Bilateral Investment Treaties and International Joint Ventures

ABSTRACT

The paper investigates the conditions under which (1) bilateral investment treaties (BITs) influence international joint ventures (IJVs), and (2) the way in which differences between BITs matter to IJVs. We extend institutional explanations of IJV choices in two ways: (1) we show how, by protecting partners' rights in IJVs, BITs generate greater incentives to establish IJVs, particularly in politically risky host countries; (2) we show how BIT stringency, a cross-BIT variation that protects foreign investors' rights, generates differences in incentives to use IJVs in countries with a challenging investment environment. Empirical analysis supports out theory: the presence of BITs and rising BIT stringency increases the number of IJVs in politically risky host countries. As expected, BITs have no significant impact on the incentives to use IJVs in host countries with low political risks. Our study contributes to the literature on IJVs by demonstrating that a hitherto overlooked mechanism facilitating IJV establishment and survival in politically risky host countries is the stringency by which BITs protect international property rights.

INTRODUCTION

Political risk represents a major constraint on foreign investments in developing countries (White and Fan, 2006; MIGA, 2009, p. 6). Political risks (i.e., the risk that a host government will interfere with the property rights of a foreign investor – Rubins and Kinsella (2005)) have not diminished for multinational enterprises (MNEs) despite an increasingly legalized investment environment that supposedly provides better protection for international property rights. Instead, political risk has become a higher priority for foreign investors over recent decades (Minor, 2003). At the same time, the sources of political risk have changed: prior to 1985, political risks were mostly associated with post-colonial declarations of independence, civil wars and left-wing usurpations. In the past 20 years political changes have been more gradual and more subtle (Minor, 2003).

Against this backdrop, MNEs have continued to pay close attention to host countries' regulation of foreign investments (Blomstrom, Kokko and Zejan, 2000). Research suggests investors prefer to use low control entry modes in countries characterized by high levels of political risk (Vernon 1983, Anderson and Gatignon 1986, Hennart 1988, Hill et al.1990, Shan 1991, Kim and Hwang 1992, Delios and Beamish 1999). Diversity in the investment environment in developing countries has stemmed mostly from variations in politico-economic institutions and resulting non-commercial risks, which, in turn, impact firm entry mode choice, and the performance of subsidiaries (Delios and Beamish, 1999; Brouthers, 2002; Child and Tsai, 2005; Peng and Beamish, 2007).

Host countries have employed various types of domestic and international legal and policy regulations to facilitate and promote inward FDI. These include reducing or eliminating capital controls, establishing special economic zones, reducing entry barriers for MNEs, and

signing international investment agreements. These are largely aimed at protecting and promoting foreign investments in host countries (UNCTAD, 2006). Unfortunately, domestic law can lack credibility, "because the host has the ability to later change its domestic laws to suit its own purposes" (Guzman, 1998, p. 659). As an international investment agreement, on the other hand, bilateral investment treaties (BITs) have grown in popularity and have played an increasingly important role in facilitating FDI. BITs decrease non-commercial risks through commitments between home and host states to protect foreign investor's rights (TWE, 1997).

The number of international investment agreements between countries aimed toward providing protection to foreign investors reached 5,600 by the beginning of 2008 including 2,608 BITs. The expansion of international investment regulations has increased the cost of opportunistic behavior and decreased the uncertainty with respect to legal treatment and protection of international property rights. However, the role of BITs for MNEs international strategies is unclear. Scholarly attention has predominantly focused on whether BITs matter for FDI. Unfortunately, there have been contradictory empirical findings. Few studies have addressed the important question of whether BITs impact MNEs international strategy.

We address this gap in the current study by examining the role of both the presence - and the stringency in the design - of BITs on the establishment and survival of IJVs. Our theoretical argument extends institutional explanations of IJV choice in two respects. First, we theorize that BITs act as a counter-balancing international institution, protecting partners' rights in IJVs and generating incentives to establish IJVs in politically risky host countries where these incentives would otherwise be absent. Second, we theorize that cross-BIT variations in the protection of foreign investors' rights generate differences in incentives to use IJVs, especially in host countries with challenging investment environments.

We build a unique dataset to test our hypotheses. The sample includes developing and developed countries and covers the time period 1984-2010. We employ a new measure for the degree of legal protection from expropriation in a host country, which we refer to as BIT stringency, based on an original dataset of over 200 design differences in expropriation provisions of BITs (Vashchilko, 2011). In the empirical analysis, we focus on the expropriation provisions of BITs, as expropriation provisions in BITs contribute most to the protection of property rights. For foreign investors, expropriation results in instant loss of capital and therefore is a source of great insecurity for foreign investors, whereas, for host states, expropriation can act as a lucrative opportunity.

The empirical findings demonstrate that BITs have no impact on the number of IJVs when countries with high and low political risk are both included in the sample. However, BIT presence and rising BIT stringency increase the numbers of IJVs in absolute terms for investments into politically risky countries. Moreover, in politically risky countries, BIT stringency has a greater impact on the number of IJVs compared to BIT presence alone, demonstrating that variations in the degree of protection of international property rights matter for IJV establishment and survival.

The results extend previous literature on international strategy by showing not only that BITs matter to IJVs, but also that BIT heterogeneity changes IJV establishment and survival in politically risky countries. By demonstrating the conditions under which international investment institutions are important for IJVs, we extend institutional theory. This has traditionally focused on national and sub-national institutions (Meyer and Nguyen 2005, Meyer and Peng 2005, Peng and Beamish 2007, Peng 2011). Moreover, we extend institutional theory as it relates to foreign expansion by (1) delineating host countries' characteristics, which make BITs important for

IJVs, and (2) accounting for the design of international investment institutions and assessing how these design features impact MNE foreign expansion decisions.

THEORY AND HYPOTHESES

Institutions set "the rules of the game" to provide structure for business transactions (North 1990). International investment institutions, such as BITs, represent a major form of credible commitment (Guzman 1998). Each BIT between a capital-abundant country and a capital-scarce country is the result of a compromise reflecting the unique dyadic politico-economic relations as well as domestic politics of the host and home countries. Being asymmetric in reality[1], each BIT is a careful bargain involving protection of foreign investors' rights in a host country and the host country's sovereign rights to control foreign investment in its territory.[2] BITs include extensive provisions regarding protection of foreign investors' rights and international dispute settlement mechanisms, in case of the violation of those rights.

The impact of BIT presence on FDIs has been mostly researched in social science (Hallward-Driemeier, 2003; Neumayer and Spess, 2005; Tobin and Rose-Ackerman, 2005). These studies have produced conflicting findings. Recent research has analyzed the impact of BIT heterogeneity on FDI (Yackee, 2009; Kerner, 2009; Allee and Peinhardt, 2008; Allee and Peinhardt, 2010; Berger et al., 2010). Kerner (2009) differentiated between recently adopted BITs (with an assumption that these BITs had more effective dispute settlement mechanisms) and earlier BITs. Yackee (2009) reclassified BITs adopted by exporting countries and found that the positive impact of BIT presence on FDI (in Neumayer and Spess (2005)) did not hold. By

[1] The treaty text typically refers to investors and investments from either party (Sornarajah, 2004).
[2] For example, domestic governmental regulation in such areas as healthcare, taxation, environment, and others that could potentially increase costs to foreign investors doing business in a host state might be the basis for a foreign investor's lawsuit against a host state for violating a BIT's standards of treatment.

contrast, Kerner (2009) found that only recent BITs with more effective dispute settlement mechanisms have a positive impact on FDI. Allee and Peinhardt (2008) analyzed the effects of BITs on FDI conditioned by the ability of a host country to protect its reputation during investment disputes. These researchers found that only those host countries upholding their BIT commitments continued to have higher FDI inflows. Berger et al. (2010) found that FDI increases due to the reputational effects attributed to the mere presence of BITs rather than their heterogeneity. Berger et al. (2010) challenged the findings of Allee and Peinhardt (2008) that BITs have a positive impact on FDI only if BITs can serve as effective and credible commitment devices.

While much research has focused on the relationship between BITs and FDI, there has been considerably less research conducted on BITs and international strategy. Despite institutional theory being a strong basis for understanding entry mode choice (Kostova and Zaheer, 1999; Meyer and Peng, 2005), international investment institutions and their implications for MNEs have lacked attention in International Business (IB). In particular, IB studies have largely overlooked recent developments in international investment law, which has established enforceable institutional constraints on opportunistic behavior of host states along with improvements in protection of international property rights. International legal protection of property rights in host states has significantly increased in the last two decades (Sornarajah, 2004; Vandevelde, 2011; Voss, 2011), however, its implications for IJVs (Geringer and Hebert, 1989), and their subsequent survival lack systematic theoretical and empirical explanations.

IJVs can be created for three major reasons: as means of diversifying risk, as a way to pool capital resources (natural resources/labor/capital seeking motive) and technologies (strategic asset seeking motive), and as a way to gain additional advantages in local politico-

economic environment through knowledge of a local partner on domestic political and economic markets (market seeking motive) (Dunning,1993, 2000; Luo and Park, 2001; Makino, Lau, and Yeh, 2002, Sornarajah, 2004). IJV survival is predominantly determined by inter-party relationships, external conditions, and parent firms' circumstances, among which foreign investors have least control over external conditions and inter-party relationships (Makino, Chan, Isobe, and Beamish, 2007). As an international institution, a BIT makes it more costly for host states and local IJV partners to renege on their commitments due to enforceability (or even threat of enforceability) of contracts in international arbitrage. BITs are credible commitments because they "raise ex post costs of non-compliance above those that might be incurred in the absence of a treaty" through three mechanisms: "clarifying the commitment," "explicitly involving the home's country government," and "enhancing enforcement" (Elkins, Guzman and Simmon 2006, p. 823).

Foreign investors face the same dynamic inconsistency problem[3] that arises from the persistent conflict of interests involving control of FDI among foreign investors and host countries (Sornarajah, 2004). IJVs generate an additional layer to the conflict of interests stemming from the potential conflicts in inter-partner relationships, which affect survival of IJVs (e.g., Makino, Chan, Isobe, and Beamish, 2007). The goals of foreign investors and local partners are to maximize their investment's net present value, which in itself is a source of conflict if their bargaining power changes (e.g., Inkpen and Beamish, 1997), or partner's trust declines (e.g., Das and Teng, 1998). A host country's interest, in general, is maximizing its welfare. Due to changing international and domestic politico-economic circumstances, host countries may find direct or indirect expropriation of a foreign investor's property to be

[3] This is the situation when the future course of actions formulated in earlier time periods are not undertaken because they are no longer optimal (Kydland and Prescott, 1977, 1982).

necessary. Recognizing the host country's incentives of expropriation once the investments are established, foreign investors may be deterred. In this situation, the only possibility for the host country to attract foreign investments is to commit *ex-ante* not to expropriate ex-post, and credibly signal such commitment (Guzman 1998). One of the ways to signal such commitment is to negotiate BITs, which systematically links to the country's potential to expropriate foreign investors' assets, and the quality of investment environment (Vashchilko 2011).

In the case of collaboration with a host country government, the joint venture agreement stops being an ordinary commercial contract (Sornarajah, 2004). This exposes such agreements to additional risks of unitary actions of host sovereign states. Doing business on their own or with the help of the local partners, foreign investors have more credible and enforceable protection from expropriator actions of host states under BITs. However, the opportunistic actions toward foreign investors can also come from their local IJVs partners. So far, research on BITs predominantly focused on its ability to protect international property rights against direct and indirect expropriation by host states, and ignored BIT's ability to protect foreign investors against opportunistic actions of IJV's local partners.

Thus, BIT presence can facilitate IJVs establishment and survival, especially in politically risky countries. Politically risky countries have been rapidly growing from an economic point of view and their importance in the world economy has become more evident (Hoskisson, Eden, Lau and Wright, 2000). Not surprisingly, political risks have been given high priority by corporate investors though the nature of political risks has changed toward being more subtle and, therefore, requiring more nuanced assessment methodology (Minor 2003). However, scholars have warned that given heterogeneity within these types of countries, applying theoretical approaches born out of study of strategy in developed countries becomes

challenging (Wright, Filatotchev, Hoskisson and Peng, 2005). The impact of international institutional constraints on host states and IJVs's local partners is more pronounced in developing and more politically risky countries, than in developed ones. This is because international investment law resembles more domestic institutional constraints in developed countries rather than in developing ones. Therefore, BITs are more useful for foreign investors in IJVs in more risky countries, acting as a counter-balance to domestic investment regulations which are less reliable in terms of its enforcement. We hypothesize:

Hypothesis 1: The presence of BITs has a positive impact on the establishment and survival of IJVs, the impact being greater in countries with higher political risks.

We also argue that it is important to demonstrate how BITs matter. The key point is that BITs differ in their content: the number of obligations specified, the scope of their coverage, and the amount of details the obligations provide on every issue (e.g., Hallward-Driemeier, 2003, Sornarajah 2004). Host and home countries are rational and forward looking international actors, who choose international institutions such as BITs and institution's specific features, BIT stringency, to advance their goals. (Koremenos et al 2001).

Host countries differ in their investment environments, and foreign investors are uncertain about the quality of this environment (Henisz and Zelner, 2005). Some countries have more suitable domestic political conditions for designing better protection from expropriation through BITs than other countries. Domestic politics lead to variations in BIT stringency among countries. Thus, the politico-economic differences between host countries are the basis for the

variation in BIT design (Vashchilko, 2011). Thus, the stringency of the design features of BITs[4] becomes critical for whether or not the foreign investor decides to initiate a new investment project with local IJVs partners or terminate the alliance. We argue that better international legal institutions will increase MNE propensity to use IJVs in developing countries. We propose two reasons for this.

Firstly, increased FDI into a developing country as a result of more stringent BITs will result in greater competition in that country. This will in turn create higher levels of commercial risk and this will not be mitigated through the international legal institutions. The combination of political and commercial risk will heighten overall risk and encourage MNEs to use lower commitment entry modes. Foreign investors would continue to prefer to use low control entry mode IJVs to increase their subsidiaries' survival and profitability in this types of situation (Vernon, 1983; Anderson and Gatignon, 1986; Hennart, 1988; Hill et al.,1990; Shan, 1991; Kim and Hwang, 1992; Delios and Beamish, 1999).

Secondly, while political uncertainty surrounding stability in host country government infrastructure and policy persists, partners who have knowledge of the underlying reasons for the country's BIT policy will be of immense commercial benefit to the investing MNE. Local partners will have greater capability in understanding impending government changes and how these changes may – adversely or otherwise - impact the MNE's goals and activities. This foresight and assessment of institutional hazards can also be used to influence and bargain with unstable host country government over potential arising investment disputes by reminding host states their BIT obligations and costs associated with reneging on these obligations.

We hypothesize:

[4] This stringency reflects the strength (or degree) of protection of the foreign investor's rights with regard to potential expropriation in a host state.

Hypothesis 2: As BIT stringency increases, the number of IJVs rises in politically-risky countries.

METHODOLOGY

We combined data from various sources to build a unqiue dataset to test these hypotheses. Data was taken from the SDC Platinum dataset, the International Country Risk Guide (ICRG), international BIT documents in English language, and the Correlates of War (COW) dataset. The unit of analysis for the IJV models is a non-directed dyad-year. The resulting dataset has 37,352 non-directed dyads and 27 years of observations (1984-2010). The preferred way to test the hypothesis on the relationship between the number of joint ventures and strategic alliances is also to have a directed dyad data set. However, the data on IJVs demonstrates that often firms-members of a joint venture might host joint ventures in both countries, or the data on the hosting country of an IJV would have a missing observations. Therefore, we used a non-directed dyadic dataset. The advantage of a non-directed dyad dataset for this empirical analysis is that BITs are formally symmetric agreements protecting foreign investors in both nations-signatories of the agreement equally.

Variables

Dependent Variable: Number of IJVs: We used the count of the number of IJVs in a year t between two countries. Thus, this dependent variable is non-directional, since the information on the country hosting IJVs is often missing or both countries can serve as the hosts (A-B country dyad is the same as B-A). This data was taken from the SDC Platinum dataset.

Political Risk: The political risk measure was obtained from the ICRG, which identified 12 dimensions constituting various aspects of political risk and calculated their variations along with the composite index for a large sample of countries in 1984-2010 (ICRG 2010). The 12 various indicators of a country political environment have different weights in the total score of the political risk index, which ranges between 0 and 100 with 0 being a very high risk country and 100 being a very low risk country (Table 1).

TABLE 1 HERE

The dimensions of political risk include overall government stability, the socio-economic pressures at work, investment profile, internal conflict, external conflict, corruption, influence of military in politics, religious tensions, law and order, degree of tensions among ethnic groups, the democratic accountability, and the institutional strength and the quality of bureaucracy (ICRG 2011). Many researchers agree on the high quality of the ICRG's political risk measure (Harms and Ursprung 2002, Bolaky and Freund 2004, Rodrik et al. 2004, and Noguer and Siscart 2005).

Since the data are non-directional dyad-years, the minimum of two values of political risk (that is the country with the highest risk in a dyad-year) for the dyad-years constitutes the variable of political risk in the empirical analysis. The inclusion of the separate values for both countries does not make sense, since the interpretation of the regression coefficients will be confusing due to non-directional nature of the data. The inclusion of a value of political risk for the riskier country makes the testing of the joint ventures hypotheses more accurate, since the firm from less riskier country is perhaps the one to make the final decision on the formation of a joint venture with a firm from a less risky country.

BIT Dummy Variable (BIT Presence): BIT dummy variable takes value 1 if there is a ratified BIT between two countries, and 0 otherwise. On average, 3.23 percent of dyad-years have ratified BITs. At some point, 2127 dyads concluded and ratified BITs (5.69 %). 55.66 percent of countries, which ratified BITs, had these BITs before 1984.

BIT Stringency (BIT Design): The degree of protection from expropriation is operationalized as the cosine similarity measure between every BIT and a chosen benchmark's BIT (or a measurement standard). This benchmark BIT stipulates the possible, "ideal" way of protecting FDI from opportunistic expropriatory actions of host states (Vashchilko, 2011). The measure is relative, since it compares every BIT's expropriation article to a benchmark of a BIT's expropriation article using a cosine similarity measure. The benchmark BIT describes a maximum protection for a foreign investor from expropriation. Depending on whether or not an actual BIT provides more or less protection, values from 0 (minimum protection) to 1 (maximum protection) normalize the measure of the degree of expropriation protection.

The BIT design variable adopts values of zero for the years before the ratification, since the cosine similarity measure equals zero if no BIT provisions exist. This is similar to a constructed BIT that ideally protects foreign investors in a host country. If a host country does not have any ratified BITs, then it is treated as if this country has a BIT with a zero international legal protective mechanism for foreign investors. Missing data on the BIT's design variations results from two factors: language and data availability. Only English language BITs received codes of the degree of foreign investor's protection. This constitutes about one third of all BITs; therefore, the design variations' measure is only for the English language BITs. Among these,

some texts are unavailable, which is a source of missing data in the dataset for the design variations of BITs. Recognizing this issue, our empirical analysis uses two subsets of data: one which focuses only on countries with ratified English language BITs, and another which focuses on the former cases as well as those that do not have any ratified BITs during 1984-2007.

Distance is the logged value of the distance between the capitals of home and host states in a dyad. The data is from the Correlates of War (COW) dataset. The general expectation is that with a longer distance between the home and the host states, fewer IJVs are likely, mainly due to increased transportation and transaction costs.

Control variables: Since the data are non-directional, to control for GDP per capita and economic growth, we use *the difference* between the two of them for every dyad-year.

The logged value of the GDP per capita of each of the countries for the calculation of the difference captures the level of economic development in each of the countries. Theoretically, the greater the gap in economic development between the home and the host states, greater transaction costs for investing occur. Therefore, the expectation is for a negative effect from GDP per capita in a host state on the IJVs. Also, higher levels of GDP per capita are indirect characteristics of the quality of the labor force, and of the general level of a human development. Rescaling in thousands the GDP per capita avoids too small coefficient values.

Economic growth of each country in a dyad for the calculation of a difference demonstrates the level of contemporary development and indicates whether or not the development extends into the near future. Also, the economic growth may represent one of the indicators of sound macroeconomic policy. Higher economic growth implies a host state's increasing level of capital resources, which is beneficial for foreign investors, by providing foreign investors' easier access to capital.

Additional non-directed dyad control variables capture whether countries ever were in colonial relations, whether both countries have the same official language, and whether countries ever were the same country or not. These variables help control for the additional factors that might impact the formation of joint ventures between the firms from two different countries. The summary statistics of the variables for the JV models is in Table 2.

TABLE 2 HERE

Estimation models

The panel setting of the data accounts for the variations not only between more or less developed countries, but also for within-group variations. It is possible the IJV choices are more correlated when choosing a country within the same group, for example, within politically-risky countries. Thus, the methodology needs to account for the correlation within as well as across the panels. Since the dependent variable is the count of the joint ventures and the data implies that there is within and between panel correlation, we use a population-averaged panel negative binomial estimator with autoregressive of order 3 (AR(3)) correlation matrix for the full model and with AR(1) for the models that include only high risk countries (Hilbe 2011). The use of such a model produces coefficients that reflect the average "response of individuals sharing the same predictors across all of the panels" (Hilbe 2011, p. 450). The population-average model with general estimating equation (GEE) estimator is preferred over the negative binomial with random effects model due to the arbitrary parameterization of the within panel correlation structure. The negative binomial model with random effects assumes independence of within panel observations.

The estimation procedure in STATA of the GEE model for panel data follows the one developed by Hilbe (2011), where first we estimate the value of α by modeling the negative binomial model, then estimate the correlation structure using QIC, and finally estimate GEE model inputting the estimated α from the first step and specifying identified correlation matrix with QIC. The QIC/QICu statistics helps us to determine the preferred correlation structure for the generalized estimating equations (GEE) estimator by calculating the quasi-likelihood under the independence model information criterion (Pan, 2001). The selection of the correlation structure rests on the study's objectives, the data and the quantitative QIC/QICu tests (Hilbe 2011). The QIC/QICu statistics have the minimum value for the autoregressive correlation structure of lag 3 compared to other ones for the model with all countries, and the minimum value for the autoregressive correlation structure of lag 1 for the model including only high risk countries. This supports the choice of the autoregressive correlation structure quantitatively.

RESULTS

Results are shown in Table 3. The sample includes only dyads with at least one member having very high political risk ICRG rating (Model 3 and Model 4 in Table 3). The empirical results confirm this premise that BIT presence and BIT stringency increase the numbers of IJVs in absolute value, and the greater levels of BIT stringency (Model 3 in Table 3) lead to even greater numbers of IJVs. These results are strong with regard to the sample, since one of the control variables is political risk, which demonstrates that decline in political risk (measured as an increase in ICRG rating) lead to increase in the number of IJVs not only in the sample of very high risk dyads, but also for the entire sample. Thus, the empirical findings support *Hypotheses 1*

and *2* regarding the changes in the numbers of IJVs as protection of foreign investors against the opportunistic actions of host states and IJVs local partners improve.

TABLE 3 HERE

CONCLUDING REMARKS

We extend institutional theory in an international business context by examining the joint impact of BIT presence and BIT stringency on the establishment and survival of IJVs. We argue that international investment regulations provide an additional layer of institutional protection to foreign investors participating in IJVs. BITs have a counter-balancing effect as they compensate for unenforceable domestic investment law in politically risky countries. Previous research on BITs and IJVs has focused at the micro-level, examining the establishment of IJVs in terms of the types of assets that foreign firms attempt to access in a host state, as well as external conditions and inter-partner relations (Makino, Chan, Isobe, and Beamish, 2007). Research has also shown how institutional regulations in a host state is composed of both domestic and international layers, with the latter having a more effective enforcement mechanism (e.g., Sornarajah 2004). We differ from these types of studies by offering explanations on whether BITs matter for IJVs and how BITs matter. Our findings show that the number of IJVs increases in the presence of BITs, and as BIT stringency improves in countries with high political risks. These results enable us to contribute to research on the relationship between international strategy and legal international institutions by showing how the stringency of BIT design – a variable hitherto neglected - has a greater impact on the number of IJVs than the mere presence of BITs.

Our study argues that, at the macro-level, the establishment and survival of IJVs depends not only on credible protection of foreign investors against opportunistic actions of host states through BITs, but also on enforceable protection against opportunistic actions of IJV's local partners, which BITs can provide as well. In this sense we also extend previous research in two respects. Firstly, institutional constraints against opportunistic actions toward foreign investors in IJVs extend beyond domestic legal institutions to international ones. International investment institutions can compensate for the underdeveloped domestic enforcement and dispute settlement mechanisms to resolve investment disputes arising from conflict of interests between not only foreign investors and host states, but also between foreign investors and IJVs local partners. Secondly, BITs act to protect foreign investor assets against opportunistic actions of not only host states, but also IJVs' local partners. We show this mechanism in Figure 1. This line of research has been absent in previous research on BITs and IJVs.

Future research could examine whether BITs (and BIT stringency) become even more useful for IJV survival compared to wholly-owned subsidiaries (WOS), since (1) inter-partner relationship conflict is unique to IJVs (Makino, Chan, Isobe, and Beamish, 2007), and (2) BITs protect commercial contracts not only between host country governments and investors, but also contracts between two commercial entities (Voss, 2011). Future research can also address several limitations in the current study. For example, additional data on the design variations of the non-English language BITs can help to minimize the problem of missing data. The inclusion of the most recent BITs in the dataset will expand temporal and spatial coverage. Focused case studies can build on the current study work and provide additional empirical insight and a closer assessment of the causal mechanisms by which BIT stringency impacts IJV choice.

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Figure 1. Mechanisms by which BITs protect foreign investors' rights

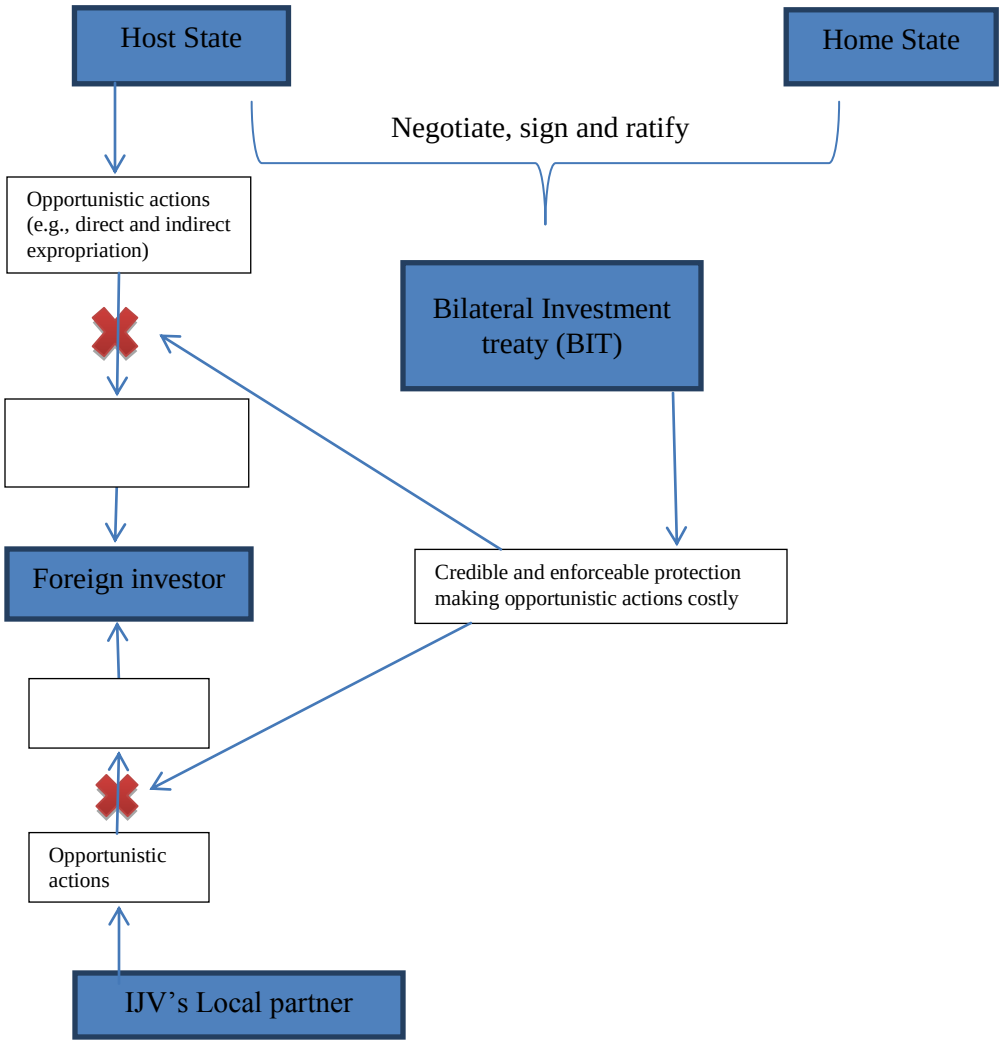

Table 1. Political Risk Components (ICRG 2011)

Sequence	Component	Points (max.)
A	Government Stability	12
B	Socioeconomic Conditions	12
C	Investment Profile	12
D	Internal Conflict	12
E	External Conflict	12
F	Corruption	6
G	Military in Politics	6
H	Religious Tensions	6
I	Law and Order	6
J	Ethnic Tensions	6
K	Democratic Accountability	6
L	Bureaucracy Quality	4
Total		100

Table 2. Descriptive Statistics

Variable	Min	Max	Mean	Std
The number of IJVs at time t-1	0	137.00	0.02	0.61
Main Explanatory Variables				
BIT Design	0	0.76	0.01	0.08
BIT dyad dummy	0	1	0.03	0.18
Political Risk (for the riskier country in a dyad)	9	94.5	55.86	13.63
Control Variables				
Log (Distance)	1.61	9.42	8.29	0.74
Difference between Host and Home in Log (GDP growth)	0	8.87	0.89	1.41
Difference between Host and Home in Log (GDP per capita)	0	7.10	1.04	1.37
1 for dyads ever in colonial relationship	0	1	0.01	0.09
1 for common official or primary language in a dyad	0	1	0.18	0.38
1 if countries in a dyad were or are the same country	0	1	0.01	0.09

Table 3. IJV Models (Beta Coefficients and Robust Standard Errors in Parenthesis)

	Number of Joint Ventures for a dyad-year in year t-1			
	All Countries		Only Very High Risk Countries	
	Model 1	Model 2	Model 3	Model 4
Political Risk (for the riskier country in a dyad)	0.09***	0.04***	0.06*	0.06*
	(0.01)	(0.01)	(0.03)	(0.03)
BIT design	0.77		4.40***	
	(0.48)		(0.92)	
BIT dyad dummy		0.286		2.11***
		(0.23)		(0.55)
Difference between Host and Home in Log (GDP growth)	0.15***	0.05***	0.04	0.02
	(0.02)	(0.01)	(0.07)	(0.07)
Difference between Host and Home in Log (GDP per capita)	0.26***	0.06	0.33***	0.31**
	(0.08)	(0.06)	(0.11)	(0.12)
Log (Distance)	-0.26**	-0.28**	-0.35	-0.25
	(0.13)	(0.11)	(0.27)	(0.29)
1 for dyads ever in colonial relationship	-1.99	0.06	0.16	0.28
	(1.46)	(0.48)	(0.98)	(0.98)
1 for common official or primary language in a dyad	-0.36	-0.69**	0.42	0.54
	(0.31)	(0.29)	(0.54)	(0.55)
1 if countries in a dyad were or are the same country	0.43	0.89**	1.32	1.71*
	(0.62)	(0.38)	(1.02)	(1.04)
constant	-7.59***	-3.20***	-6.52***	-7.27***
	(1.14)	(0.99)	(2.13)	(2.37)
Number of observations	155,973	158,374	46,555	49,432

***p<0.001; **<p<0.01;*p<0.05;+p<0.1