceive more constraint is the issuing of licenses and permits, but this finding is not robust to controlling for firm exporting behaviour. Controlling for exporting is particularly important for this measure. Since foreign firms are more likely to export, and exporters are more likely to need more permits and licences, results that do not control for exporting behaviour will be biased toward finding greater obstacles for foreign firms on this measure. It is also worth noting that this measure is the most problematic in our analysis in terms of potential selection bias. The Enterprise Surveys are only answered by firms which are currently operating in the host country, which means that many firms which had licences and permits refused are not represented in the survey. Whether this selection will bias our estimates depends ultimately on whether the selection effects differ for foreign and domestic firms – i.e. are foreign firms who have had a licence refused more or less likely to still be in the survey? This is a question we cannot answer currently. On the one hand foreign firms who have been refused might be under-represented because they have less informal options available than domestic firms. On the other hand, foreign firms are more likely to have the resources to adjust their applications and try again for a licence or permit, which would mean they were over-represented. We discuss licencing and permitting further when we return to objective measures of treatment below.

[13] For example if 50% of domestic firms agreed with a statement, and the relative risk for foreign versus domestic firms was 1.04, then 52% of foreign firms would agree with the statement.

	Strata Definition			
	Country Sector Size Gov. own	Country Sector Size Gov. own Legal org.	Country Sector Size Gov. own Legal org. Exports	City/town Sector Size Gov. own Legal org. Exports
	Courts are fair, impartial, and uncorrupted (Strongly disagree)			
Rel. Risk	0.9447***	0.9432***	0.9348***	0.9435**
Std. Err.	(0.0184)	(0.0203)	(0.0222)	(0.0241)
ID treated obs.	[7201]	[6250]	[5391]	[4671]
	Government officials' interpretations of laws and regulations are consistent and predictable (Strongly disagree)			
Rel. Risk	0.9424*	0.9137**	0.9313*	0.9341
Std. Err.	(0.0349)	(0.0375)	(0.0411)	(0.0460)
ID treated obs.	[2625]	[2374]	[2110]	[1789]
	Corruption is a (major or severe) obstacle			
Rel. Risk	0.9816	0.9666*	0.9673	0.9793
Std. Err.	(0.0166)	(0.0183)	(0.0203)	(0.0221)
ID treated obs.	[7929]	[6866]	[5887]	[5099]
	Courts are a (major or severe) obstacle			
Rel. Risk	1.0366	1.0119	1.0165	1.0321
Std. Err.	(0.0260)	(0.0286)	(0.0318)	(0.0343)
ID treated obs.	[7602]	[6615]	[5697]	[4931]
	Licenses and permits are a (major or severe) obstacle			
Rel. Risk	1.0638**	1.0549*	1.0527	1.0402
Std. Err.	(0.0267)	(0.0299)	(0.0334)	(0.0358)
ID treated obs.	[7990]	[6911]	[5912]	[5136]
	Political instability is a (major or severe) obstacle			
Rel. Risk	0.9557**	0.9539**	0.9559**	0.9350***
Std. Err.	(0.0176)	(0.0195)	(0.0216)	(0.0230)
ID treated obs.	[7849]	[6801]	[5827]	[5049]
	Tax administration is a (major or severe) obstacle			
Rel. Risk	0.9374***	0.9275***	0.9384**	0.9347**
Std. Err.	(0.0209)	(0.0231)	(0.0258)	(0.0280)
ID treated obs.	[8089]	[6997]	[6002]	[5211]
	Tax rate is a (major or severe) obstacle			
Rel. Risk	0.8770***	0.8668***	0.8808***	0.8947***
Std. Err.	(0.0167)	(0.0184)	(0.0206)	(0.0230)
ID treated obs.	[8109]	[7024]	[6020]	[5223]

NOTES: "ID treated obs." is the number of foreign firms whose response could be identified statistically because there was at least one domestic firm in the same strata. "Rel. Risk" stands for risk/propensity of foreign firms agreeing with the statement relative to that of domestic firms. Stars on the relative risk indicate statistical significance of test of whether the relative risk is unity. *** p<0.01 ** p<0.05 * p<0.1.

TABLE 3 – RELATIVE RISK OF STRONGLY NEGATIVE PERCEPTIONS OF HOST GOVERNMENT INSTITUTIONS AMONG COMPARABLE FOREIGN AND DOMESTIC FIRMS

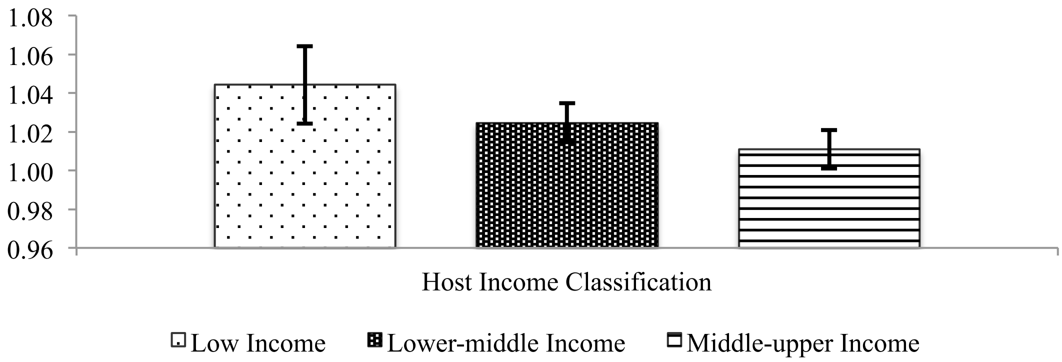
The role of income

The results reported up to this point arise from the analysis of the full sample of countries available in WBES. As such, it is possible that they mask systematic variation in the relative treatment of foreign firms by hosts at different stages of development. To test for this, we split our analysis using World Bank data on income classification among developing countries (Low, Lower middle, and Upper middle).

In order to reduce dimensionality, and thus ease interpretation of the results, we report only the results where the strata are comprised of the intersection of country, sector, firm size, government ownership dummy, legal organisation, and export status.[14] That is, we report results comparable to those in the third column of Table 2. Also, we report in the main text only results for an aggregated "Government Treatment Score" variable.[15] The score is an unweighted linear combination of all the individual binary dependent variables in Table 2 (except "Government decisions are predictable", as this question was not administered in the surveys for a substantial proportion of countries). Taking the sum of each firm's positive responses, it ranges from a maximum of 6 to a minimum of zero, with higher numbers corresponding to better perceptions of the business environment.[16]

The Government Treatment Score variable is binomially distributed and analysed using the CLERR.[17] The only change required when switching from the individual binary responses to the sum of binary responses is in the interpretation of the estimated relative risk. For the binary responses, we estimated the relative risk of a single event (e.g. agreeing that courts are fair). For the Government Treatment Score, we estimate the relative risk of a foreign firm having a score one point higher than a comparable domestic firm.

Results are presented by income group in Figure 1 below and in Appendix C. Figure 1 shows that, while foreign firms are always treated at least as well as comparable domestic firms, there is a clear trend for foreign firms' relative satisfaction with government treatment to increase as per capita income decreases. This same pattern is also evident in most of the graphs for the individual binary dependent variables in Appendix C. The only variables for which the relative treatment of foreign firms is not better in the low-income group compared to upper-middle income group are "Courts are an Obstacle" and "Government is Predictable". Note that in all the graphs, the standard error bars are wider for low-income than for middle-income hosts because there are fewer low-income countries in WBES and thus fewer firm observations in this category.



NOTES: Columns show the relative risk of a foreign firm having a Government Treatment Score which is one point higher than a comparable domestic firm. Relative risk greater than one suggests foreign firms are better treated. T-bars show plus and minus one standard error of the estimated relative risk (a 68% confidence interval).

FIGURE 1. RELATIVE GOVERNMENT TREATMENT SCORE AMONG COMPARABLE FOREIGN AND DOMESTIC FIRMS: BY INCOME CLASSIFICATION

[14] Results for alternative strata definitions available on request from the authors.
[15] Results for the individual dependent variables as used in Table 3 are presented in Appendix C.
[16] The government score is equal to the sum of the "1"s from the firm's response when all the binary variables are coded so that a 1 indicates a favourable response. That is, a score of 6 is achieved if the firm does not find any of potential impediments are an obstacle and does find that courts are fair.
[17] See Aisbett, Aisbett and Steinhauser (2016) for further discussion and explanation. The basic point is that the CLERR assumes the dependent variable is binomially distributed. We know that the sums of firms' binary responses for one variable have a binomial distribution. Furthermore, we know that the sum of binomially distributed random variables will also have a binomial distribution. Hence the Government Score will have a binomial distribution and the CLERR is an appropriate estimator.

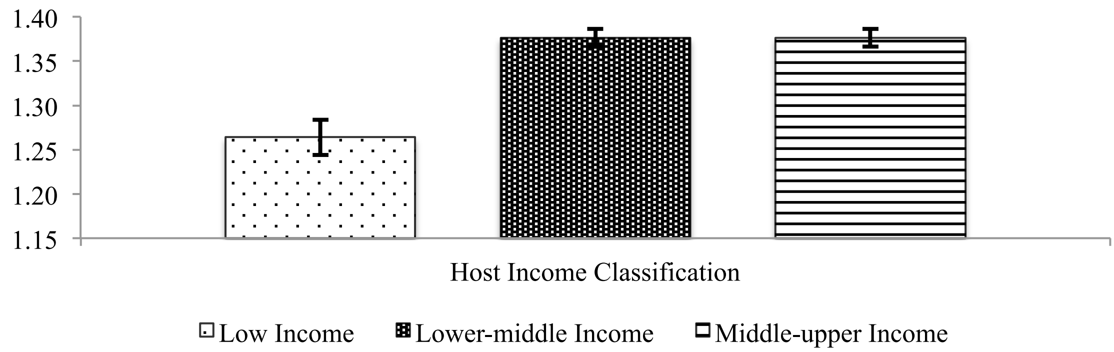
5. Cross-checks of the validity of the survey results

The literature discussed in Section 1 notwithstanding, our results could still be an artefact of the subjective nature of the WBES questions. To this end, we proceed to undertake three separate cross-checks of the results.

Comparing with absolute treatment of foreign firms

As noted in the introduction, a substantial literature studies the pattern of absolute treatment of foreign firms across countries. Here, a well-established stylized fact is that the absolute treatment of foreign firms improves as host income rises. At first glance, this may seem contrary to that suggested by our analysis, specifically in Figure 1, yet the contrast actually serves to underscore the importance of considering relative treatment and not drawing conclusions solely on the basis of absolute treatment measures.

Figure 2 shows how treatment varies with host income class when we consider only the foreign firms' responses and do not compare them with those of domestic firms. The bars in Figure 2 indicate the estimated intercepts for each country group from a Poisson regression of the Government Treatment Score on Firm Characteristics (where the sample included only foreign firms). As such, the approach demonstrated in Figure 2 mirrors that used in many previous studies focusing on absolute treatment. Importantly for our purposes, Figure 2 suggests that (absolute measures) of treatment of foreign firms improve as host income increases. As mentioned in Section 1, this is not inconsistent with our expectations, but the core point here is that the differences between our findings summarised in Figure 1 and those of the existing literature do not arise from any problem with the WBES data, but rather from the switch to focussing on relative rather than absolute treatment.



NOTES: Columns show the intercept (varying by host income group) of a Poisson regression of the absolute Government Treatment Score for each firm. Firm-level controls were included in the regression. T-bars show plus and minus one standard error of the estimated relative risk (a 68% confidence interval).

FIGURE 2. ABSOLUTE GOVERNMENT TREATMENT SCORE CONTROLLING FOR FIRM CHARACTERISTICS: BY INCOME CLASSIFICATION

Comparing with analogous objective measures in the Enterprise Survey

A second cross-check is to confirm that the correlation between objective and subjective measures found in earlier studies using the WBES applies to our study as well. Fortunately, one of our key questions of interest has useful objective analogues in the survey, namely those focusing on whether the firm has applied for a construction, operating, or import licences. If so, further questions ask whether the firm was successful in obtaining licences and permits for which it has applied, how many days it took, and whether a bribe was requested. These questions provide an excellent set of objective measures to which we can compare responses to the question used in the main analysis on the extent to which licences and permits are an obstacle to the firm's operations.

The obstacle posed by licencing and permitting is a particularly interesting question to cross-validate with objective measures as it is the only one for which we find some sign that foreign firms might be at a disadvantage relative to domestic firms (see Tables 2 and 3). Using permitting and licencing experiences as dependent variables does pose some challenges however. Firstly, as discussed earlier, there is the danger of selection bias because firms which have difficult experiences are less likely to be in the survey. This concern is one reason we do view the results of this exercise as a good measure of the relative treatment of foreign firms as such. Rather, we consider this exercise a good indicator of how closely the subjective and objective measures relevant to our question move together. The second challenge is that not all firms have recently applied for the licenses. This fact reduces our sample size – and hence the power of our tests.

In order to combine as much information as possible and thus maximise the power of our tests, we construct two new variables. The PermitApprovals variable is the sum of the number of permits and licences which the firm reports having had approved. The Permitw/oBribes variable is the sum of the licences for which no bribe was requested. Thus, for both variables, a higher score indicates better treatment. Of course, both of these variables combine information about how often a firm applies for licences and permits, and its experiences conditional on such. We are interested in identifying the latter only. Hence, in order to calculate the relative risks for foreign and domestic firms, we add an additional layer of controlling stratification, indicating the total number of applications the firm reports. Thus, foreign firms are only compared to otherwise similar domestic firms, which have also applied for the same number of permits or licences.

The estimated relative risk of having a licence or permit approved for foreign versus domestic firms is 1.007 (std. err. 0.021).[18] Similarly, the relative incidence of not having a bribe requested is 1.023 (std. err. 0.0224). As such, there is no identifiable difference between foreign and local firms on either of these measures. To the extent that there is a small difference, it suggests better treatment of foreign firms.

The final objective measure of permit and licencing treatment in the WBES is a count of the number of days the firm had to wait for the approval, which closely approximates a Poisson distribution. Hence we separately apply the CLERR to estimate the relative number of days that foreign and domestic firms wait for import licences, operating licences, and construction licences. In each case the estimate compares only domestic and foreign firms who have applied for the same type of licence. For import, operating, and construction licences, the respective estimates (std. errs) are 1.052 (0.008), 1.095 (0.005) and 1.0273 (0.0056).[19] All of these are significantly different to one at the one percent level.

In summary, our objective measures of the relative treatment of foreign firms with regard to permitting and licencing range from being very slightly in favour of foreign firms (according to the measures based on approvals and bribe requests) to slightly against foreign firms (according to the measures based on the time to approval). Meanwhile the corresponding subjective measures suggested foreign firms were slightly (and not statistically significantly) more likely to perceive permits and licencing is an obstacle to their operations. More precisely, the estimated relative risks in the right hand columns of Tables 2 and 3 were 1.02 and 1.04, respectively. On this basis, it is safe to conclude that comparison of the subjective and objective measures of relative treatment of foreign firms with regard to permits and licences correspond very closely.

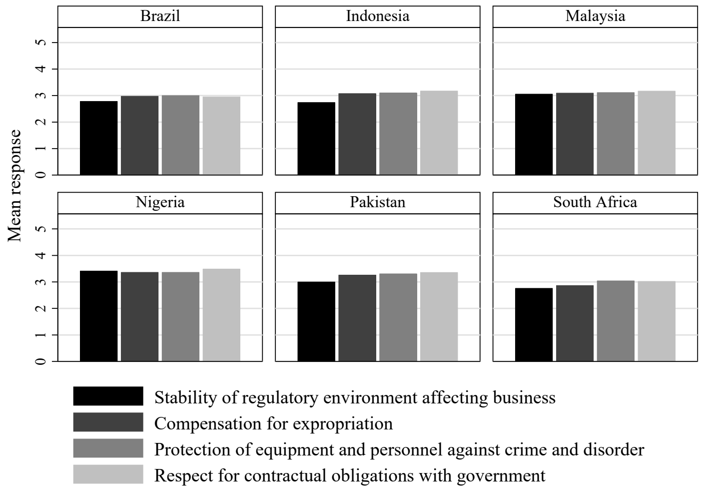
[18] The strata on which this estimate is based as the same as those in used for the government treatment score and the furthest right columns of Tables 2 and 3, with the additional of stratification by number of permits and licenses applied for.

[19] The strata used for this estimation are the same as those used in the calculation of the Relative Government Treatment estimates, and thus the same as those in the right hand column of Tables 2 and 3.

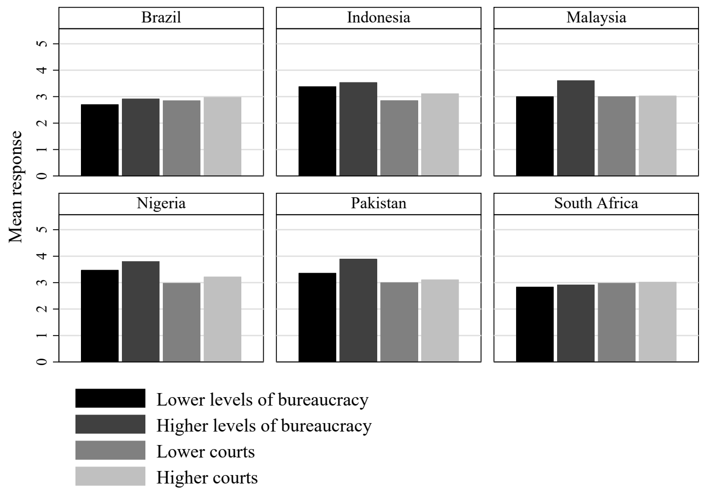
Insights from local lawyers

In a third, and final, cross-check we use a different data source entirely. Specifically, we conducted an email-administered survey to local lawyers advising domestic and foreign investors in six developing countries: Brazil, Indonesia, Malaysia, Nigeria, Pakistan, and South Africa. All six countries are fairly large and have substantial foreign investment flows. They differ, however, in the types of foreign investment they attract. Brazil, Nigeria, Indonesia, and South Africa attract substantial amounts of investment in resource extraction and agricultural sectors, while Malaysia and Pakistan have traditionally attracted investment in labour intensive sectors. Malaysia also stands out as a relatively high-income country, which attracts market-seeking and skilled-labour seeking investment.

A. Protection:



B. Courts and bureaucracy:



VALUES: 1: Much worse; 2: Worse; 3: The same; 4: Better; 5: Much Better.
QUESTION: *How are foreign companies treated in [host] compared with local companies in the same circumstances?*
NOTE: Respondents include 137 lawyers in Brazilian, 30 Indonesian lawyers, 35 Malaysian lawyers, 51 Nigerian lawyers, 28 Pakistani lawyers, and 51 South African lawyers. All had been in contact with their host government on behalf of foreign investors. Survey conducted over email November 2013 to October 2014.

FIGURE 3. TREATMENT AND PROTECTION OF FOREIGN AND DOMESTIC INVESTORS IN SIX DEVELOPING COUNTRIES, INSIGHTS FROM LOCAL LAWYERS

The number of survey respondents per country ranged from 130 in Brazil to 28 in Pakistan. The median respondent to the survey had practised law for more than 10 years and only lawyers who had been in contact with their host government on behalf of foreign investors are included. Importantly, survey respondents did not have hostile views towards foreign multinationals. All but 11 respondents in the survey found the influence of foreign companies to be good for their country.

Mean responses are in Figure 3 above. While we need to be cautious of making strong conclusions due to the relatively small sample size of the survey, one finding stands out. While courts are consistently seen as fair, bureaucracy is generally seen as favouring foreign investors – especially at higher levels. The only exceptions to this pattern are Brazil and South Africa – where the bureaucracy is seen to be very slightly in favour of domestic firms.

These observations were also supported by the qualitative responses from survey respondents. In Indonesia, Malaysia, Nigeria, and Pakistan local lawyers reported that bureaucrats afford better treatment to foreign firms. For instance, an Indonesian lawyer said that while foreign investment regulations are restrictive, the "bureaucracy often provide better treatment to foreigners than the local investors".[20] In Nigeria, as well, one lawyer noted how "Nigerian government officials are willing to bend backwards to accommodate foreign companies with a view to encouraging foreign investments in Nigeria".[21] In Pakistan, one lawyer noted that while treatment by the Pakistani government depends on the sector and quantum of investment the government does tend to favour foreign investors and companies.[22] In Brazil, - where there appeared the greatest tendency in favour of domestic firms - lawyers noted that most of the difficulties of doing business there "hit national and foreign companies alike".[23] In South Africa, concerns were expressed about recent restrictive changes in policy towards foreign investors at the time of the survey, but overall, the responses support our main conclusion that there is no evidence of systematic bias against foreign firms. If anything, there often tends to be a political advantage of foreignness.

Conclusion

Foreign firms are subject to a wide range of political risks when operating in developing countries that lack strong property rights institutions. Important insights about the nature and extent of these risks is coming out of burgeoning literatures in political science, international economics, and international business. Yet, it is not just foreign firms that suffer in countries with weak property rights. Expropriation, breach of contract, opaque and unpredictable government behaviour – all are familiar concerns not just for foreign investors but also domestic firms operating in high-risk jurisdictions. It is therefore unfortunate that academic literature and policy debates routinely focus solely on the absolute treatment of foreign investors and rarely consider treatment of comparable domestic investors.

Our results suggest that foreign firms tend to be treated at least as well by host state governments as comparable domestic firms in the vast majority of cases. There is a political advantage, as opposed to liability, of being a foreign firm. As a matter of descriptive inference, this not only questions a widely used assumption in much literature on foreign investment governance, but also provides important context to on-going policy debates

[20] Respondent 162.
[21] Respondent 219.
[22] Respondent 296.
[23] Respondent 109.

about the appropriateness of governments giving foreign investors unique rights and privileges unavailable to domestic firms – for instance in investment treaties.

Secondly, our results show that the political advantage of foreignness are greatest in the poorest countries of the world. One set of explanations for this finding could be that least-developed countries are likely to perceive the greatest benefits from foreign investment, because they are in desperate need of investment of any kind, and that they have fewer ‘locational advantages’ when bargaining with multinationals. Another set of explanations could arise from political and institutional dynamics. For instance, the poorer a country, the more exposed it is to pressure by foreign governments and international organizations demanding special attention to the needs of multinationals. Skill gaps may also be particularly pronounced when low-income countries bargain with foreign firms. In addition, domestic lobby strength is a function of domestic firm and industry size, which again points to poorer countries being more likely to favour foreign firms given their smaller domestic industrial base. We leave it to future studies to study these, and other, mechanisms in more detail.

Finally, our findings highlight the importance of distinguishing between relative and absolute treatment of foreign firms. While low-income countries tend to treat foreign firms considerably better than comparable domestic firms, they still treat foreign firms worse than middle-income countries in an absolute sense. This means that the findings of the large and growing literature on the cross-country causes and consequences of the absolute treatment of foreign firms cannot necessarily be transferred to the question of relative treatment.

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Appendix A – Countries in the Enterprise Survey by Income Classification

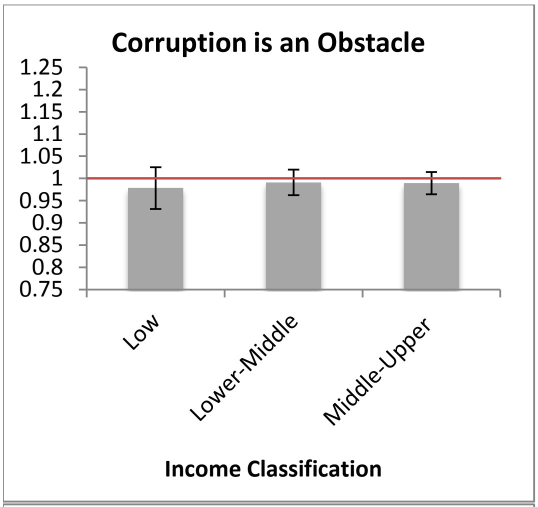
Low Income	Lower middle Income	Upper middle Income	High Income
Afghanistan	Armenia	Albania	Antigua and Barbuda
Benin	Bangladesh	Angola	Bahamas
Burkina Faso	Bhutan	Azerbaijan	Barbados
Burundi	Bolivia	Belarus	Chile
Central African Republic	Cabo Verde	Belize	Croatia
Chad	Cambodia	Bosnia and Herzegovina	Czech Republic
Congo, Dem. Rep.	Cameroon	Botswana	Estonia
Eritrea	Congo, Rep.	Brazil	Hungary
Ethiopia	Cote d'Ivoire	Bulgaria	Israel
Gambia, The	Djibouti	China	Latvia
Guinea	El Salvador	Colombia	Lithuania
Guinea-Bissau	Ghana	Costa Rica	Poland
Liberia	Guatemala	Dominica	Saint Kitts and Nevis
Madagascar	Honduras	Dominican Republic	Slovak Republic
Malawi	India	Ecuador	Slovenia
Mali	Indonesia	Fiji	Trinidad and Tobago
Mozambique	Kenya	Gabon	Uruguay
Nepal	Kosovo	Georgia	
Niger	Kyrgyzstan	Grenada	
Rwanda	Lao PDR	Guyana	
Senegal	Lesotho	Iraq	
Sierra Leone	Mauritania	Jamaica	
Tanzania	Micronesia	Jordan	
Togo	Moldova	Kazakhstan	
Uganda	Mongolia	Lebanon	
Zimbabwe	Myanmar	Macedonia, FYR	
	Nicaragua	Marshall Islands	
	Nigeria	Mauritius	
	Pakistan	Mexico	
	Philippines	Montenegro	
	Samoa	Namibia	
	Sri Lanka	Palau	
	Swaziland	Panama	
	Tajikistan	Paraguay	
	Timor	Peru	
	Tonga	Romania	
	Ukraine	Russian Federation	
	Uzbekistan	Saint Lucia	
	Vanuatu	Serbia	
	Vietnam	South Africa	
	Yemen, Rep.	St. Vincent & Grenadines	
	Zambia	Suriname	
		Turkey	
		Venezuela	

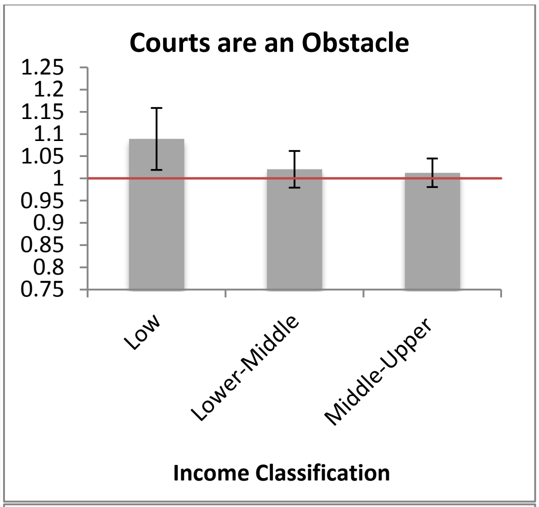
Appendix B – Differences between foreign and domestic firms: sector, size, ownership, organization, and export propensity

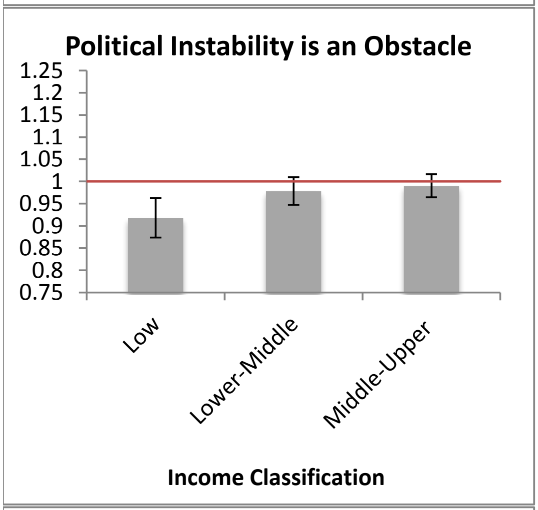
	Domestic, %	Foreign, %	Total, %
		Sector	
Textiles	4.9	5.4	5.0
Leather	0.8	1.3	0.8
Garments	6.8	5.6	6.7
Food	10.6	10.9	10.7
Metals and machinery	8.5	7.3	8.4
Electronics	1.6	2.2	1.7
Chemicals and pharmaceuticals	4.4	6.3	4.6
Wood and furniture	2.2	1.3	2.1
Non-metallic and plastic materials	6.1	5.7	6.0
Auto and auto components	1.0	0.6	0.9
Other manufacturing	8.4	11.5	8.7
Retail and wholesale trade	23.6	22.0	23.5
Hotels and restaurants	5.0	4.4	5.0
Other services	10	10.9	10.1
Other: Construction, Transportation, etc.	5.9	4.4	5.8
Total	100	100	100
		Size quintile	
First	19.9	9.1	18.8
Second	20.5	11.4	19.6
Third	20.6	15.5	20.1
Fourth	21.3	23.7	21.6
Fifth	17.6	40.4	19.9
Total	100	100	100
		Government ownership	
None	98.9	96.6	98.6
Less than 10%	0.1	0.4	0.1
Greater than 10%	1.0	3.0	1.2
Total	100	100	100
		Legal organization of firm	
Publicly listed	4.2	9.9	4.7
Private LLC	44.9	59.5	46.4
Sole proprietorship	36.0	13.6	33.8
Partnership	7.8	8.3	7.9
Limited Partnership	7.1	8.7	7.3
Total	100	100	100
		Exports	
None	80.9	55.3	78.3
Indirect	4.8	7.9	5.1
Direct	14.3	36.8	16.5
Total	100	100	100

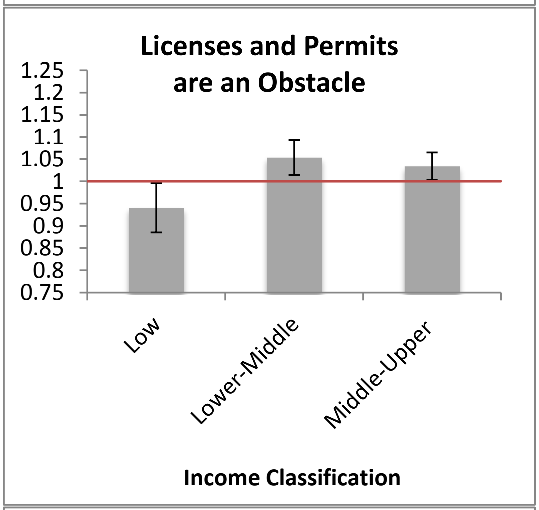
Appendix C – Results by Income Class

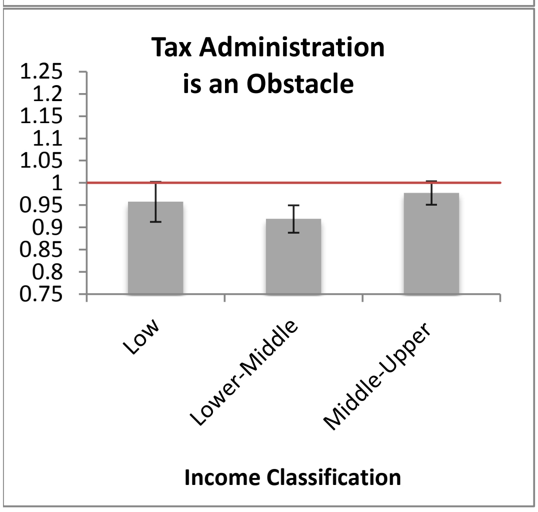
Graphs show estimated relative risk of foreign versus domestic firms agreeing with the statement. T-bars show plus and minus one standard error of the estimated relative risk (a 68% confidence interval).

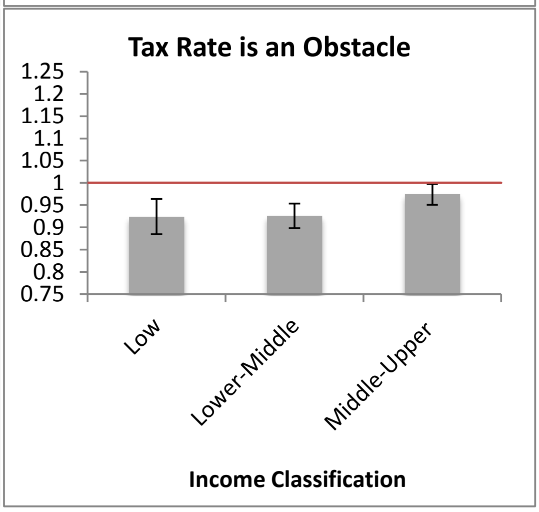


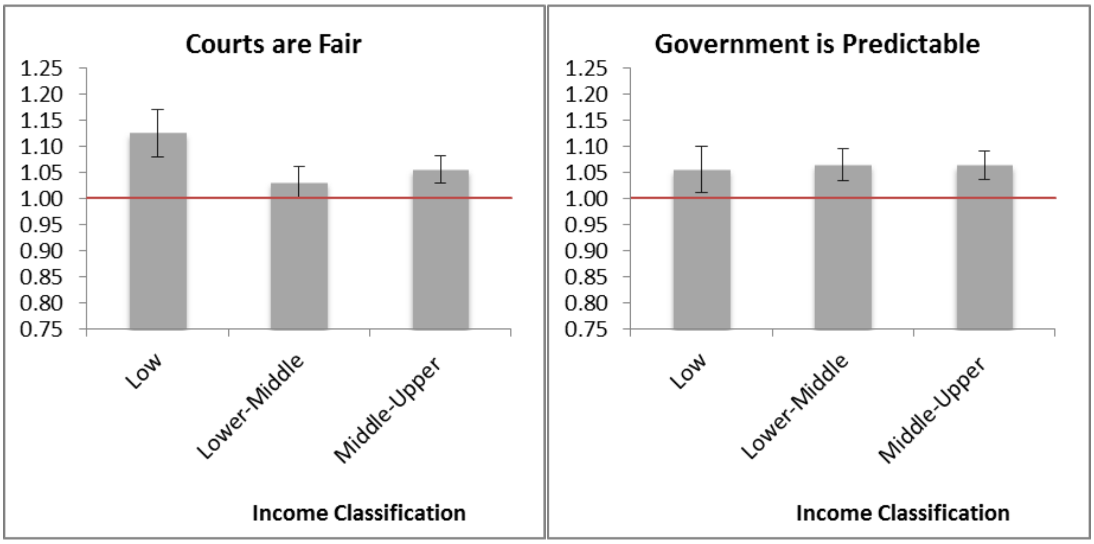











Courts are Fair
1.25
1.20
1.15
1.10
1.05
1.00
0.95
0.90
0.85
0.80
0.75
Low
Lower-Middle
Middle-Upper
Income Classification
Government is Predictable
1.25
1.20
1.15
1.10
1.05
1.00
0.95
0.90
0.85
0.80
0.75
Low
Lower-Middle
Middle-Upper
Income Classification

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