Host country experience, institutional distance and location choice of Chinese MNEs: The moderating effect of government official visits

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Abstract

Purpose – The conventional wisdom suggests that lack of prior host country-specific experience and a higher institutional distance deter multinational enterprises (MNEs) from entering a foreign country. However, past studies report that Chinese MNEs show an unconventional risk-taking behavior choosing foreign locations where they have no prior experience or there is an increased institutional distance. Drawing on the institutional theory, we argue that Chinese government official visits to the host country may act as a risk-reduction device, thus providing an explanation for such an unconventional behavior.

Design/methodology/approach – We develop two hypotheses regarding how Chinese government official visits moderate the impact of host country-specific experience and institutional distance on location choice of Chinese MNEs. We test our hypotheses using a sample of investment location decisions by Chinese MNEs in Latin America.

Findings – We find that government official visits mitigate the lack of firm’s prior host country experience. However, only high-level government visits reduce institutional distance.

Originality/value – We contribute to the international business literature by analyzing how home country government diplomatic activities may pave the way of host country institutional environment for foreign MNEs from that home country. In addition, we provide an additional explanation for the unconventional risk-taking behavior of Chinese MNEs. Finally, we also contribute to a better understanding of the decision making process of emerging-market MNEs entering other emerging economies.

Keywords Chinese MNEs, Latin America, location choice, government visits.

Paper type Research paper.
INTRODUCTION

A distinctive characteristic of emerging-market multinational enterprises (MNEs) is that they seem to follow an unconventional risk-taking behavior (Buckley, Chen, Clegg, & Voss, 2018). With regard to Chinese MNEs, past research shows that their location patterns abroad differ from those of developed-country MNEs, reporting that Chinese firms are less dependent on their own prior host country-specific experience and less risk averse when choosing a foreign location where there is a high institutional distance (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Buckley, Yu, Liu, Munjal, & Tao, 2016; Quer, Claver, & Rienda, 2018).

One of the suggested explanations for this unconventional behavior is based on the bilateral diplomatic relations between China and particular host countries that may stabilize host country institutional environment for Chinese firms, thus reducing the perceived risk (Child & Marinova, 2014; Li & Liang, 2012; Li, Newenham-Kahindi, Shapiro, & Chen, 2013). Diplomacy is an important attribute of international relations between countries. Friendly diplomatic relationships may provide a good investment environment for MNEs, hence influencing their location decisions (Zhang, Jiang, & Zhou, 2014). Government official visits are key tools of international diplomacy. During official visits by home country’s President and/or Premier to a host country, both countries usually sign commercial agreements or announce significant investments of home country’s firms in the focal host country.

To some extent, senior political visits may be considered as an extension of the political power of the home country to the host country (Zhang et al., 2014). This political influence may lead home country firms to gain advantages when doing business in the host country by enforcing contracts or protecting rights of the foreign investor (Desbordes & Vicard, 2009). Moreover, government official visits send a signal as to home country government’s intention to promote bilateral trade and investments. This may provide home country firms with an incentive to invest in that particular host country rather than elsewhere (Voss, Buckley, Chen, & Clegg, 2017). With respect to the host country, foreign government visits improve the awareness of that foreign country, or even foster a positive sentiment toward it, thus creating a more friendly investment environment for foreign investors that may help them to overcome the liability of foreignness (Zhang et al., 2014). Despite all these potential
benefits, the network of diplomatic relations maintained by national governments has received little attention in the international business literature (Li, Meyer, Zhang, & Ding, 2018).

As for home and host countries, investment flows from an emerging economy to other emerging economies may be considered a different context where traditional theoretical underpinnings may be challenged (Wright, Filatotchev, Hoskisson, & Peng, 2005). Whereas emerging-market MNEs may have a competitive disadvantage when entering developed economies, they may have a competitive advantage in emerging economies with underdeveloped institutions similar to those of their home country.

Among emerging economies, Latin America deserves special attention for Chinese firms since it is already the second destination of China’s outward foreign direct investment (OFDI), only surpassed by Asia (National Bureau of Statistics of China, 2018). Moreover, Latin America is a key trade partner for China, as a supplier of raw materials like iron ore, copper and soya, and as a market for Chinese exports (Zhang, 2018). The Chinese government has played a direct role in strengthening economic and political ties with Latin American countries (Fornes & Butt-Philip, 2011). Actually, China has obtained the market economy status from many of them (Economic Commission for Latin America and the Caribbean, 2007). Besides, the Chinese government gives state development loans to Latin American countries, which reinforce bilateral diplomatic relations, thus facilitating Chinese firms’ access to local natural resources and reducing disputes with host governments in destinations where government-related political risk is higher for MNEs from other countries (Shapiro, Vecino, & Li, 2018).

Prior research reports that good diplomatic relations between China and specific host countries facilitate Chinese investments (Duanmu, 2014; Li & Liang, 2012; Li et al., 2018; Voss et al., 2017; Zhang et al., 2014). However, these past studies did not focus on Chinese investments in other emerging economies. In addition, they did not simultaneously address the potential moderating effect of Chinese government official visits on the influence of both prior firm’s host country-specific experience and institutional distance on location choice. These moderating effects need further research since they may inform scholars better about the above-mentioned unconventional risk-taking behavior of Chinese MNEs when choosing a foreign location. In other words, bilateral diplomatic
activities may help to discern why Chinese firms enter an emerging economy where they have no prior experience or there is a high institutional distance.

In light of the above, our aim is to address the unconventional risk-taking behavior of Chinese MNEs in Latin America, by operationalizing risk-taking as behavior in the counter-intuitive direction even when there is less prior experience or increased institutional distance. More precisely, drawing on an institutional perspective, we seek to answer the following questions. First, do Chinese government official visits mitigate the lack of firm’s prior host country-specific experience? Second, can these bilateral diplomatic activities compensate for the negative impact of institutional distance on location decisions by Chinese MNEs? Third, do high-level visits involving China’s government leaders have a stronger effect?

In doing so, we develop three main contributions to the international business literature. First, we extend the institutional theory by analyzing how home country institutions, through government official visits, may pave the way of host country institutional environment for foreign MNEs from that home country. Second, we add to the literature on location decisions by emerging-market MNEs, providing an additional explanation for the unconventional risk-taking behavior of Chinese MNEs. Finally, we also contribute to a better understanding of the decision making process of emerging-market MNEs entering other emerging economies, which has received scant attention in the literature.

The remainder of the paper is organized as follows. The next section provides the theoretical background and the hypotheses development concerning the moderating influence of government official visits on the relationships between entry experience, institutional distance and location choice of Chinese MNEs. The third section describes the data collection process and the variables used in the analysis, whereas the fourth section reports the results. Finally, we present a discussion of our findings and outline potential avenues for future research.

THEORY AND HYPOTHESES DEVELOPMENT
Institutional theory focuses on the political, social, and economic systems that surround firms and influence their behavior. These systems are also known as the ‘rules of the game’ and may be both formal, in terms of laws and regulations, and informal, such as customs and traditions (North, 1990).
Building on this theoretical foundation, international business scholars argue that MNEs have to accommodate to the institutional pressures they face in host countries in order to gain local legitimacy (Kostova, 1999; Kostova & Roth, 2002; Kostova, Roth, & Dacin, 2008; Xu & Shenkar, 2002).

Institutional theorists have identified the regulative, normative and cognitive systems as the three pillars of the institutional environment, each of them providing a basis for legitimacy (Scott, 1995). At the country level, the regulative pillar is mainly related to governmental policies and involves the capacity to establish laws, rules and sanctions to promote certain behaviors and restrict others (Trevino, Thomas, & Cullen, 2008). Therefore, the enforcement mechanism here is largely coercive (North, 1990). The normative pillar imposes constraints on behavior through social values and norms, whereas the cognitive pillar refers to shared understanding of what is typical or taken for grantedness, thus leading to isomorphism or mimetic behavior (Scott, 1995).

As for the regulative pillar, MNEs tend to choose locations where institutional constraints are less repressive to foreign investments so that MNEs can more readily conform to the regulative elements of the host country (Kang & Jiang, 2012). We argue that bilateral diplomatic activities, in particular government official visits, may influence the regulative pillar of the host country institutional environment. Ongoing interactions between governments may help the foreign MNE to align its local activities with the economic or political agenda of the host government, hence contributing to the legitimacy of the foreign firm in the host country, namely, the degree to which it is perceived as acceptable by stakeholders, including the host government (Kostova & Zaheer, 1999).

Diplomatic relations between governments represent an interaction between home and host institutions (Duanmu, 2014; Shapiro et al., 2018). These diplomatic ties can act as a ‘bridge’ between countries, thus facilitating OFDI decisions and affecting location choice (Li et al., 2018). In addition to the positive impact on investment flows between countries, bilateral diplomatic relations may have an indirect effect through their interaction with the coercive mechanisms that may be imposed by the host government. As Duammu (2014) suggests, countries with amicable political relations will have more solid trust through past interactions, which should facilitate home and host government dialogue and support in order to mitigate potential expropriation risk in the host country. Likewise, Shapiro et al. (2018) posit that government official visits facilitate the signature of memorandums of understanding.
between home and host companies and these visits usually involve the provision of loans and infrastructure projects that promote good intergovernmental relations and help to reduce the political risk faced by home country companies. Therefore, friendly diplomatic relations give the home country government a soft power not only to mitigate perceived host country risk, but also to enhance legitimacy and generate business opportunities in the host country (Duanmu, 2014; Li et al., 2018).

State and government official visits are a very important tool in the context of bilateral diplomatic relationships between countries. They are the highest form of diplomatic contact between two countries, and they usually mark the further development of bilateral relations (Nitsch, 2007). By organizing high-level government official visits to a focal host country, the home government can be considered as a ‘signaler’ who may alleviate information asymmetries concerning the host country environment and convey its institutional support to potential home country investors (Voss et al., 2017). As a result, the diplomatic service of the home government may act as a catalyst for networking between home country firms and local partners in the host country (Li et al., 2018).

A literature review carried out by Xu and Meyer (2013) reports that institutional theory is the most popular theoretical framework used by researchers when analyzing strategies in emerging economies. Whereas the ‘rules of the game’ are well established in developed countries, the institutional environment in emerging economies is often local context specific (Buckley et al., 2016). Moreover, the institutional perspective is considered as one of the most appropriate theoretical frameworks for analyzing international decisions of emerging-market MNEs (Hoskisson, Eden, Lau, & Wright, 2000; Meyer, Estrin, Bhaumik, & Peng, 2009). Institutional constraints both in the home and the host country affect the strategic behavior of emerging-market MNEs (Buckley et al., 2016; Cui & Jiang, 2010; Peng, Wang, & Jiang, 2008). Hence, the institutional theory is a good way to lay a foundation for the international behavior of emerging-market MNEs entering other emerging economies (Wright et al., 2005).

As for Chinese MNEs, Child and Marinova (2014) argue that it is crucial to take into account both home and host country contexts in order to adequately understand their implications for Chinese firms investing into foreign countries. They also emphasize the active role played by the Chinese government through bilateral agreements than can stabilize host country institutional environments for
Chinese firms. As stated above, prior research supports the role of friendly bilateral diplomatic relations, especially government official visits, in facilitating Chinese investments in specific locations. However, these past studies did not analyze how government visits may mitigate both the lack of firm’s prior host country-specific experience and the negative impact of institutional distance between China and the focal host country. Next, we propose several hypotheses regarding these potential moderating effects.

**Host Country Experience and Government Official Visits**

When MNEs enter a host country for the first time, they usually lack host country institutional knowledge about the above-mentioned ‘rules of the game’. As a consequence of this uncertainty, they must overcome the liability of foreignness, namely, the additional costs that a firm must face when entering a host market for the first time (Johanson & Vahlne, 2009; Zaheer, 1995). Consequently, knowledge about the host country is a key input for making entry decisions abroad (Lu, Liu, Wright, & Filatotchev, 2014).

Decision-specific experience plays a role on location choice. If the MNE has been doing business in a host country for a long time or if it has previously established subsidiaries there, it will have a deeper knowledge of that host environment. This firm’s prior entry experience may affect subsequent entry decisions. As Yuan and Pangarkar (2010) suggest, inertia will encourage MNEs to rely on their established organizational routines and discourage them from choosing a new host country where they have no prior entry experience. Therefore, host country-specific experience helps firms to overcome the liability of foreignness, which in turn may lead them to apply prior decision-specific experience (Lu, 2002; Luo & Peng, 1999). Empirical research on Chinese MNEs’ location choice supports this notion, reporting that a large number of prior entries by the focal Chinese firm increase the likelihood of subsequent investments into the same host country (Quer et al., 2018; Yuan & Pangarkar, 2010, 2016).

In spite of this, several researchers argue that support policies set by emerging-market governments may offset the latecomer disadvantages of emerging-market MNEs so that they can better compete against their much experienced developed-country counterparts (Luo, Xue, & Han, 2010). Actually, home government support for going global is a key factor encouraging emerging-
market MNEs to spring, i.e., to use international expansion as a springboard to obtain strategic assets in order to catch up with incumbents (Luo & Tung, 2007).

This may be a critical factor for those emerging-market firms with less international experience. Home government support may provide them with useful resources that enable them to take risks in foreign entry decisions. Consequently, the capability implications linked to home government support may offset the need to accumulate prior host country-specific experience (Lu et al., 2014). As stated above, diplomatic relations are a key tool in promoting OFDI, serving as a ‘bridge’ between home country firms and host country institutions and business actors. Such a ‘bridge’ is especially important when home country firms have no local bonds since they enter the host country for the first time (Li et al., 2018). Moreover, the above-mentioned ‘signal’ provided by home government official visits to a particular host country may be strong for less experienced home country firms (Voss et al., 2017).

Prior studies on Chinese MNEs location choice provide empirical evidence for these claims. Lu et al. (2014) find that home government support reduces the importance of prior entry experience in a particular host country and increases the likelihood of investing in that country. Furthermore, they show that Chinese government OFDI support policies play a stronger substitutive role regarding prior entry experience when Chinese firms enter emerging economies where that support helps to reduce the uncertainty and risks associated with under-developed institutions. In a similar vein, Voss et al. (2017) report that high-level government visits to a host country encourage Chinese MNEs’ entry to that host country and that firms with lower general international experience in other countries are more encouraged by these visits. Actually, face-to-face diplomatic interactions involving government leaders have a strong effect on international relations (Lebovic & Saunders, 2016). Heads of state are often accompanied by a high-ranking delegation of managers and business people, and these state visits usually lead to the signing of treaties and contracts or the handover of major bilateral projects (Nitsch, 2007). In the case of China, this is even more evident during high-profile state visits by China’s leaders to developing countries, when China has signed wide-ranging economic cooperation agreements and foreign aid schemes (Buckley, Clegg, Voss, Cross, Liu, & Zheng, 2018). Taken together, these arguments lead us to propose:
**Hypothesis 1:** The positive impact of prior entry experience on location decisions by Chinese MNEs is lower when the Chinese government recently paid an official visit to the focal host country, especially when it was a high-level government visit.

**Institutional Distance and Government Official Visits**

Institutional distance has been described as ‘the extent of similarity or dissimilarity between the formal or regulative and the informal or normative and cognitive aspects of institutions of any two countries’ (Gaur & Lu, 2007: 87-88). Institutional dissimilarities between home and host countries are sources of uncertainty, information asymmetry, organizational and administrative costs, and risky relationships with local institutions (Pinto, Ferreira, Falaster, Fleury, & Fleury, 2017). Hence, greater institutional distance increases the costs of doing business in a foreign country, because of the lack of familiarity with the local environment (Zhang & Xu, 2017). As a result, empirical evidence suggests that institutional distance influences foreign market entry decisions (Chen, Cui, Li, & Rolfe, 2017; Malhotra & Gaur, 2014).

In spite of this, the nationality of the investing firm may affect risk exposure, since diplomatic relations between home and host countries also matter (De la Torre & Neckar, 1988). MNEs represent their home country and tense diplomatic relations with the host country may lead to hostility and unfair treatment by the host government (Alon & Herbert, 2009). Conversely, the institutional gap can be solved by friendly bilateral diplomatic activities between investing and host countries that can create a new institutional advantage for foreign firms (Zhang et al., 2014). In other words, policy relations and diplomacy initiatives may have an impact on the perceived distance and attractiveness of the host country (Lv & Spigarelli, 2016). Again, government official visits play a key role here, since they are indicative of the home government’s recognition and endorsement of a host country’s institutional and business environment (Voss et al., 2017).

As for Chinese MNEs, the influence of institutional distance on location decisions is not conclusive. Whereas several studies report a conventional negative relationship between institutional distance and China’s OFDI (Han, Chu, & Li, 2014; Zhang & Xu, 2017), others find that institutional distance is positively associated with the propensity of Chinese MNEs to invest in a host country (Li, Li, & Shapiro, 2012; Zheng, Yan, & Ren, 2016). There are several possible explanations behind these
mixed results. Chinese MNEs may prefer host countries with lower institutional distance because they have experience with similar weak institutional environments at home (Cuervo-Cazurra & Genc, 2008). Alternatively, they may have the incentive to carry out investments in institutionally distant countries as an escape response to home country institutional constraints (Witt & Lewin, 2007).

We argue that diplomatic activities of China’s government also play a role in explaining the unconventional risk-taking behavior of Chinese MNEs when choosing a foreign location where there is a high institutional distance. As pointed out before, bilateral agreements can stabilize host country environments for Chinese firms (Child & Marinova, 2014). Actually, bilateral diplomatic relations between China and the host country may serve as a risk-reduction device (Duanmu, 2014) and may influence the impact of host country institutions on market expansion of Chinese MNEs (Gao, Liu, & Lioliou, 2015). Thus, Buckley et al. (2007, 2016) argue that some Chinese OFDIs have been located in countries with which China has close political and ideological ties, although many of them had risky institutional environments. Likewise, Li and Liang (2012) posit that Chinese firms tend to go to high-risk host countries because of the risk-reduction effect of good political relationships with China. Similarly, Li et al. (2013) claim that the Chinese government may reduce the risk level facing Chinese MNEs in a host country by building good bilateral relationships and representing them to bargain with the host government.

In addition, Zhang et al. (2014) report that friendly bilateral diplomatic activities, in particular senior visits, are not only positively related to Chinese investments, but also compensate for some disadvantages associated with the host country’s lack of good-quality institutions, such as the absence of a bilateral investment treaty between home and host countries that might provide home country’s investors with protection and security. Based on the above reasoning, we posit that diplomatic visits by the Chinese government may explain why a high institutional distance does not deter Chinese firms from entering a foreign country. As we argued before, we expect high-level visits rather than more frequent lower-level visits to be of greater relevance for strategic decisions and government support (Voss et al., 2017). Thus, we propose:
Hypothesis 2: The negative impact of institutional distance on location decisions by Chinese MNEs is lower when the Chinese government recently paid an official visit to the focal host country, especially when it was a high-level government visit.

DATA AND METHOD

Data Collection
To test our hypotheses, we constructed a data set of OFDIs carried out by Chinese MNEs in Latin America, using several secondary data sources: the China Global Investment Tracker (a comprehensive database of China’s OFDI since 2005, which is developed by the American Enterprise Institute and the Heritage Foundation), news items published on Chinese media (such as Xinhua, China Daily and Global Times) and information from each firm’s corporate website.

We identified 106 OFDI location choices made by 52 Chinese MNEs in 10 Latin American countries during 2005-2017. We considered 2005 as the starting point because the main database used (the China Global Investment Tracker) dates back to that year. Thus, our sample covers the timeframe in which China’s OFDI gained greater momentum, from US$ 12.3 billion in 2005 to US$ 124.6 billion in 2017 (United Nations Conference on Trade and Development, 2018). Our aim is to analyze the decision of location or non-location of a firm in a particular host country in a given year. Hence, our initial data set comprises 1,060 potential observations (106 location choices * 10 countries). However, after removing data on firms with multiple entries in a particular country in a single year and duplicated observations of non-location decisions by firms with OFDI in more than one host country in a single year, our final sample consists of 920 observations.

With regard to host countries, it emerges that Brazil is the top destination (59 OFDIs), followed by Argentina (13), Peru (11), Chile, Ecuador and Venezuela (5), Mexico (4), Colombia (2), Cuba and Nicaragua (1). When it comes to Chinese firms, China Three Gorges Corporation is the top investor (8 OFDIs), followed by China National Petroleum Corporation [CNPC] (7), State Grid (6), Sinopec (5), China Minmetals and Industrial and Commercial Bank of China [ICBC] (4), and Chery Automobile, China Construction Bank, China Railway Construction, China National Offshore Oil Corporation [CNOOC] and JAC Motors (3). These top investors are state-owned enterprises, which
account for 80.2 percent of the investments covered by our sample. Privately owned enterprises are responsible for the remaining 19.8 percent, with BYD, HNA, Nanjinzhao, Sany Heavy, Shanghai Pengxin and ZTE being the main investors with two OFDIs each.

**Dependent Variable**

*Location choice.* This is a dummy variable taking a value of 1 if firm \( i \) invested in country \( j \) in year \( t \), and 0 otherwise. When a firm made multiple investments in a particular country in the same year, they were counted as one location choice and the dependent variable was coded as 1 no matter the number of entries by a firm in a single country in a given year (Li et al., 2018; Lu et al., 2014).

**Explanatory Variables**

*Host country experience.* To proxy a firm’s host country-specific experience, we used prior OFDI entries by the focal firm in that country (Holburn & Zelner, 2010; Jiang, Holburn, & Beamish, 2014; Li et al., 2018; Lu et al., 2014; Quer et al., 2018). This variable was measured through a dummy variable coded one if the Chinese firm already had subsidiaries in the host country before the focal entry, and zero otherwise.

*Institutional distance.* To operationalize institutional distance, we based on the six dimensions of the Worldwide Governance Indicators (WGI) project of the World Bank, first developed by Kaufmann, Kraay and Mastruzzi (2009) for measuring the governance infrastructure quality of a country: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. Drawing on these dimensions and using updated data from the WGI of the World Bank, we calculated the institutional distance between China and each host country using the same methodology developed by the Kogut and Singh’s (1988) index for measuring cultural distance between countries (Li et al., 2012; Malhotra & Gaur, 2014; Slangen, 2011; Zhang & Xu, 2017). Thus, we measured institutional distance as follows:

\[
\text{ID}_j = \frac{\sum_{i=1}^{6} \{I_{ij} - I_{ich}}{V_{i}}\}^2 / 6
\]

where \( \text{ID}_j \) is the institutional distance between country \( j \) and China, \( I_{ij} \) is country \( j \)'s score on the \( i_{th} \) institutional dimension, \( I_{ich} \) is the score of China on this dimension, and \( V_{i} \) is the variance of the score of the dimension.
Moderating Variables

Government visit. To capture the effect of Chinese government official visits, we constructed a dummy variable, which equals to 1 if there was an official visit by a Chinese government delegation to the host country in the focal year or in the immediate previous year, and 0 otherwise. This includes visits by the Chinese President, Prime Minister, Ministers or Vice Ministers of Commerce, Foreign Affairs, Transport, etc., as well as senior officials of other Chinese governmental institutions such as the National People’s Congress, the Politburo Standing Committee or the Chinese People’s Political Consultative Conference. We collected the information on such visits from the website of the Ministry of Foreign Affairs of the People’s Republic of China. A similar measure has been previously used by Voss et al. (2017).

High-level government visit. As pointed out before, state visits involving government leaders may play a key role in facilitating subsequent investments of firms for the home country in that destination. To capture this effect, we created another dummy variable, which takes the value of 1 if the Chinese President, Vice President, Prime Minister or Vice Prime Ministers led the government official visit, and 0 otherwise. In this case, we also consider a visit in the focal year or in the immediate previous year.

Control Variables

Building upon prior studies, we control for a number of host country factors that may affect MNEs’ location choice. First, we include cultural distance. Empirical evidence on the influence of cultural distance on Chinese firms’ location is not conclusive, with several studies reporting a negative impact (Blomkvist & Drogendijk, 2013; Buckley et al., 2007, 2016; Kang & Jiang, 2012; Yang & Deng, 2015) and others showing that cultural distance does no deter Chinese firms’ entrance (Quer, Claver, & Rienda, 2012; Zhang & Xu, 2017; Zheng et al., 2016). We measured the cultural distance between China and each host country using the Kogut and Singh (1988) index, based on the extended Hofstede’s model with six dimensions (Hofstede, Hofstede, & Minkov, 2010):

$$\text{CD}_j = \sum_{i=1}^{6} \{(iij - iich)^2 / Vi\}/6$$
where $CD_j$ is the cultural distance between country $j$ and China, $I_{ij}$ is country $j$’s score on the $i_{th}$ cultural dimension, $I_{ch}$ is the score of China on this dimension, and $V_i$ is the variance of the score of the dimension.

Second, using mainly data from the Shao Center of the Ohio University and the CIA World Factbook, we control for the Chinese diaspora, using the percentage of ethnic Chinese to the total population in each host country. The diaspora living in the host country may facilitate acquisition and exchange of technical know-how and market information, thus being considered as social capital that may attract investments by firms from the diaspora’s country of origin (Amighini, Rabellotti, & Sanfilipo, 2012; Anwar & Mughal, 2013; Li et al., 2012; Nunnenkamp, Sosa, Vadlamannati, & Waldkirch, 2012).

Third, we include host country political risk as a control variable, using the political risk rating of the International Country Risk Guide developed by the Political Risk Services Group. In order to facilitate the interpretation of the results, we transformed the original values of this index. Accordingly, higher values indicate higher political risk. As occurs with cultural distance, empirical evidence is not conclusive for Chinese MNEs. Whereas several empirical studies support the conventional view that host country political risk discourages Chinese firms’ investments (Duanmu, 2012, 2014; Lv & Spigarelli, 2016), others find no influence (Buckley et al., 2007, 2016; Quer et al., 2012) or even report that Chinese MNEs tend to locate in politically risky countries (Han et al., 2014; Kang & Jiang, 2012; Ramasamy, Yeung, & Laforet, 2012).

We also control for the potential drivers of Chinese MNEs’ location decisions, by including three host country factors that may attract foreign investments: host country technology endowment, measured by the log of the total number of patent applications in the host country divided by the host country’s GDP (Buckley et al., 2007, 2016; Meyer, Ding, Li, & Zhang, 2014); host country natural resource endowment, proxied by the percentage of fuel, ore and metal exports to total merchandize exports by each host country, with a log transformation (Buckley et al., 2007, 2016; Yang & Deng, 2015; Zhang et al., 2014); and host market growth, measured by the annual percentage of GDP growth for each host country (Boellis, Mariotti, Minichilli, & Piscitello, 2016; Buckley et al., 2007, 2016;
Zhang et al., 2014). We obtained data on these three host country factors from the World Development Indicators of the World Bank, with one-year lag.

Prior research suggests that bargaining between the government of host and home countries creates macro rules that facilitate OFDI (Ramamurti, 2001). Actually, past studies show that supranational agreements between home and host countries increase the likelihood of investment (Albino-Pimentel, Dussauge, & Shaver, 2018). Thus, we control for signs of good diplomatic relations, using two dummy variables. First, market economy status recognition, which equals to 1 if the host country recognizes China as a market economy, and 0 otherwise. Second, the existence of a comprehensive strategic partnership, coded as 1 if a comprehensive strategic partnership agreement between China and the host country was in force before the focal location choice, and as 0 otherwise.

In addition, since a lower level of development in the host country increases information asymmetries (Meyer et al., 2009), we included economic development as a control variable, proxied by the GDP per capita of the host country, with one-year lag and a log transformation. We also controlled for the so-called vicarious experience, i.e., the experience of others that share a common characteristic and may affect location decisions (Jiang et al., 2014). In doing so, we considered the number of prior investments by other Chinese firms in the focal host country. Finally, we included year dummies in order to control for potential time-varying influences on location choice.

RESULTS

Table 1 shows descriptive statistics and bivariate correlations between variables. To reject multicollinearity, we first computed the variance inflation factor (VIF) test. All VIF values are below the recommended cut-off point of 10 (Kutner, Nachtsheim, Neter, & Li, 2005). Moreover, we also examined condition indices and we ruled out that any condition index above the threshold value of 30 accounted for a substantial variance proportion (0.90 or above) for two or more coefficients (Hair, Anderson, Tatham, & Black, 1998). Therefore, no serious multicollinearity problems are found in our analysis.

Insert Table 1 about here
As stated above, our dependent variable is the probability that a Chinese MNE would carry out an investment in a specific location from the choice set. Consequently, we assigned a value of 1 to the chosen host country and 0 to all other countries. Since attributes of the choice, namely host country characteristics, may have an impact on the outcome, we test our hypotheses using a conditional logistic regression. This type of regression has been extensively used in prior location choice studies, in particular those dealing with Chinese MNEs (Duanmu, 2012; Li et al., 2018; Quer et al., 2012, 2018; Yuan & Pangarkar, 2010; Zheng et al., 2016).

Table 2 reports the results of the conditional logistic estimation. We used different models for hypothesis testing. Model 1 depicts the baseline model, including only control variables. Model 2 adds the main effects of the explanatory variables and moderators. Models 3a, 4a and 5a examine the moderating influence of government visits, thus including interactions with host country experience (Model 3a), with institutional distance (Model 4a) and with both explanatory variables simultaneously (Model 5a). Similarly, Models 3b, 4b and 5b examine the moderating effects of high-level government visits, including the interactions between this moderator and host country experience (Model 3b), institutional distance (Model 4b) and both explanatory variables (Model 5b). Following the guidelines suggested by Meyer, van Witteloostuijn and Beugelsdijk (2017), in all models we report the odds ratio to assess effect sizes as well as exact p-values to reflect actual significance for all coefficients.

Insert Table 2 about here

Hypothesis 1 suggests that the positive effect of prior firm’s host country experience on location choice is lower when there has been a recent official visit by the Chinese government to the focal host country. We test the moderating effects of government visits and high-level government visits in Models 3a, 5a, 3b and 5b. Our results show that the direct effect of prior host country experience on location choice is positive and highly significant in Model 3a ($\beta = 4.523$, $p = 0.002$), Model 5a ($\beta = 10.134$, $p = 0.001$), Model 3b ($\beta = 2.680$, $p = 0.000$) and Model 5b ($\beta = 2.839$, $p = 0.000$). Following Li et al. (2018), we calculated the effect size of host country experience as the standard deviation increase times the odds ratio for this variable, i.e. the standard deviation of host country experience (0.25) multiplied by its odds ratio. Therefore, based on the Models with a single interaction, we can state that a standard deviation increase in host country experience would make the
host country 23 times more attractive (according to Model 3a) and 3.6 times more attractive (according to Model 3b). In turn, the interaction term between host country experience and government visit is negative and statistically significant in Model 3a ($\beta = -3.244$, $p = 0.029$) and Model 5a ($\beta = -7.504$, $p = 0.013$). Likewise, the interaction between host country experience and high-level government visit is negative and statistically significant in Model 3b ($\beta = -1.805$, $p = 0.008$) and Model 5b ($\beta = -1.938$, $p = 0.005$). These findings suggest a negative moderating effect of government visits and high-level government visits on the relationship between host country experience (prior investments by the firm in each host country) and the likelihood that the firm will enter this host country. In other words, recent Chinese government official visits reduce the importance of prior firm’s host country-specific experience. Thus, Hypothesis 1 is supported.

Hypothesis 2 predicts that the negative effect of institutional distance on location choice is lower when the Chinese government recently paid a visit to the focal host country. We test the moderating effects of government visits and high-level government visits in Models 4a, 5a, 4b and 5b. Models 4a and 5a show a non-significant interaction effect between institutional distance and government visits. Conversely, the interaction term between institutional distance and high-level government visits turns out to be positive and statistically significant in Models 4b ($\beta = 0.868$, $p = 0.084$) and 5b ($\beta = 0.978$, $p = 0.060$). The results show a negative and significant direct effect of institutional distance on location choice in both Models 4b ($\beta = -1.289$, $p = 0.052$) and 5b ($\beta = -1.372$, $p = 0.046$). Since the odds ratio for this variable is lower than 1, to facilitate the interpretation of effect size, we first calculated the inverse of the odds ratio and later we multiplied it by the standard deviation of institutional distance (0.77). Considering Model 4b (single interaction), this leads us to conclude that a standard deviation increase in institutional distance would make the host country 2.8 times less attractive. Hence, these results suggest that only high-level government visits mitigate institutional distance for Chinese firms. This lends partial support to Hypothesis 2.

To gain further insights in the significant interaction effects, we plotted in Figures 1, 2 and 3 the relationships between the two explanatory variables and location choice, and the moderating effects of both government visits and high-level government visits, only for those statistically significant interactions as reported in Table 2. Based on the results of Models 3a, 3b, and 4b, the three
figures illustrate the changes in the likelihood of choosing a location when the explanatory and the moderating variables change from their low values (i.e., one standard deviation below the mean) to their high values (i.e., one standard deviation above the mean), keeping all other variables at the mean level.

Insert Figure 1 about here
Insert Figure 2 about here
Insert Figure 3 about here

Figures 1 and 2 show that the effect of firm’s host country-specific experience is somewhat positive at high values of government visits (and high-level government visits), and that this effect is substantially weaker at high values of government visits (and high-level government visits) than at low values. This finding indicates that although firm’s prior host country experience increases the likelihood that the focal firm may undertake future investments in the same location, this effect is reduced when there has been a recent official visit by the Chinese government to that country. This provides further support for Hypothesis 1. Similarly, Figure 3 shows that institutional distance decreases the likelihood of choosing a foreign location at both low and high values of high-level government visits. However, this negative effect of institutional distance is weaker at high values of this moderating variable, i.e., when there has been a recent high-level government visit by the Chinese government. This provides additional evidence to the partial support of Hypothesis 2.

Robustness Checks
To assess the sensitive of our findings to model specifications, we conducted a series of robustness tests. First, we used the number of subsidiaries established by the firm in the same host country prior to the focal entry as an alternative measure for the host country-specific experience explanatory variable (Jiang et al., 2014). The results of the conditional logistic regression using this alternative measure of host country experience were similar to those reported in Table 2.

Second, as Lu et al. (2014) suggest, when one country received by far the largest number of entries in a sample, this should be excluded for robustness test. Therefore, we also estimated the regression models excluding OFDIs carried out in 2017, since that year Brazil received the largest
number of entries. The results turned out to be as robust as for the full sample used in our main regression analysis.

Finally, we used another methodological approach, performing a mixed logistic regression as a robustness test to supplement our analysis based on the conditional logistic regression (Li et al., 2018). The results of this supplementary analysis were consistent with those reported in Table 2.

**DISCUSSION**

Drawing on an institutional perspective, the aim of this study has been to investigate whether Chinese government official visits moderate the influence of both prior firm’s host country-specific experience and institutional distance on the location choice of Chinese MNEs in Latin America. Our findings support both moderating effects although with different strength.

First, we find that China’s government official visits to the focal Latin American country compensate the lack of Chinese MNEs’ prior entry experience in that host country. Second, we find that government visits also mitigate the negative impact of institutional distance between China and the focal Latin American country. However, only high-level government visits have a moderating effect on institutional distance. These results suggest that government official visits have a stronger influence as a substitute of firm’s lack of host country-specific experience. With regard to institutional distance, only those senior visits involving top Chinese political leaders seem to contribute to pave the way of host country institutional environment for Chinese MNEs.

Our findings are in line with the scant prior empirical research analyzing the role played by bilateral diplomatic relations, in particular that of Chinese government official visits. As stated above, past studies find a positive influence of senior visits in encouraging Chinese MNEs’ entry to a host country, especially for firms with less international experience (Voss et al., 2017) and in host countries with low-quality institutions (Zhang et al., 2014). However, our approach is different from that of the latter studies. First, Voss et al. (2017) focused on firms’ general international experience, namely, the number of foreign countries in which the focal firm had subsidiaries, instead of focusing on firm’s host country-specific experience, as in our study. Host country-specific experience is a by-product of doing business there and it is irreplaceable by knowledge accumulated in other countries (Larimo,
It is a kind of location-bound learning that helps firms to mitigate the liability of foreignness (Schwens, Zapkau, Brouthers, & Hollender, 2018). This is because companies that are familiar with a foreign market have a better understanding of local peculiarities and they may have developed routines to deal with the specific challenges of operating in that country (Padmanabhan & Cho, 1999; Slangen & Hennart, 2008).

Second, Zhang et al. (2014) focused on two specific aspects of host country’s institutional quality, namely, political stability and the existence of a bilateral investment treaty between home and host countries, reporting that senior visits only had a significant substitutive effect on bilateral investment treaties. In this study, we focused on the institutional distance between China and each host country from a broader viewpoint, addressing differences in terms of the six dimensions of the World Bank’s WGI: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption.

Furthermore, Voss et al. (2017) and Zhang et al. (2014) did not analyze simultaneously how the effect of prior entry experience and institutional distance can be moderated by government visits, nor did they focus on emerging economies as particular destinations of Chinese MNEs.

**Contributions**

Our study offers a number of contributions to the international business literature. First, we add to the literature on the institutional theory by investigating how home country institutions, in particular home government official visits, may reduce the uncertainty derived from host country institutional conditions, helping home country firms to overcome the liability of foreignness. Conversely, home country MNEs may face additional barriers to enter host countries with which the home government has strained diplomatic relations. This is particularly important in the case of China. Although political relations matter in all bilateral investment flows between countries, for a large country with strong political influence and global presence such as China, the omission of this factor may lead to misleading conclusions when analyzing OFDI flows (Li & Liang, 2012).

Second, we contribute to the literature on emerging-market MNEs by addressing the influence of political relations on their location decisions abroad. In doing so, we shed light on the question of why Chinese MNEs behave in the distinctive ways that they do (Ramamurti & Hillemann, 2018).
unconventional behavior of Chinese MNEs toward risk and uncertainty in host countries is an intriguing research topic in the emerging-market MNEs literature (Buckley et al., 2007, 2016; Buckley, Chen et al., 2018; Quer et al., 2018). As Li and Liang (2012) argue, the role China’s political relations play in determining OFDI decisions of Chinese firms may hold the key to that puzzle, i.e., that Chinese firms invest in risky locations because these countries have good political relations with China, hence providing preferential treatment to Chinese investors.

Third, our study also contributes to a better understanding of location decisions of emerging-market MNEs entering other emerging economies. Most past studies on Chinese MNEs did not specifically address Chinese investments in other emerging economies. Moreover, those focusing on Latin America are still scarce (Fornes & Butt-Philip, 2011; Shapiro et al., 2018; Zhang, 2018). As stated above, investment flows between emerging economies may represent an appropriate empirical setting for testing the applicability of traditional theoretical underpinnings mainly derived from developed-country MNEs (Wright et al., 2005).

In addition, our study has implications for both managers and policy-makers. Thus, we demonstrate that, through bilateral diplomatic activities, the home government may contribute to the creation of a more friendly investment environment for home country investors, either facilitating a preferential treatment by host institutions or acting as an intermediary for networking with local partners. Furthermore, our study shows some practical consequences of Chinese government official visits to Latin America, a region that holds a relevant place in China’s foreign policy agenda.

The Chinese government support policy for Chinese companies going global pays special attention to the establishment of friendly relations with other countries that go beyond pure trade and investment agreements. A good example of this is the Belt and Road Initiative (B&R), which aims to establish a solid integration among Asia, Africa and Europe at various levels: trade and investment, facilities connectivity, financial integration, cultural exchange and policy coordination. Although Latin America is not included in the official initiative, China considers the B&R as an open and inclusive initiative where all countries are welcome to participate. The Chinese government has always viewed its relations with Latin America from a strategic and long-term perspective. Hence, the Chinese government views this region as the natural extension of the B&R. The first step was the admission of
seven Latin American countries (Argentina, Bolivia, Brazil, Chile, Ecuador, Peru and Venezuela) as prospective members of the Asian Infrastructure Investment Bank (AIIB), launched as part of the initiative to providing finance to the infrastructure projects along the B&R.

**Limitations and Future Research**

We would also note several limitations in our study that open avenues for further investigations. First, we based our empirical analysis on secondary data sources. Therefore, we were unable to capture the perceptions of managers on the institutional distance between home and host countries as well as on the direct influence of a recent Chinese government official visit as a key push factor that leads a specific Chinese firm to locate in a focal host country. By collecting primary data on managerial perceptions, future studies could explore the extent to which diplomatic activities play a key role in facilitating a preferential treatment by the host government, thus reducing the perceived institutional distance, or serve as a facilitator for establishing strategic alliances with local partners, thus compensating for the lack of prior host country-specific experience. This could extend our approach by analyzing if government visits affect not only the location decision but also the entry mode used, namely, a joint venture or a wholly-owned subsidiary.

Second, the interpretation of our findings is constrained by our measure of the moderating variables. Because of data availability, we only focus on the effects of government official visits without distinguishing between pure political visits and those visits with a more focused business content that, according to prior research, may have a strong influence in encouraging Chinese MNEs to invest in the visited host country (Voss et al., 2017). Hence, it would be intriguing to investigate whether those government official visits where the Chinese government delegation is accompanied by a group of top executives from Chinese firms play a greater substitutive role regarding prior entry experience and they have a stronger contribution in reducing the perceived institutional distance.

Third, in our main regression analysis we used a dummy variable—namely, whether the firm had subsidiaries or not in that host country prior to the focal entry decision—as a measure of host country-specific experience. Later, as a robustness check, we used an alternative measure—the number of prior OFDI entries by the investing firm in a particular host country. Lack of data prevented us from using other proxies that might influence the findings reported here. Future studies may employ
alternative measures such as the number of years of investment history the Chinese firm had in the host country prior to the focal entry decision, to assess the length of firm’s experience (Delios & Beamish, 2001; Luo, 2001).

Finally, due to the nature of our empirical study, our sample only covers OFDI location decisions by MNEs from a single emerging economy—China—entering other emerging economies belonging to the same region—Latin America. Accordingly, the idiosyncrasy of Chinese MNEs, many state-owned, and the distinctive characteristics of the relationships between the governments of China and Latin American countries may affect the generalizability of our findings. Further research is needed in order to discern whether our findings are generalizable to other settings such as Chinese firms entering other emerging economies outside Latin America, or whether there are differences regarding the impact of Chinese government official visits to developed and developing countries.

CONCLUSION

We began our article by noting the relevance of diplomacy as an important attribute of international relations between countries. The main conclusion would be that bilateral diplomatic relations really matter for emerging-market MNEs’ location decisions. Our empirical analysis based on Chinese OFDIIs in Latin America allowed us to uncover the role of government official visits as a moderator of other determinants of entry decisions. Specifically, our results reveal that Chinese government official visits help to mitigate the lack of firm’s prior host country-specific experience and compensate for the negative impact of institutional distance on location decisions of Chinese MNEs in Latin America. Moreover, regarding the latter, we obtain that only high-level visits involving China’s government leaders seem to have a truly moderating effect. All in all, our study advances our understanding of the decision-making process of emerging-market MNEs. In particular, we provide useful insights that may explain the observed unconventional behavior of Chinese MNEs when doing business abroad.
REFERENCES


Table 1 Descriptive statistics and correlation matrix

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Notes: N = 920; correlations with absolute values no less than 0.068 are significant at 5%.
Table 2 Conditional logistic regression results of location choice

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<tr>
<th>Explanatory variables</th>
<th>Model 1</th>
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<th>Model 3a</th>
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Model 4b
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**Notes:** Coefficients estimates bolded, standard error in parentheses, odds ratio in square brackets, p-values in italics.

Year dummies are included but not shown. No. of observations = 920.

Dependent variable: (1) firm i invested in country j in year t; (0) otherwise.
Figure 1  Moderating effect of government visits on the relationship between host country experience and location choice

Figure 2  Moderating effect of high-level government visits on the relationship between host country experience and location choice

Figure 3  Moderating effect of high-level government visits on the relationship between institutional distance and location choice