

**How Do Local and Foreign Firms Compete?**  
**Competitive Actions in an Emerging Economy**

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**Version: July 15, 2019**

**Full paper is available from the authors**

## **Abstract**

The relative merits of the Liability of Foreignness (LoF) and the Liability of Localness (LoL) have become a central theme of international strategy research. We explore how, in a context with extensive institutional voids, the trade-off between LoF and LoL influences firms' competitive actions. We argue that, on the one hand, LoF results in weaker government ties that inhibit firms' competitive actions. On the other hand, LoL results in weaker technological capabilities that inhibit firms' competitive actions. We apply structural equation modelling on Chinese survey data to test hypotheses derived from these arguments and find empirical support.

**Keywords:** action aggressiveness; competitive dynamics; liability of foreignness; liability of localness; institutional voids