Extradition treaties and emerging market firms' host country location choice[☆]

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ABSTRACT

Traditional perspectives on interstate cooperation stress its benefits in facilitating foreign direct investment (FDI) by reducing uncertainty in international operations and enhancing mutual trust between countries. Our investigation explores another side of interstate cooperation by discussing the potential risks that can emerge from it. Our fulcrum for exploring risks comes from an explicit consideration of the divergent interests that can exist between nation states and business. We focus on the phenomenon known as bilateral treaties on extradition, which enable one country to request the repatriation of fugitives or convicted criminals from another country through official cooperation. Extradition treaties extend the jurisdictional influence of a firm's home country to a host country. This mechanism can create concerns for firms when they are motivated to use FDI to escape from their home country, especially from certain emerging markets with weak institutions. We propose that emerging market firms can be motivated to circumvent host countries that have established extradition treaties with their home country. Both private-owned and state-owned enterprises can show this behavior, albeit the effect is weaker for state-owned enterprises as compared to private-owned ones. The effect is particularly strong on firms that have documented malfeasance in their home country. We test these ideas on outward FDI made by Chinese firms in 106 foreign countries during 2001–2013.

1. Introduction

Cooperation between home and host countries should facilitate foreign direct investment (FDI). Interstate cooperation on investment regimes, diplomatic relations, travel and immigration, and security engenders intergovernmental trust and political affinity (Albino-Pimentel, Dussauge & Shaver, 2018; Li, Meyer, Zhang & Ding, 2018; Nigh, 1985). It creates friendly business-government relationships and reduced concerns about governmental expropriation (Li & Vashchilko, 2010). Thus, multinational firms most typically view interstate cooperation as creating stability between two countries, which reduces uncertainties in their international operations.

However, the risks to a firm engaging in FDI do not arise only from the host country environment, they can also extend from the home country to the international environment (Yan, Zhu, Fan & Kalfadellis,

2018). The escape strategy captures the idea that a misalignment between a firm's strategy and conditions in its home country can push a firm to expand internationally (Witt & Lewin, 2007). Such a motivation for escape is common for firms whose home country is a developing or emerging economy (). The home country characteristics that magnify the push-related escape motives include weak institutional support for competition, political expropriation, legal inequities, as well as threats to the security of intellectual and material property (Boisot & Meyer, 2008). These characteristics have been explored in the context of emerging market firms (EMFs), constituting the push factors that propel them to utilize FDI for their escape (Buckley, Clegg et al., 2007; Luo & Tung, 2007).

When understanding the conditions to motivate FDI by escape, we should expect EMFs to prefer host countries that provide good protection for their assets, competitiveness, and capabilities. The assumption

herein is that the political and legal regimes between the host country and the home country are tangibly separate. However, certain forms of interstate cooperation can invalidate this assumption when such cooperation is motivated by political alignment instead of business facilitation. This condition is evident when nation-states collaborate on their cross-border administration and law enforcement, which can result in a spillover of the home country's influence to the potential host country. That is, some forms of interstate cooperation create a mechanism by which the political and legal influence as grounded in the institutions of the home country government can still reach EMFs, even in their investments abroad. When such an interstate cooperation arrangement exists, it effectively jeopardizes the escape strategy of an EMF because the FDI does not provide the desired separation from their home country's influence.

Therefore, we believe it is important to consider how some forms of interstate cooperation can lead to a reduction in cross-border business by decreasing, not increasing, the attractiveness of a given host country for FDI. An exploration of this possibility and the nuances it yields for a firm's international strategies can deepen our understanding of the relationship between interstate cooperation, FDI motives and patterns, especially in the context of the rising tide of FDI by EMFs.

To achieve this research objective, we focus on the form of interstate cooperation known as extradition. This form of interstate cooperation is highly visible as it is manifested clearly as an extradition treaty. Extradition refers to the formal process by which one nation-state requests another nation-state to surrender an individual who has been accused or convicted of a crime to stand trial or serve a sentence in the requesting country (Bassiouni, 2014). This form of legal cooperation necessitates a mutual recognition of the jurisdictions and sentencing power of the two countries involved (Perry, 2000). When an extradition treaty exists between the home and the host country, the business principals and managers operating via the FDI in the host country face the possibility of being extradited to the home country if they have engaged in violations of civil, criminal, or business laws in the home country.

An example explains this idea more clearly. John McAfee, a British-American citizen and anti-virus software entrepreneur, was arrested by Spanish authorities in October 2020. The arrest was undertaken for him to be extradited to the United States (U.S.) to face charges of tax evasion (Ives, 2020). This official action was enabled by the extradition treaty between Spain and the U.S. The extradition cooperation linked the law enforcement regimes of the two countries, highlighting how the legal systems of the home country can have an impact on jurisdictional enforcement in the host country.

Considering these theories and real-world cases, it is useful to assess the extent to which an extradition treaty can change EMFs' choices on which host countries to seek for their FDIs. We hence use the outward FDI of Chinese multinational firms to undertake our empirical investigation of this idea. China has made great efforts to establish extradition treaties with numerous foreign countries since the 1990s (Lipkowitz, 2019). Meanwhile, domestic enterprises and their owners and managers are still trapped in an environment of questionable institutions including governmental expropriation, legal inequities, and political prosecution (Deng, Delios & Peng, 2020; Luo & Tung, 2007). Therefore, China and Chinese FDI provide an important setting for observations on the firm strategy of escape.

We empirically examine Chinese firms' selection of host countries for FDI, as conditioned on the existence of extradition treaties between China and host countries. Furthermore, our research explores two important and related questions: 1) Do state-owned enterprises (SOEs) and private-owned enterprises (POEs) respond equally or differently to extradition treaties? And, 2) Are firms that have committed malfeasance in China more sensitive to extradition treaties?

Although research has given considerable emphasis to how interstate cooperation facilitates FDI (Hu & Lu, 2014; Li et al., 2018; Li & Vash-chilko, 2010), we explore the situation where certain forms of interstate cooperation may, in fact, make a host country less attractive to FDI by EMFs. Our study hence aligns with ongoing conversations about the push of domestic institutions that lead firms to undertake FDI to escape their home emerging economy (Benito, 2015; Cuervo-Cazurra, Narula & Un, 2015; Luo & Tung, 2007). We move a step forward to theorize on the extension of the same institutional constraints through interstate cooperation and explore how such cooperation can compel firms to alter the trajectory of their FDI, in terms of their host country location choice. We hence advance the theoretical foundations of escapism (Gaur, Ma & Ding, 2018; Witt & Lewin, 2007), not with an expansion on motives for escape, but instead, by focusing on the strategy of escape. Moreover, we delve into the complex institutional environments with which EMFs must contend when undertaking FDI. Our study thereby provides insights into EMFs' strategy of navigating conflicting institutional arrangements that may hinder their interests, and hence, deepens our understanding of the internationalization strategy of EMFs.

2. Background

Ideas on escapism were first created with reference to developed country firms and then extended to the context of emerging market firms. We sharpen this contextual focus by looking at the FDI of Chinese multinational firms. That said, we believe the ideas we develop on escapism and extradition can analogously be reflected in a broad set of home country contexts, even if our conceptual and contextual arguments have their strongest resonance for Chinese firms' FDIs.

2.1. Institutions and Chinese firms' FDIs

Chinese firms exhibit two divergent tendencies in their location choices for FDI, as influenced by institutions in both home and host countries. This phenomenon is described by scholars as the "push and pull" effect (Buckley, Devinney & Louviere, 2007; Cuervo-Cazurra et al., 2015). On the one hand, weak domestic institutions and judicial systems push these firms to expand internationally, as manifested in an escape strategy (Barnard & Luiz, 2018; Nuruzzaman, Singh & Gaur, 2020). They hence situate FDI in host countries with developed institutions that provide protection for investments and opportunities for upgrading competitiveness (Luo & Tung, 2007). On the other hand, Chinese firms aggressively approach natural resource access and profitability enhancement, by expanding to countries with underdeveloped institutions, such as in Africa, Central Asia, and South America (Sanfilippo, 2010). Born in similar institutional contexts, Chinese firms have cultivated the capability to navigate such challenging institutional conditions (Kang & Jiang, 2012; Landau, Karna, Richter & Uhlenbruck, 2016).

Even with an increased pace of establishing transparent regulations and rules, weak intellectual property rights, red tape, and bureaucracy are still features of Chinese institutions and its business environment, creating legal, political, and economic challenges for domestic enterprises (Hoskisson, Wright, Filatotchev & Peng, 2013). A high regulatory density, manifold rigidities, and inflexibilities are part and parcel of business life in China (Voss, Buckley & Cross, 2010). Despite domestic firms' skills and networks in handling such constraints, Chinese firms still incur notable costs to deal with these institutional hardships and the associated uncertainty it creates (Luo & Tung, 2007). Consequently, Chinese firms expand to foreign countries to alleviate their vulnerability to domestic institutional constraints and concentrate on building, exploiting, and upgrading their competitive advantages in international markets (Boisot & Meyer, 2008; Luo & Tung, 2007).

Favoring both developed economies and countries with underdeveloped institutions for FDI might seem contradictory, but it is logically coherent. The institutional deficiencies of China provide opportunities for firms to develop unique organizational and political capabilities. With domestically-cultivated experience and expertise to manage difficult institutions, Chinese firms have learned to handle imperfect contracting environments, less-developed market mechanisms, and the

political instability that characterizes developing countries (Ghemawat & Khanna, 1998). As Child and Rodrigues (2005) contend, Chinese firms have competitive advantages over developed-country firms for FDI in developing countries. In addition, the Chinese government provides vital support to investments in developing countries, especially in locations where China has established political connections with foreign governments (Buckley, Clegg et al., 2007; Lu, Liu, Wright & Filatotchev, 2014). In short, market imperfections can be transformed into ownership advantages when Chinese firms invest in institutionally underdeveloped countries.

As such, underdeveloped domestic institutions push Chinese firms to escape from institutional voids domestically, while enabling them to overcome institutional risks with their inherent skills to manage such institutionally rooted challenges. However, as we argue, the ability or expectation to achieve such benefits depends on the forms of interstate cooperation that link the institutions of China and the potential host countries. We hence focus on extradition treaties between China and foreign countries that can provide a critical link between the institutions of the home country and a potential host country.

2.2. Extradition treaties

The history of extradition can be traced back to the time of Ancient Egypt and China when tribes exchanged criminals and rebels as part of a truce. A famous historical case was the extradition of the Irish rebel Brian O'Rourke from Scotland to England, as requested by Queen Elizabeth using the 1586 Treaty of Berwick. After World War II, extradition became a more widespread form of interstate legal cooperation. For example, the U.S. has established extradition treaties with more than 100 countries and managed between 350 and 600 extradition cases each year in the past decades (Masters, 2020). European countries fostered uniformity on mutual extradition in 1957 with the European Arrest Warrant and made 80,000 extradition requests to member countries during 2005–2011 (Efrat & Newman, 2020). Increasingly, developing countries and emerging economies are engaging in extradition cooperation. By 2013, China and India had signed extradition treaties with 29 and 43 partner countries respectively.

An extradition treaty fosters cooperation in cross-border law enforcement (Knapp, 1988). Countries sign extradition treaties mainly for three reasons. First, countries seek to exercise their jurisdiction and law enforcement in international territories. Without such conventional or legislative provisions, nations are neither obligated nor have justified authority to apprehend fugitive criminals and surrender them to their country of origin Kuhn (1937). Second, countries establish extradition treaties to reinforce mutual trust and connections, which is a form of diplomatic consideration. Showing a lack of harmonious bilateral relations, Russia provided asylum to the American citizen Edward Snowden. Russia refused the extradition request of the U.S., which charged Snowden with leaking classified documents and violating security laws. Third, countries can establish extradition cooperation when they have a history of close exchange, such as neighboring European countries, or postcolonial connections, such as the countries in the Commonwealth. These countries have similar legal systems and thus a low level of cost and difficulty in mapping laws and regulations to each other.

Countries usually leave the subject of the criminal offense unspecified to ensure a comprehensive coverage of crimes that can be considered grounds for extradition. In general, extraditable offenses encompass conduct that violates civil, criminal, and commercial laws. These may include crimes such as murder, corruption, money laundering, and various others. Many countries consider extradition only if a punishable offense violates the laws in both the home and host countries. As an example, in May 1997, Jerry Lui Kin-Hong, a senior executive of the British American Tobacco Co., was arrested in Boston and extradited to Hong Kong, where he was charged with taking millions of U.S. dollars in bribes for monopoly sales for cigarette exports (Hanson-Philbrick, 1996; Zheng, 2020).

In most of the extradition treaties, countries will claim a discretion to refuse an extradition request, such as when the person sought is a national of the requested country or is granted with asylum, or when the requested country believes the prosecution of the requested country is on account of race, sex, religion, or political factors. Some countries may refuse to extradite a fugitive if they would face the death penalty in the requesting country, especially if the death penalty has been abolished in the requested country. Although extradition treaties usually preclude cases of political crimes, and countries often carefully investigate any potential for political prosecution, the politicization of extradition cannot be easily ruled out in practice (Lipkowitz, 2019). It is important to recognize that nation-states, with their sovereignty intact, may not always act in accordance with the expectations of their partners.

The issue of extradition can draw attention in a multinational firm because personal security is a core interest (Dai, Eden & Beamish, 2013). A firm's owners, managers, and employees, who have violated criminal codes in one country, can be strongly motivated to escape to another. This motivation becomes stronger when a firm's business is situated in an institutionally underdeveloped country where the legal proceedings often deviate from the principles of fairness, impartiality, and transparency, or might even be prone to human rights abuses. In institutionally underdeveloped countries, legal systems and political systems often fail to effectively disincentivize unethical and illegal behaviors (Zhao, Tan & Park, 2014). Firms can sometimes take advantage of regulatory loopholes or act in a grey area that is neither illegal nor legal. But they face great uncertainty of questionable prosecution and punishment.

The possibility of extradition can place expatriates, individuals with dual citizenship, and migrant workers under the legal obligations of two jurisdictions. Consequently, businesspeople encounter a complex legal environment and must exercise caution to ensure compliance with regulations in both countries. An extradition treaty between the home and host countries signals a complex, costly, and potentially unsafe investment environment.

3. Theory and hypotheses

3.1. Extradition treaties and host country choices

Institutional weaknesses in developing countries and emerging economies make it difficult for domestic firms to develop long-term ownership advantages, and protect their property from governmental expropriation and other forms of institutional hazards (Child & Rodrigues, 2005; Henisz, 2004). As such, firms can be motivated to escape and move to foreign countries through international expansion, especially FDI (Luo & Tung, 2007; Witt & Lewin, 2007). A successful escape means that a firm flees its domestic jurisdiction by entering a regime that is not subject to influence from the home country.

Most sovereign states have independent, self-defined institutions (Redding, 2005). Yet, countries are connected across borders by networks and exert influence on each other through various forms of international cooperation, confrontation, and multilateral relations (Rangan & Sengul, 2009). Cross-border cooperation on extradition is an important institutional arrangement between countries that can affect international business, as it indicates a mutual recognition of the legal systems of partner countries and leads to cross-border law enforcement.

Countries can spontaneously engage in extradition cooperation based on reciprocity and interstate affinity. But an official extradition treaty results in a standing mechanism that standardizes the procedure, posing a certain level of duty on countries (Allee & Peinhardt, 2011). Under an extradition treaty, communication and extradition negotiation between two jurisdictions is routinized and simplified, based on a mutual acknowledgment and a formal agreement (Bassiouni, 2014). This agreement leads to a reduction in administration costs for nation states, however, it can create an additional level of complication for firms in that they face legal constraints posed by one or both countries.

Although a firm's managers and owners could reside in one country, given the presence of a formal extradition treaty, they still face the possibility of being extradited to their home country if they violate laws in either country. The risk is greater when the laws and administration of one country lack equity or when the institutions are not favorable to the protection of individuals. For example, a firm's managers and owners might face a monetary fine for violating the accounting standards in one country but could be subject to criminal prosecution in another for the same violation. The country differences in death penalty sentencing, prison term durations, and restrictions on financial activity increase the complexity of the situation. The central issue is that for firms that originate in a country with underdeveloped institutions, extradition treaties link institutional deficiencies of the home country to the various potential host countries with which it has a formal extradition treaty.

A firm's managers and its employees, who have violated criminal codes or taken advantage of regulatory loopholes in their home country, are strongly motivated to escape domestic criminal prosecution. This motivation intensifies, particularly when the prosecution is likely to involve political elements and veer away from the judicial principles of impartiality, fairness, and transparency. When an EMF escapes from its domestic institutions, an extradition treaty means that its assets and personal security can remain under a strong influence of the regime of the home country, even if situated in the host country.

Such concerns constrain opportunities to manipulate cross-country differences to arbitrage institutional environments for personal and property security (Ghemawat, 2003). Under the circumstances of an extradition treaty, investing and situating assets in a host country that is an extradition partner of the home country cannot guarantee safety. An attempt to escape through FDI might prove ineffective or face failure due to the potential for extradition. The potential for the escape strategy to fail can discourage Chinese firms from undertaking FDI (Tang, Shu & Zhou, 2021). To fight the corruption and bribery prevalent in the public sector since its Reform and Opening in the late 1970s, China has continuously prosecuted business crimes associated with corruption. As many businesspeople seek to escape China, notably, they often use FDI as a channel to move their property and people into countries that grant citizenship or residency on the satisfaction of specific FDI conditions (Kelley, Coner & Lyles, 2013). Under these circumstances, China has to request the extradition of criminals from the host countries to which criminals and suspects move via their FDI, and proactively establish extradition treaties with partner countries (Lipkowitz, 2019). This situation is intertwined with politics and the national strategies of China along with its policy of promoting outward FDI. As such, China's extradition treaties with foreign countries *de facto* impose considerable uncertainties on Chinese firms. To reduce uncertainty and avoid failure in escape, Chinese firms will consider extradition treaties as a factor in host country selection when undertaking FDI. We hence expect a negative impact of an extradition treaty on the FDI entry propensity of Chinese firms.

Hypothesis 1. *Chinese firms are less likely to enter a host country that has established an extradition treaty with China than enter a host country that has no such treaty.*

3.2. State-owned enterprises

The distinction between private-owned enterprises (POEs) and state-owned enterprises (SOEs) is notable in China's business landscape. SOEs are assets owned by the country and *de facto* managed by the government, with firm executives mostly being party cadres who can rotate positions with governmental officials (Guo & Hu, 2017). As such, SOEs are structured and staffed to represent the interests of the state (Bai & Xu, 2005; Grøgaard, Rygh & Benito, 2019). State ownership and control determines that SOEs will coordinate with the government and align their FDI decisions with the state's objectives (Buckley, Clegg et al., 2007; Child & Rodrigues, 2005). Furthermore, SOEs also receive

substantial governmental support to facilitate their international expansion (Deng, 2009; Lu, Liu, Wright & Filatotchev, 2014). In particular, China mandates government officials and diplomats to facilitate SOEs in gaining access to political networks in host countries (Li, Yang & Yue, 2007). Hence, in theory, SOEs should operate in a manner consistent with the central government's foreign policy objectives such that they should embrace China's extradition partners with whom China seeks to establish good bilateral relations.

However, SOEs may deviate from the interests of the state and engage in escape strategies. This incentive for escape arises from principal-agent issues associated with SOE executives. In many cases, the state owners lack the ability to strongly monitor the people who are running the business. SOE executives do not receive financial compensations equivalent to those executives in similar positions in POEs, thereby creating incentives to pursue personal interests (Cole, Berkman & Fu, 2002; Cull & Xu, 2005). Compared to operations in domestic markets, FDI is even more difficult to monitor due to the increased complexity in international markets (Berkman, Cole, & Fu, 2002; Cull & Xu, 2005; Hu & Cui, 2014). SOE executives hence have a reasonable opportunity to manipulate FDI decisions when selecting host countries.

Observations from a foreign country's perspective indicate that Chinese executives exhibit a strong interest in immigration, children's education, and permanent residency when negotiating FDI deals with local governments in the U.S. (Kelley et al., 2013). Research on SOEs' FDI behaviors suggests that senior executives can use FDI as a vehicle for asset transfer, effectively converting public property into private wealth (Ding, 2000). Some SOE executives make decisions to invest state assets in foreign countries, and subsequently engage in asset tunneling by using their private firms through subcontracting or joint venturing with the SOE. Such scenarios pose a challenge for the state owner to discern them, let alone implement effective monitoring. Therefore, SOE executives may prioritize their concerns with extradition treaties over state policy and the interests of the state, and deviate from the principle of political loyalty.

Our theoretical inferences are supported by empirical evidence indicating that in the past decades, numerous cases of SOE executives engaging in economic crimes and fleeing the country have been observed in China (Lipkowitz, 2019). In a specific case, Qiao Jianjun, a former executive of the China National Petroleum Corporation, was convicted of corruption and fled to Sweden in 2013. Sweden detained Qiao at the request of the Chinese government but refused to extradite him to China, citing concerns about his human rights (Reuters, 2019). Such cases lead us to suspect that SOE executives may invest state assets in foreign countries with fewer constraints on mobility and security. As a result, we anticipate that SOEs will demonstrate a tendency to circumvent extradition treaties, albeit with a weaker effect compared to POEs.

Hypothesis 2. *The negative impact of extradition treaties on Chinese firms' FDI entry propensity is smaller for State-owned Enterprises (SOEs) than for private-owned Enterprises (POEs).*

3.3. Violation of home country regulations

The motivation for fleeing the home country is primarily a misalignment between a firm's strategy and the domestic institutions of the country (Witt & Lewin, 2007). The malfeasance of a firm can reflect a great level of conflict between its survival or growth strategy and the surrounding institutional environment. Indeed, corporate malfeasance can grow from an unethical company culture (Zaal, Jeurissen & Groenland, 2019), but it suggests a firm's determination to act illegally against domestic institutions. China's weak shareholder protection, weak intellectual property protection, and low transparency in public administration have provided regulatory loopholes for firms to extract rents illegally (Martin, Cullen, Johnson & Parboteeah, 2007) and conceal such misconduct (Prechel & Morris, 2010). However, some firms will inevitably be caught for misconduct (Palmer, 2012).

Such misconduct can be interpreted as a firm's lack of fitness with China's domestic institutions. FDI gives hope of operating in a divergent environment where firms might take advantage of institutional diversity and ambiguity (Cuervo-Cazurra, Dieleman, Hirsch, Rodrigues & Zyglidopoulos, 2021; Greve, Palmer & Pozner, 2010). Perhaps, one misbehavior will be legal in a host country even if it is illegal in the home country, or vice versa. Such arbitrage benefits, however, will be muted under an extradition treaty that reduces the legal differences between two countries. A routinized extradition cooperation is a warning board showing that there is a close collaboration between two countries in fighting cross-border malfeasance. Malfeasant firms would be alert about complicated legal issues if committing misconduct overseas or domestically. Leaders or owners of such firms could be extradited to a jurisdiction where penalties or laws are in their disfavor. Therefore, the existence of an extradition treaty can create substantial complexity, uncertainty, and a reduction in strategic flexibility for multinational firms. Firms would rather confine their business activities to a realm where there is less legal ambiguity and more clarity on the boundaries of a country's legal jurisdiction. Therefore, we expect that compared with firms that obey laws and regulations, firms that have been malfeasant in their operations in China will respond to extradition treaties with even a lower FDI entry propensity.

Hypothesis 3. *The negative impact of extradition treaties on Chinese firms' FDI entry propensity is greater for firms that have been demonstrably malfeasant in their operations in China.*

4. Methods

4.1. Data and sample

We test our hypotheses with a sample of listed firms in China and their outward FDIs in foreign countries in the 2001–2013 period. This setting provides a good chance to observe FDI by EMFs and their considerations on location choice as predicated upon assessments of home and host country institutions.

Chinese firms have faced heightened competition from domestic and foreign competitors since the 1990s (Chang & Xu, 2008). Since the 2000s, they have accumulated capabilities and began expanding abroad in search of new resources and markets, creating a tide of outward investment (Buckley, Clegg et al., 2007). However, China's political and institutional system is still in the process of development compared to advanced economies. A high level of interference in the national economy through government administration and laws still exists, with SOEs controlling critical resources and production and having a monopoly presence in important industries such as energy and telecommunications (Stevens, Xie & Peng, 2016). The legal system lacks transparency and fairness, which allows firms to manipulate regulations for malfeasance. More than 4000 corrupt officials and other economic fugitives fled China from 1978 to 2003 and absconded with US$50 billion (Lipkowitz, 2019). As Chinese firms expand to the world, the Chinese Government has actively promoted bilateral cooperation in legal issues with foreign countries and established numerous bilateral extradition treaties within two decades (Fig. 1).

We constructed our sample using data from several sources. First, we obtained firm-level data from the CSMAR (China Stock Market and Accounting Research) database (Liang, Ren & Sun, 2015; Xia, Ma, Lu & Yiu, 2014), which compiles information on firms listed on China's two stock exchanges (Shanghai and Shenzhen). Second, we collected FDI data from the published annual reports of those listed firms. By comparing the list of subsidiaries of a firm with its released announcements of investments, we gained a high level of information precision. Third, we obtained bilateral extradition treaty data from the online portal of China's Ministry of Justice (MoJ China, 2020).

Our observations started in 2001 when China became a member of the World Trade Organization, and Chinese FDIs surged into foreign countries, and ended in 2013 because China altered its government with a new regime and leaders at the year-end of 2012. Our observation window covers a historical period during which Chinese firms began investing abroad, coinciding with the Chinese government's rapid establishment of extradition treaties with foreign countries.

Many new policies aimed at regulating or constraining outward FDI were released after 2013. For example, the country tightened personnel control by requesting that party members take key positions in the leadership of SOEs (Guo & Hu, 2017). The government aimed to align FDI with high-tech industries and areas advantageous to SOEs, as well as the "one road one belt" initiatives (State, 2017), leading to increased scrutiny and challenges for outward FDI alongside a reduced choice of FDI destination. The international environment also exhibited heightened hostility against Chinese firms' overseas business, exemplified by the trade war between China and the U.S. and direct constraints on Chinese FDI (Itakura, 2020). Our observation window serves our purpose of capturing a historical period where Chinese FDI was less constrained by state policy and where the hostility against Chinese capital
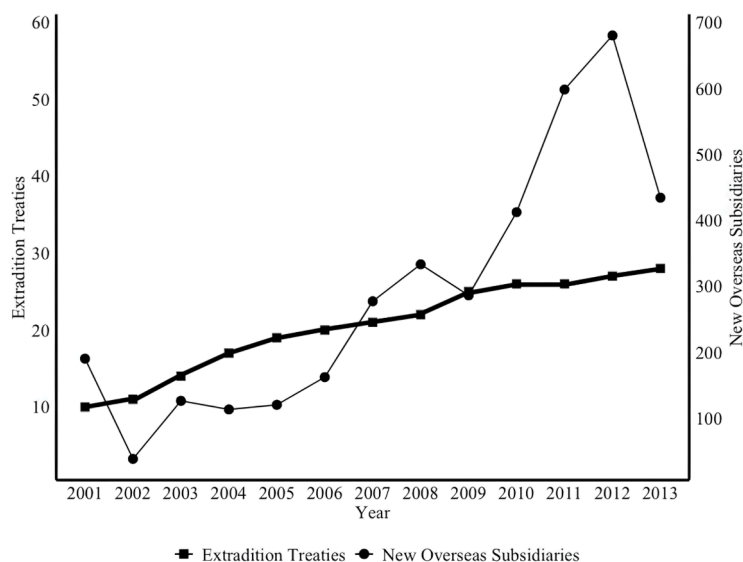

Fig. 1. China's bilateral extradition treaties and overseas subsidiary establishments by year.

had not yet been institutionalized in foreign countries.

Following our sampling strategy, we included only firms that made an FDI at least once and included host countries that had received at least one Chinese FDI. We excluded Hong Kong, Macau, and Taiwan given their unique relationships with the Chinese Mainland. We also excluded countries and regions that are widely acknowledged as tax havens, such as the British Virgin Islands and the Cayman Islands. We thus identified 761 Chinese listed firms and their 3769 outward FDIs in 106 countries during 2001–2013. We assumed that firms could choose any host country each year. Hence, we constructed a firm-year-country structure by supplementing actual entry cases with counterfactual cases that firms could have entered a country but did not (Abadie, Diamond & Hainmueller, 2015; Hu, Natarajan, & Delios, 2021). As we established a one-year lag on the data to allow for the time effect, the sample with a choice model contained 967,992 observations (761 firms × 106 countries × 12 years), while the final regression had 755,684 observations (78.1 %). The loss of observations is mainly due to missing values in variables and the use of conditional logit models, which excluded observations that contain time-invariant variables.

4.2. Measures

Dependent variables. The dependent variable *entry* is binary: it takes the value of 1 if a Chinese firm enters a host country by FDI in a year and 0 otherwise. We observed an FDI entry when a firm established one or more new subsidiaries or acquired existing ventures in a host country. Data could be truncated because China requests listed firms to report overseas investments when the Chinese ownership exceeds 20 % of the venture's equity. We hence used various coding schemes for defining *entry*. We identified an FDI entry when a Chinese firm established a venture of which it has an equity ownership that exceeded 5 %, then 20 % and then 50 % for partially owned entries, and finally, we defined *entry* for entries that were wholly owned (100 % ownership). In an additional analysis, we used a variation of this variable, *first entry*, which takes the value of 1 if the focal firm entered a host country for the first time and 0 otherwise.

Independent variables. The primary independent variable, *extradition partner of China,* is binary: it takes the value of 1 if the focal host country has an effective extradition treaty with China in a given year, and 0 otherwise. No termination of treaties occurred during the observation window. Hence, this variable denotes the status of the extradition treaty—whether there is a treaty or not. We used it to test Hypothesis 1.

Table 1 presents all the countries that had established extradition treaties with China during 1997–2013. In general, China seeks cooperation on extradition mainly with developing economies, although some are developed countries. Only a few common-law countries have established extradition treaties with China, which could be due to the fundamental differences in judicial systems that are difficult to map to one another (Lipkowitz, 2019).

Because extradition treaties are usually signed one or two years before entering into force, we wanted to see whether firms respond to the announcement of a treaty or wait until the treaty is put into force. We used two variations of variables: *treaty with China signed,* and *treaty with China entered into force*. Both are binary variables that take the value of 1 when extradition treaties are signed and become effective, respectively, in a specific year between China and the host country, and 0 otherwise.

State-owned is our firm-level moderator for testing Hypothesis 2. This firm-level variable denotes whether the state is the majority owner of the firm, which takes the value of 1 if the Chinese central or provincial governments own more than 50 % of the focal firm's equity, and 0 otherwise (Luo, Xue & Han, 2010). Using this variable, we developed subgroups of SOEs and POEs, which account for 16.8 % and 83.2 % of the total observations, respectively.

Violation is a firm-level moderator for testing Hypothesis 3. It is a yearly count of events in which a focal firm violates regulations and rules set by the China Securities Regulatory Commission, the official bureau that governs Chinese stock markets. This commission makes public announcements about listed firms' violations of market regulations, such as false disclosures, profit inflation, and fictitious transactions (Chen, Firth, Gao & Rui, 2005). The count of *Violation* ranges from 0 to 12. Among the firms in our sample, 14 % have never violated a market regulation, and 33 % had one violation only. The remaining 53 % had two or more violations. The stock market witnessed an annual average of 179 violations, with this figure reaching 476 in the year with the most violations. While malfeasance is prevalent in the Chinese stock exchanges, firms vary widely in their level of misconduct.

Control variables. We used three levels of variables to control for other motivations for a firm's FDI entry, especially, the "push and pull" factors that are driving Chinese outward FDI. The first-level control incorporates country characteristics, which are regarded as the pull factors attracting Chinese FDI to a host country (Buckley, Devinney et al., 2007). We used data provided by the World Bank, specifically, its database of the Worldwide Governance Indicators (Kaufmann & Kraay, 2023). Following previous studies (Hellman, Jones & Kaufmann, 2003; Wu, Wang, Hong, Piperopoulos & Zhuo, 2016), we created the variable *institutional development*, to proxy for the strength of the institutions of the host countries. This variable is constructed based on six indicators: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. Higher scores of *institutional development* indicate better institutions. Using the World Bank data, we also included the total *population* of host countries to proxy for the market size. For the influence of the size or strength of the host country's economy, we had *GDP growth*, which is the yearly growth rate of the gross domestic product, while *GDP per capita* is the annual GDP of the country's population. These two variables account for the economic attraction of a potential host country for FDI. *FDI inflow* is the percentage of FDI inflow against GDP, indicating the *status quo* of FDI in a host country (Delios & Henisz, 2000). As natural resources of host countries can be a strong attraction for Chinese firms, we followed Kolstad and Wiig (2012) to construct the variable *natural resources,* which is the percentage of fuels, ores, and metals exports to GDP.

To capture the level of technology of host countries as a possible attraction to FDI (Anderson, Sutherland & Severe, 2015; Liang, Giroud & Rygh, 2021), we obtained patent data from the World Intellectual Property Organization (WIPO) and construct *patents*, the log of the number of patents in force. Moreover, we used the variable *investment risk* from the database International Country Risk Guide; higher scores indicate higher risk (Boubakri, Mansi & Saffar, 2013).

The second level of control variables denote dyad-specific attributes and relationships between China and potential host countries. Using data from China's Ministry of Commerce, we included the binary variable *BIT partner of China*, which takes the value of 1 if the host country has an effective bilateral investment treaty or a free-trade agreement

Table 1
Partner countries for China's bilateral extradition treaties (1997–2013).

Country	Date Entered	Country	Date Entered
Russia	January 10, 1997	United Arab Emirates	May 24, 2004
Bulgaria	July 3, 1997	South Africa	November 17, 2004
Kazakhstan	February 10, 1998	Lesotho	October 30, 2005
Belarus	May 7, 1998	Tunisia	December 29, 2005
Mongolia	January 10, 1999	Philippines	March 12, 2006
Romania	January 16, 1999	Tajikistan	January 18, 2007
Thailand	March 7, 1999	Spain	April 4, 2007
Ukraine	July 13, 2000	Pakistan	January 10, 2008
Uzbekistan	September 29, 2000	Portugal	July 25, 2009
Cambodia	December 13, 2000	Namibia	September 19, 2009
Korea	April 12, 2002	Algeria	September 22, 2009
Peru	April 5, 2003	Azerbaijan	December 1, 2010
Lithuania	June 21, 2003	Mexico	July 7, 2012
Laos	August 13, 2003	Angola	October 17, 2013
Kyrgyzstan	April 27, 2004		

with China, and 0 otherwise. We obtained *cultural distance* from the index of national cultural differences developed by Hofstede (1983) and *economic distance* using GDP, GDP per capita, and GDP yearly growth from the World Bank (Albino-Pimentel et al., 2018). For these two variables, we calculated the Euclidean Distance between the respective aspects of China and the host country and used the formula developed by Kogut and Singh (1988). Higher scores indicate greater distances in cultures and economies.

Finally, we constructed a measure to capture the nature of bilateral relations and exchanges between China and the host country in social and political aspects. Following prior studies (Gleditsch, Metternich & Ruggeri, 2014), we used the Global Data on Events, Location, and Tone, a mega project that collects worldwide media in print, broadcast, and web formats on the official and civilian interaction between countries. We measured *relation* by taking the yearly average of all negative and positive events, which were assigned with Goldstein (1992)) scores by the project creators, before normalizing them by dividing the total scores by the number of events. Higher *relation* scores denote better bilateral relations between China and a host country.

The third-level controls are firm attributes. *Firm size* is the logarithm of a firm's total assets; in general, larger firms have more resources for FDI. We included the variable *return on assets* (ROA) to denote a firm's overall financial performance that could affect its FDI entry propensity (Chang & Rhee, 2011). *FDI experience* is the count of all existing subsidiaries a firm has in foreign countries, which denotes firm capabilities and a firm's knowledge on operating FDIs (Makino & Delios, 1996).

5. Results

5.1. Estimation strategy

As our sample has a firm–year–country structure with three layers of data, we used a corresponding strategy to obtain unbiased estimations. First, we employed a *conditional (fixed-effects) logit regression model* and grouped observations by firm (Albino-Pimentel et al., 2018; Henisz & Delios, 2001). This form of conditional logit model treats the country–year combinations across years as the choice sets, assessing the relative likelihood of firms' country choice based on country attributes that capture the home–host country pairs (e.g., extradition treaties). This model allows for time-variant attributes within groups while removing time-invariant variables, such that it controls for industry effects and other firm fixed effects.

Given that some entries were counts and not binary, for a robustness check to our choice of modelling procedure, we ran Poisson models for all hypothesis tests and obtained qualitatively the same results, as we report below (e.g., Model 10 in Table 3). After estimation, we applied *robust standard errors* to control for common features of host countries in terms of inviting Chinese FDI. Second, we added year dummies to control for annual fixed effects and any global trends or specific factors that push Chinese firms to undertake FDIs. Third, we included several host country variables to control for country-level attributes that are appealing to FDI. Furthermore, we had little concern about reverse causality because China's FDI has yet to be large scale and it is sparsely scattered such that China will not establish an extradition treaty with a host country because it has an FDI located there. We lagged all explanatory variables by one year to reduce concerns of endogeneity caused by simultaneity.

5.2. Statistical analysis

Table 2 presents descriptive statistics of the main variables and their correlation matrix. The mean of the variance inflation factor (VIF) values is 1.42. *GDP per capita* (3.54) and *investment risk* (3.27) have the highest VIF values. Multicollinearity is not a concern.

Table 3 presents the main regression results for the hypothesis tests using conditional logit models. We report estimated coefficients of

Table 2
Descriptive statistics and inter-item correlations.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1 Entry	1																		
2 Institutions	0.05	1																	
3 Investment risk	−0.04	−0.80	1																
4 population	0.03	−0.24	0.22	1															
5 GDP growth	−0.01	−0.27	0.08	0.03	1														
6 GDP per capita	0.05	0.84	−0.82	−0.23	−0.27	1													
7 FDI level	0.05	0.09	−0.06	−0.25	0.09	0.00	1												
8 Natural Resources	0.00	−0.21	−0.10	−0.22	0.18	0.06	0.09	1											
9 Patents	0.06	0.70	−0.58	0.28	−0.29	0.73	−0.03	0.11	1										
10 BIT partner of China	−0.02	0.13	−0.11	0.04	−0.08	0.18	−0.13	−0.09	0.19	1									
11 Cultural distance	−0.01	−0.03	0.04	−0.05	0.11	−0.06	0.01	−0.06	−0.01	0.05	1								
12 Economic distance	0.00	0.01	−0.02	0.03	−0.03	0.06	−0.01	0.04	0.06	0.06	0.02	1							
13 Relation	0.00	−0.21	0.19	−0.18	0.19	−0.26	0.10	−0.34	0.03	−0.15	0.08	−0.02	1						
14 Firm size	0.04	0.01	0.00	0.01	−0.03	0.02	0.00	0.04	0.03	0.03	0.00	0.01	−0.04	1					
15 ROA	0.00	0.00	0.00	0.00	−0.01	0.00	0.00	0.01	0.00	0.02	0.08	0.01	0.00	0.08	1				
16 FDI experience	0.07	0.00	0.00	0.00	−0.02	0.01	0.00	0.00	0.01	0.02	0.00	0.00	−0.02	0.27	0.00	1			
17 Violation	0.00	0.01	0.01	0.00	−0.03	0.01	0.00	0.00	0.02	0.01	0.00	0.00	−0.01	−0.06	0.00	−0.02	1		
18 State-owned	−0.01	−0.01	−0.01	−0.01	0.06	−0.03	−0.01	−0.02	−0.05	−0.06	0.00	−0.02	0.08	0.17	0.01	−0.04	−0.05	1	
19 Extradition partner of China	−0.01	−0.13	0.03	0.13	0.00	−0.02	−0.01	0.17	0.14	0.19	−0.05	−0.05	−0.06	0.02	0.00	0.01	0.01	−0.04	1
Mean	0.00	0.02	29.08	16.07	4.20	8.30	5.69	1.71	4.94	0.51	2.58	19.73	1.42	21.88	−0.23	0.53	0.06	0.44	0.14
Standard deviation	1	1.04	9.86	1.90	4.95	1.65	16.85	1.19	3.64	0.50	1.48	69.52	0.77	1.41	24.23	3.66	0.27	0.50	0.34
Minimum	0	−2.60	7.63	9.17	−33.10	3.93	−82.93	0	0.69	0	0	0	−10.00	12.31	−2146.16	0	12	0	0
Maximum	1	2.12	84.29	22.71	54.16	11.9	366.36	4.27	14.78	1	8.40	434.14	10	28.51	36.09	105	12	1	1

Table 3

Conditional logit estimations of extradition treaties and Chinese firms' host country selection.

Dependent variable: **entry**	(1) Chinese parent ownership≥5 %	(2)	(3)	(4) Chinese parent ownership ≥20 %	(5) Chinese parent ownership ≥50 %	(6) Chinese parent ownership =100 %
Host Country Attributes						
Institutions	0.89***	0.89***	1.00***	1.19***	1.20***	1.20***
	(0.06)	(0.08)	(0.09)	(0.14)	(0.14)	(0.12)
Investment risk	−0.06***	−0.06***	−0.06***	−0.08***	−0.08***	−0.07***
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
population	1.07***	1.07***	1.05***	1.07***	1.07***	1.10***
	(0.03)	(0.06)	(0.06)	(0.06)	(0.06)	(0.05)
GDP growth	0.02*	0.02	0.02	−0.01	−0.01	−0.05**
	(0.01)	(0.02)	(0.02)	(0.03)	(0.03)	(0.02)
GDP per capita	0.75***	0.75***	0.74***	1.01***	1.02***	1.24***
	(0.05)	(0.08)	(0.08)	(0.09)	(0.09)	(0.09)
FDI level	0.07***	0.07***	0.07***	0.09***	0.09***	0.10***
	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)	(0.00)
Natural resources	0.31***	0.31***	0.33***	0.19[+]	0.20[+]	0.16*
	(0.03)	(0.08)	(0.08)	(0.11)	(0.11)	(0.07)
Patents	−0.05**	−0.05*	−0.04[+]	−0.07*	−0.07*	−0.08*
	(0.02)	(0.02)	(0.02)	(0.03)	(0.03)	(0.03)
Home–Host-Country Dyad Attributes						
BIT partner of China	−0.44***	−0.44***	−0.44***	−0.55***	−0.56***	−0.59***
	(0.05)	(0.05)	(0.05)	(0.06)	(0.06)	(0.06)
Cultural distance	−0.22***	−0.22***	−0.22***	−0.25***	−0.25***	−0.26***
	(0.02)	(0.03)	(0.03)	(0.04)	(0.04)	(0.03)
Economic distance	−0.03*	−0.03	−0.03	−0.26*	−0.26*	−0.42***
	(0.01)	(0.10)	(0.10)	(0.13)	(0.13)	(0.04)
Relation	0.37***	0.37***	0.37***	0.24***	0.24***	0.18***
	(0.03)	(0.05)	(0.05)	(0.06)	(0.06)	(0.05)
Firm Attributes						
Firm size	0.90***	0.90***	0.90***	0.97***	0.97***	0.96***
	(0.06)	(0.10)	(0.10)	(0.10)	(0.10)	(0.11)
ROA	0.12	0.12**	0.12**	0.12**	0.12**	0.11*
	(0.08)	(0.04)	(0.04)	(0.04)	(0.04)	(0.05)
FDI experience	0.00	0.00	0.00	0.02[+]	0.02[+]	0.02*
	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Focal Independent Variables						
Violation		−0.07	−0.07	−0.02	−0.01	−0.05
		(0.11)	(0.11)	(0.10)	(0.10)	(0.11)
State-owned		−0.07	−0.07	−0.12	−0.19	−0.17
		(0.14)	(0.14)	(0.19)	(0.19)	(0.20)
Extradition partner of China			−0.17*	−0.33***	−0.36***	−0.47***
			(0.07)	(0.09)	(0.10)	(0.11)
Log-likelihood	−11,761.2	−11,760.4	−11,757.8	−8847.8	−8742.7	−6896.1
χ^2	6421.41	3089.17	3127.80	3343.16	3342.28	3071.79
N	755,684	755,684	755,684	658,415	657,099	604,262

Notes: 1. The dependent variable *entry* is coded based on the percentage of equity shares owned by the Chinese parent in a subsidiary. "*Parent ownership*≥50 *%*" denotes that only newly established subsidiaries with Chinese parent ownership exceeding 50 % are considered as FDI entries. Other percentages follow the same pattern. 2. All models are fitted with conditional (firm fixed effects) logit models, grouped by firm; standard errors are in parentheses; year fixed effects using dummies are included in all models. [+] $p < 0.10$, *$p < 0.05$, **$p < 0.01$, ***$p < 0.001$.

explanatory variables with robust standard errors. Model 1 is the baseline model with all the control variables. The country characteristics variables such as *institutions, GDP per capita*, and *FDI level* have positive estimated coefficients ($p < 0.001$), while *Investment risk* ($p < 0.001$) has a negative estimate. It suggests that in general, Chinese firms prefer countries with developed institutions and economies to underdeveloped ones. The dyad-specific variable *cultural distance* ($p < 0.001$) obtained negative estimates, showing that country distance impedes Chinese FDIs. *BIT partner of China* ($p < 0.001$) is associated with lower levels of Chinese FDI entry propensity. This result provides another example of the inconclusive empirical investigations of the impact of BIT on FDI (Albino-Pimentel et al., 2018; Busse, Königer & Nunnenkamp, 2010; Kerner & Lawrence, 2014). For the firm-level attributes, larger firms are more likely to invest abroad (*firm size, p < 0.001*). *FDI experience* ($p = 0.664$) has a zero estimated coefficient, indicating no relevance to the dependent variable, likely because most Chinese firms are clustered at a comparatively early stage in their internationalization process. The moderators, *violation* ($p = 0.531$) and *state-owned* ($p = 0.646$), enter in Model 2, but have coefficient estimates that cannot be statistically

differentiated from zero.

Models 3–6 test Hypothesis 1 about the impact of an extradition treaty between home and host countries on a firm's FDI entry propensity. We denoted an FDI-entry by considering the parent ownership in the newly established subsidiary, using cut-off levels of 5 %, 20 %, 50 %, and 100 % respectively across models 3 to 6. For example, in Model 4, only FDIs with parent ownership exceeding 20 % are included, while in Model 6, only FDIs wholly owned by the Chinese parent firm are considered. When entering the regression, the variable *extradition partner of China* has a negative estimated coefficient in each of Model 3–6. ($p < 0.050$ in Model 3; $p < 0.001$ in Models 4–6). Nested model tests using the log-likelihood of the regressions indicate there is improvement in the fit of each of Model 3 to 6 over Model 2 (e.g., Model 3 is statistically improved in fit from Model 2: $F = 21.73$, $p < 0.001$). This confirms that *extradition partner of China* has added additional explanatory power in explaining the FDI entry propensity of Chinese firms.

Effect size analysis (Fey, Hu, & Delios, 2023) using Models 2 and 3 shows that when there is an extradition treaty established between China and a host country, a firm's FDI propensity to enter the host

country is lowered by 15.7 % as compared to the situation without any extradition treaty. Analyses of Models 4, 5, and 6 indicate that the effect sizes increase with the levels of parent ownership in subsidiaries: they stand at 28.4 % when an FDI with a 20 % parent ownership is included, 31 % when Chinese firms are the majority owners, and at 37.5 % when only wholly owned FDI (100 %) is included. This result suggests that Chinese firms tend to use ownership control as a strategy to ensure successful escape in response to extradition treaties.

Moreover, these effect sizes show a variance across industries, with the figure increasing to 21.6 % for firms acting in the manufacturing sector ($p = 0.010$), while decreasing to 14 % in the service sector ($p = 0.056$). This suggests that manufacturing firms are more sensitive to extradition treaty risks than service sector firms, possibly due to their higher investments in fixed assets, which limit flexibility in managing such risks. Moreover, extradition treaties tend to be more influential on younger firms (12 years old and below), with an estimated effect size of 20 % ($p = 0.083$). This suggests that experience might help a firm to reduce the uncertainty created by the execution of an extradition treaty. Our results provided strong, logically sound, and consistent support for Hypothesis 1.

We first conducted an interaction term analysis to test Hypothesis 2 using two variables: *State-owned* as the binary variable, and as a continuous variable. As shown in Model 7 of Table 4, the interaction term with *State-owned* yielded no significant results ($p = 0.201$). We obtained weak evidence ($p = 0.056$) in Model 8 that as the percentage of the state ownership of a firm increases, the effect of extradition treaties on FDI entry propensity decreases. We then used the binary variable *state-owned* to split the firms into two subgroups in Table 4: SOEs (*state-owned* = 1) and POEs (*state-owned* = 0). For the SOE group in Model 9, *extradition partner of China* has a negative estimated coefficient but with a large *p*-value ($\beta = -0.11$, $p = 0.190$), while it gains a high level of

significance for the POE group ($\beta = -0.47$, $p = 0.028$) in Model 10. This suggests that the impact of extradition treaties is mainly influenced by the response of POEs in FDI entry decisions. A Chi-square test (Chow, 1960) indicates that the effect of extraditions is larger with the group of POEs than SOEs ($\chi^2 = 4.94$, $p = 0.026$). Effect size analysis shows that the group of POEs will reduce their FDI propensity by 38 % when an extradition treaty is established between China and a host country. Fig. 2a illustrates the difference in the main impact on SOEs and POEs. In general, these analyses reveal a strong impact of extradition treaties on POEs while no tangible impact on SOEs, providing solid support for Hypothesis 2.

We used the full sample again in Model 11 to test Hypothesis 3 that the effects of extradition treaties are stronger when firms have observable malfeasance in China. In Model 6, *violation* has a zero estimated coefficient ($p = 0.932$), while the interaction term *extradition partner of China × violation* has a negative estimated coefficient ($\beta = -0.89$, $p = 0.034$). The results show that the impact of extradition treaties will be larger when a firm has a larger number of violation events. A nested model test shows the improvement in fit in Model 11 over Model 3 ($F = 7.99$, $p < 0.001$). Effect size analysis shows that when China has an extradition treaty with the host country, one additional violation event leads to, on average, a 4.3 % decrease from the mean value of Chinese firms' FDI entry propensity. Fig. 2b illustrates the moderating effects of violation at its mean value, one standard deviation below, and one standard deviation above the mean. In general, this result supports Hypothesis 3.

5.3. Additional tests and robustness checks

We carried out additional analyses to test the robustness of our results (Table 5). First, we considered the timing of extradition treaties and

Table 4
Conditional logit estimations of the moderating effects on the impact of extradition treaties.

Dependent variable: **entry** (parent ownership≥5 %)	(7) Full sample	(8)	(9) Subsamples SOEs	(10) POEs	(11) Full sample
Host Country Attributes					
Institutions	0.99***(0.09)	0.99***(0.09)	0.90***(0.23)	1.01***(0.14)	1.00***(0.09)
Investment risk	−0.06***(0.01)	−0.06***(0.01)	−0.04** (0.01)	−0.06***(0.01)	−0.06***(0.01)
population	1.05***(0.06)	1.05***(0.06)	0.71***(0.10)	1.08***(0.06)	1.05***(0.06)
GDP growth	0.02 (0.02)	0.02 (0.02)	0.03* (0.01)	0.01 (0.03)	0.02 (0.02)
GDP per capita	0.74***(0.08)	0.74***(0.08)	0.44***(0.11)	0.82***(0.09)	0.74***(0.08)
FDI level	0.07***(0.00)	0.07***(0.00)	0.06***(0.00)	0.08***(0.01)	0.07***(0.00)
Natural resources	0.33***(0.08)	0.33***(0.08)	0.42***(0.08)	0.25* (0.11)	0.33***(0.08)
Patents	−0.04+ (0.02)	−0.04+ (0.02)	0.04 (0.05)	−0.05* (0.02)	−0.04+ (0.02)
Home–Host-Country Dyad Attributes					
BIT partner of China	−0.44***(0.05)	−0.43***(0.05)	−0.21+ (0.11)	−0.46***(0.05)	−0.44***(0.05)
Cultural distance	−0.22***(0.03)	−0.22***(0.03)	−0.22***(0.06)	−0.21***(0.04)	−0.22***(0.03)
Economic distance	−0.03 (0.10)	−0.03 (0.10)	0.00 (0.00)	−0.10 (0.14)	−0.03 (0.10)
Relation	0.37*** (0.05)	0.37*** (0.05)	−0.14 (0.15)	0.39*** (0.07)	0.37*** (0.05)
Firm Attributes					
Firm size	0.90***(0.10)	0.90***(0.10)	1.16***(0.33)	0.85***(0.10)	0.90***(0.10)
ROA	0.12** (0.04)	0.12** (0.04)	2.92 (1.84)	0.07 (0.05)	0.12** (0.04)
FDI experience	0.00 (0.01)	0.00 (0.01)	−0.01 (0.02)	0.01 (0.01)	0.00 (0.01)
Focal Independent Variables					
1. Extradition partner of China	−0.17* (0.08)	−0.25** (0.09)	−0.11 (0.08)	−0.47* (0.22)	−0.13+ (0.07)
2. State-owned	−0.07 (0.14)				−0.07 (0.14)
Interaction term of 1. × 2.	0.02 (0.20)				
3.State ownership percentage		0.03 (0.26)			
Interaction term of 1. × 3.		0.53+ (0.28)			
4. Violation	−0.07 (0.11)	−0.07 (0.11)	0.73+ (0.38)	−0.11 (0.11)	−0.01 (0.11)
Interaction term of 1. × 4.					−0.89* (0.42)
Log-likelihood	−11,757.8	−11,756.1	−1601.8	−9837.1	−11,753.8
χ^2	3192.66	3311.11	469.70	3281.30	3129.57
N	755,684	755,684	79,715	603,564	755,684

Notes: 1. The dependent variables *entry* include newly established subsidiaries with Chinese parents owning 5 % or more of the equity shares. 2. All models are fitted with conditional (firm fixed effects) logit models, grouped by firm; standard errors are in parentheses; year fixed effects using dummies are included in all models. $^+ p < 0.10$, $*p < 0.05$, $**p < 0.01$, $***p < 0.001$. 3. The firm fixed-effects method leads to a drop of 9 % of the observations when the full sample is split to subsamples for Model (9) and Model (10).
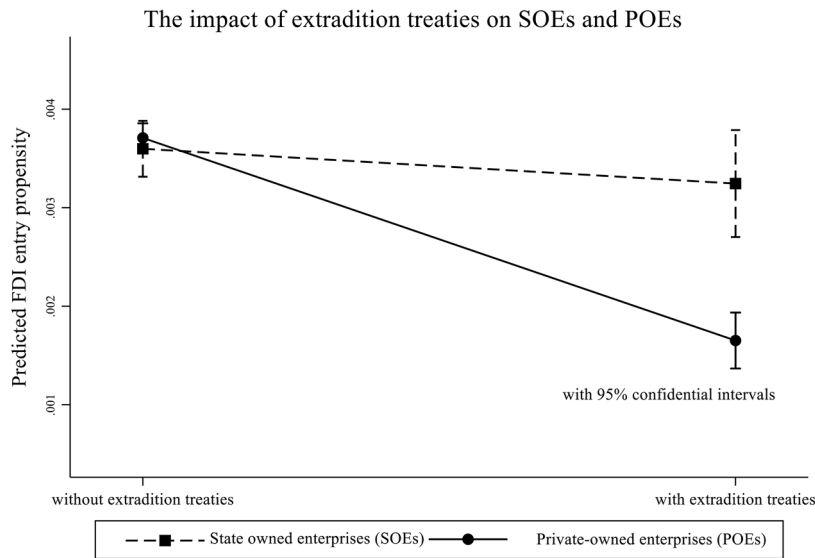
The impact of extradition treaties on SOEs and POEs

Fig. 2a. The impact of extradition treaties on Chinese firms' FDI entry propensity,.
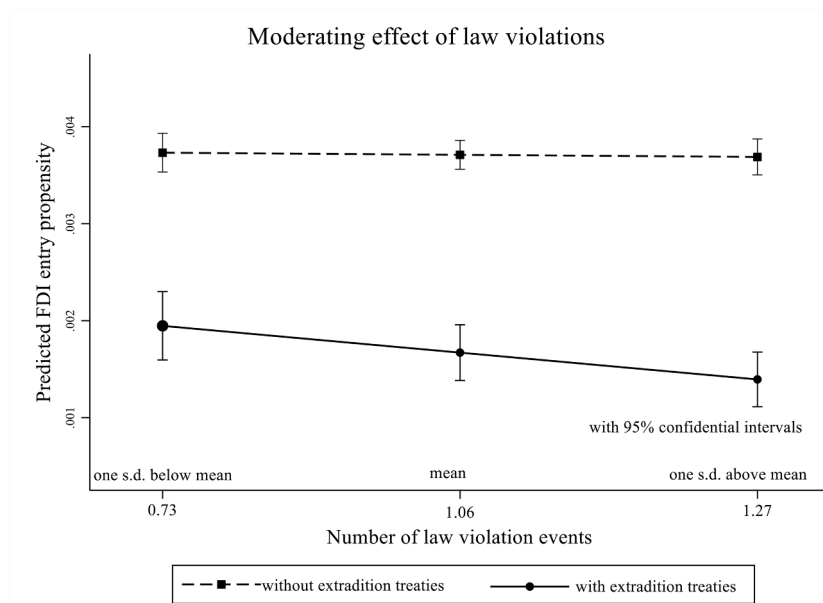
Moderating effect of law violations

Fig. 2b. Moderating effect of a firm's law violations.

tested for any signaling effect. We replaced *extradition partner of China* with the variables *treaty with China signed,* and *treaty with China entered into force* in Model 12 and Model 13 of Table 5, respectively. *Treaty with China signed* is negative with a low *p*-value ($\beta = -0.58$, $p = 0.034$), while *treaty with China entered into force* has a negative sign and a low *p*-value ($\beta = -0.89$, $p = 0.009$). The results suggest that Chinese firms reduce their FDI entry propensity as early as an extradition treaty is officially signed.

Second, we examined for any difference between the first time a firm entered a country and its sequential entries (Delios & Henisz, 2003; Yang, Li & Delios, 2015). We distinguished the scenario by replacing the original dependent variable with *first entry* (2417 cases, 79.6 % of all). Model 14 has the regression with the *first entry* as the dependent variable, showing similar results (extradition: $\beta = -0.14$, $p = 0.060$) as the ones in Model 3 in Table 3 with *entry* as the dependent variable. The robustness checks confirms the negative impact of extradition treaties

on the first entries of firms. We also applied a Poisson Model fitting, shown as Model 15, which yielded consistent results regarding the impact of *extradition* ($\beta = -0.16$, $p = 0.023$).

We conducted a difference-in-differences (DiD) analysis at the country level to assess the impact of extradition treaties on the aggregate inflow of Chinese FDIs (Table 6). The treated group is the countries that have established extradition treaties with China, while the control group is the countries that have not established treaties yet and those that had no treaty at all during the observation window. The outcome variable is the aggregated number of Chinese FDIs in a year. We based our DiD analysis on the parallel trend assumption that Chinese FDIs to host countries would have followed the same trend across years, even if there had been no extradition treaties between China and the host countries. We took the *treaty with China entered into force* as the "treatment" that applied to some countries and not others. As the results shown in Table 3, the interaction term as the focal variable has a negative

Table 5
Robustness tests using conditional logit estimations.

Dependent variable: **entry** (parent ownership≥5 %)	(12) Signaling Effect Tests	(13)	(14) D.V.: first entry	(15) Poisson Model
Host Country Attributes				
Institutions	0.89***(0.08)	0.88***(0.08)	0.91***(0.08)	0.96***(0.09)
Investment risk	−0.06***(0.01)	−0.06***(0.01)	−0.06***(0.01)	−0.06***(0.01)
population	1.07***(0.06)	1.07***(0.06)	1.01***(0.05)	1.00***(0.05)
GDP growth	0.02 (0.02)	0.02 (0.02)	0.02* (0.01)	0.02 (0.01)
GDP per capita	0.76***(0.08)	0.76***(0.08)	0.69***(0.05)	0.70***(0.07)
FDI level	0.07***(0.00)	0.07***(0.00)	0.07***(0.00)	0.07***(0.00)
Natural resources	0.30***(0.08)	0.30***(0.08)	0.30***(0.04)	0.32***(0.07)
patents	−0.05* (0.02)	−0.05* (0.02)	−0.04* (0.02)	−0.03 (0.02)
Home–Host Country Dyad Attributes				
BIT partner of China	−0.44***(0.05)	−0.44***(0.05)	−0.37***(0.05)	−0.41***(0.05)
Cultural distance	−0.22***(0.03)	−0.22***(0.03)	−0.21***(0.03)	−0.21***(0.03)
Economic distance	−0.03 (0.10)	−0.03 (0.10)	−0.01 (0.01)	−0.03 (0.08)
Relation	0.37***(0.05)	0.37***(0.05)	0.28***(0.04)	0.33***(0.05)
Firm Attributes				
Firm size	0.90***(0.10)	0.90***(0.10)	0.88***(0.10)	0.24***(0.03)
ROA	0.12** (0.04)	0.12** (0.04)	0.12* (0.05)	0.05+ (0.02)
FDI experience	0.00 (0.01)	0.00 (0.01)	−0.02** (0.01)	0.03***(0.00)
Focal Independent Variables				
Violation	−0.07 (0.11)	−0.07 (0.11)	−0.06 (0.12)	−0.08 (0.08)
Stated-owned	−0.07 (0.14)	−0.07 (0.14)	−0.12 (0.15)	−0.17 (0.13)
Treaty with China signed	−0.58* (0.27)			
Treaty with China entered into force		−0.89**(0.34)		
Extradition partner of China			−0.14+ (0.07)	−0.16* (0.07)
Constant				−22.82***(2.69)
Log-likelihood	−11,757.4	−11,755.8	−9958.7	−14,096.4
χ^2	3127.53	3092.60	2657.44	3329.44
N	755,684	755,684	755,684	782,884

Notes: 1. The dependent variables *entry* and *first entry* include newly established subsidiaries with Chinese parents owning 5 % or more of the equity shares. 2. All models are fitted with conditional (firm fixed effects) logistic models grouped by firm except Model (15); standard errors are in parentheses; year fixed effects and firm fixed effects using dummies are included in all models. $+p < 0.1$, $*p < 0.05$, $**p < 0.01$, $***p < 0.001$. 3. Sample size increases by 3.6 % in Model (15) due to the application of Poisson models.

Table 6
Difference-in-difference analysis on the impact of extradition treaties.

DV: Chinese FDI inflow	Coefficient	Robust Standard Errors	t	$P > t$	95 % Confidence Interval	
1. Extradition treaties established	0.02	0.22	0.07	0.94	−0.42	0.46
2. Countries with extradition treaties	−0.63	0.19	−3.25	0.00	−1.01	−0.25
3. Interaction term of 1 × 2	−0.57	0.28	−2.03	0.04	−1.12	−0.02
4. Constant	1.81	0.22	8.26	0.00	1.38	2.24

Note: The country analysis has 2158 observations; fitted with the linear model Ordinary Least Squares; overall model significance test: F (3, 2154) = 7.7; results remain the same when fitted with the Poisson model.

estimated coefficient (β = −0.57, *p* = 0.040). It suggests that the countries that established extradition treaties with China experienced an empirically noticeable reduction in Chinese FDI inflows. This DiD analysis provides additional confirmation to our firm-level analyses.

6. Discussion

We investigate the potential negative consequences of interstate cooperation on the host country choice of EMFs by considering the possibility of a divergence in interests between nation states and firms. We contend that the prevailing notion that interstate cooperation promotes FDI by creating a business-friendly environment (Duanmu, 2014; Li et al., 2018; Li & Vashchilko, 2010) might not hold true in all cases of interstate cooperation, particularly in the context of EMFs, especially when their home country institutions are underdeveloped. We hence examine the impact of interstate cooperation on extradition in our empirical analysis of the outward FDI by Chinese listed firms. The extradition treaty signals potential risks arising from the cross-border extension of China's jurisdictional reach. After controlling for other possible explanations, we find that Chinese firms tended to avoid locating FDI in a host country that has established an extradition treaty with China. Our study has implications for research on interstate

cooperation, escape strategies, and the FDI decisions of EMFs.

First, our study contributes to the literature by depicting a notable example of a negative impact of interstate cooperation on FDI, which complements existing research that largely holds a positive view of interstate cooperation (Albino-Pimentel et al., 2018; Li & Vashchilko, 2010). We begin with the premise that nation-states and businesses can have divergent interests. In situations where interstate cooperation is established to meet the non-business objectives of nation-states, multinational firms may perceive it as an institutional arrangement that is unfriendly to their business objectives. Furthermore, international business involves navigating differences in institutional frameworks across jurisdictions. Interstate cooperation, such as an extradition treaty, can create a linkage between two countries and enable the power and influence of one jurisdiction to extend beyond domestic borders. However, EMFs that seek to distance themselves from domestic institutions may view such a high-level interstate cooperation as unfavorable.

As such, our study presents a novel perspective on interstate cooperation as seen through the lens of extradition cooperation. We found that multinational firms must carefully weigh the benefits and risks of interstate cooperation between countries. Close institutional proximity and similarity can lower the costs of international business (Delios & Henisz, 2000; Kostova & Zaheer, 1999), but it can also lead to the loss of

benefits and arbitrage opportunities associated with institutional diversity and distance (Jackson & Deeg, 2008; Li et al., 2018). By examining the impact of extradition treaties, our study contributes to ongoing discussions on linkages and networks between countries as influences on FDI location choice, with an emphasis on the potential FDI deterrent effect of such linkages.

Relatedly, our study also points a way to the resolution of conflicting findings on the influences of BITs on investment flows. We noted that BITs that mark an enhanced cooperation between countries should promote FDI in theory (Busse et al., 2010; Egger & Pfaffermayr, 2004). But some empirical inquires also found that the impact of a BIT on FDI to be negative or have no effect (e.g., Yackee (2008)), which is consistent with what we observe in our empirical tests. There are multiple reasons why this might be the case, but one means of resolving discrepant findings might be to have a detailed look at the nature of the BIT, to see if it is indeed oriented towards a strict promotion of commercial interests and linkages between two nations. Our exploration of extradition treaties shows that not all interstate cooperation will alleviate cross-national uncertainties and improve commercial coordination. The same level of scrutiny can be applied to BITs to better understand and predict their influence on cross-border trade and investment.

Second, we connect our study to the literature of escape strategy in firms' international expansion and extend this research. The escape strategy has great power in explaining the reasons and motivations behind an EMF's attempt to avoid unfavorable industry environments or institutional deficiencies in its home country (Gaur et al., 2018; Witt & Lewin, 2007). In the research trajectory that took core ideas of escapism to studies that focused on EMFs escaping from their underdeveloped domestic institutions, there was a rationale that firms flee weak institutions to seek refuge in countries with stronger institutions (; Witt & Lewin, 2007; Yamakawa, Peng & Deeds, 2008). Unlike the previous literature, our findings suggest that a firm's decision to avoid extradition treaties remains observable even when favorable institutional conditions are present. Escaping from weak institutions does not necessarily lead to a relocation to countries with robust protective institutions. A firm's preference to avoid extradition is an important, independent consideration.

Clearly, not all interstate cooperation facilitates the same opportunity for escape, hence the strategy of escape as manifest in the host country location choice, must be considered when firms seek a destination that is beyond the reach of the home country. By shifting the discussion from the motivation of escape to the strategy of escape, we provide new insights into questions concerning "what EMFs are escaping?" and "where can EMFs go to escape?". Through our investigation of extradition treaties, we have expanded the scope of escape beyond a focus on domestic institutions, by examining cross-border, bilateral institutional arrangements between a home and a host country.

In terms of our empirical setting, we observe that Chinese firms circumvent extradition treaties that China has established with numerous potential host countries. What underlies this phenomenon is an escape from the legal system of China and its institutional disadvantages that pose great uncertainty to business. The extradition treaty signals a risk that China's jurisdiction can be extended beyond its borders. Chinese firms view the institutional links created by extradition treaties as a potential threat to their operations and security in the host country, hence muting the benefits of escape as a motivation for FDI.

Moreover, previous literature on escapism focuses on the escaping assets, while ours raises the issue of escaping individuals. A novel contribution of our study is our distinction between the motivations behind the escape of POEs and SOEs. Executives within POEs can be motivated to escape and avoid locations that have extradition treaties with the home country because of a lack of trust in domestic authorities who could potentially misappropriate their assets. Meanwhile, SOE executives may seek to escape to pursue their own interests, such as immigration and the appropriation of state assets. Our exploration on motivations of Chinese SOEs adds to the growing body of research on

this unique group of firms (Deng et al., 2020; Hoskisson, Eden, Lau & Wright, 2000; Luo & Tung, 2007). On this point, our study aligns with the perspective that Chinese SOEs exhibit complicated attitudes towards domestic institutions. They benefit from institutional advantages and governmental support, while they face challenges such as agency problems and a heavy reliance on state policies and resources (Cuervo-Cazurra & Li, 2021). Our findings suggest that close cooperation between home and host countries, including extradition treaties, incentivizes SOEs that anticipate positive relationships with host governments (Knutsen, Rygh & Hveem, 2011), while it also impedes their tunneling and misappropriation of public assets (Ding, 2000). Therefore, our study offers insight into how SOEs navigate the tension between institutional advantages and agency problems, enriching the discourse on SOE research.

Additionally, and consistent with our core logic, we find that firms that have violated market regulations in China are particularly responsive to the threat of extradition treaties as they have a strong incentive to escape the reach of China's legal system. Escape as an aspect of a firm's strategy of international expansion can have substantial explanatory power on the motivations and locations of Chinese outward FDI. Push-related considerations for EMFs can cascade into their FDI destination choices, which shows how exogenous conditions can influence the success of an escape strategy.

Third, our research provides new insights into the behaviors of EMFs. Understanding the rising tide of FDI from emerging markets has been a prominent research objective since the 2000s. The ongoing debate regarding the necessity for new theories to better comprehend the international expansion of EMFs persists (e.g., Cuervo-Cazurra, 2012; Dunning, Kim, & Park, 2008). We align with the perspective that core IB theories can explain many behaviors of EMFs, but detailed research is required to better understand how extant theories of international business align with observed patterns of EMFs' international strategies.

Due to their origins in a country with less well-developed institutions, EMFs have unique considerations when it comes to selecting host countries. Our study highlights that, in addition to host country uncertainty and risks in home-host-country relations, EMFs also consider the nature of formal cross-country connections between the home country and potential host countries as made in interstate cooperation agreements. We find that EMFs must weigh three types of uncertainty when making strategic decisions about FDI destinations: (1) the risks in the home country, (2) the risks in the host country, and (3) the risks that arise from the nature of formal cross-border institutional arrangements made between the home and a potential host country. EMFs face a complex situation and must balance these risks when deciding on FDI destinations. The case of extradition treaties provides us with an opportunity to assess the nuanced influence of the institutional environments in which EMFs must survive, adapt, and grow.

Further, our study reveals the complex relationship between EMFs and their home countries. Home country governments can support EMFs to expand internationally to acquire capital and technology (Lu et al., 2014; Luo et al., 2010). However, EMFs also have the incentive to distance themselves from their home countries, particularly to avoid government control or expropriation. Our study shows that the level of connectedness between home and host countries is a factor that EMFs consider in their investment decisions.

In this regard, our study offers implications for policymakers in emerging markets who seek to promote outward FDI. Interstate cooperation and intergovernmental connections may create a favorable environment for FDIs. However, these activities can also deter firms that do not favor a harmonization of national institutional differences. Nation-states should be aware that there is always the potential for a divergence of interests between the government and business.

There is opportunity for further research on interstate cooperation of extradition. Our observation period does not extend beyond 2013. Since 2013, Chinese firms' outward FDI has encountered shifts in policy from the Chinese government and heightened hostility from foreign

countries. It is worth exploring whether our main predictions hold in this evolving context, and how the impact may differ between POEs and SOEs. Also, we focus on Chinese firms as a representative group of EMFs. It is important to empirically confirm whether similar effects will be observed for FDI by firms from other emerging markets, or with developed country firms.

7. Conclusion

We investigate interstate cooperation on extradition and its impact on the host country location choice of Chinese firms' outward FDI. Bilateral extradition treaties bridge the national institutions of two countries, thus allowing institutional influences to flow from the home country to a potential host country. This bridging leads to a possible weakening of the escape plan of firms that are motivated to undertake FDI to flee institutionally related challenges and risks that are resident in their home country. Building upon these concepts, we explore the period of 2001–2013, during which Chinese firms encountered fewer policy constraints from the government compared to the post-2013 period. We observe that Chinese multinational firms circumvent host countries that had extradition treaties with China. Given this evidence and our conceptual ideas, our study enriches the theory of escapism, as it relates to the push factors for outward FDI as manifest in the location strategy, particularly with reference to how institutional links between countries can create potential constraints on FDI. As such, we provide a useful counterpoint to traditional ideas about the FDI-stimulating effects of cross-border institutional linkages. Intriguing nuances exist in the theory of escape and, more broadly, in international institutional influences on host country location choice. We reveal these nuances in terms of how EMFs employ international strategies to globally arbitrage institutional benefits and constraints through their location choices for FDIs.

CRediT authorship contribution statement

Tianyou Hu: Writing – review & editing, Writing – original draft, Visualization, Resources, Project administration, Methodology, Funding acquisition, Formal analysis, Data curation, Conceptualization. **Shu Yu:** Writing – review & editing, Writing – original draft, Resources, Data curation. **Andrew Delios:** Writing – review & editing, Writing – original draft, Validation.

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