Chinese Firms in the Trade War: Decoupling through Reshoring?

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Abstract

This paper leverages firm-level data to examine the impact of the U.S.-China trade war on the greenfield investment of Chinese investors. Our research yields a few interesting findings. Importantly, our results present a mixed set of findings to the "tariff-jumping" argument. In a longitudinal analysis of Chinese investors, the tariffs by themselves have had a negligible impact on Chinese investment, either in the U.S. or elsewhere in the world, while an extension focusing on cross-sectional variation showed some evidence of more investment in sectors affected by US tariffs. Nor have the tariffs resulted a perceptible shift in China's investment flows toward BRI countries. However, our analysis did generate some evidence that the trade war may have incentivized Chinese investors to increasingly invest in countries with good political ties with Beijing, presumably as a buffer against potential downturns in bilateral relations. It may also have resulted in a reduced willingness by Chinese SOEs to engage in overseas investment. Overall, these findings help to illuminate the extent to which policies of "decoupling" may have been effective in inducing shifts in Chinese investors' investment patterns, at least in the short-run.

On 6 July 2018, the US-China trade war officially opened with a set of tariffs imposed by the United States and China. The US imposed a 25 percent tariff on 818 imported Chinese products, valued at US$34 billion, while the Chinese government also imposed 25 percent tariff on 545 goods originating from the US, valued at US$34 billion.[1] These actions followed efforts at bilateral negotiations and, immediately before the exchange of tariffs, the conclusion of a Section 301 investigation requested by the US' Trump administration on 'China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation.' Subsequent tit-for-tat tariffs, ranging from 10 to 25 percent, affected roughly $350 billion of U.S. imports from China and $100 billion in U.S. exports to China between 2018 and 2019. In January 2020, a phase-one trade agreement was signed, in which China committed to purchase an additional $200 billion of goods and services in addition to pledging to address some of its alleged unfair trade practices in order to defuse trade tensions with Washington. Despite this temporary truce and more recent discussions by the Biden administration to lift some of these tariffs, most of the Trump-era tariffs have remained in place by the middle of 2022, raising concerns that the trade war may further accelerate economic decoupling between the two largest economies in the world and stymie decades of progress towards integrating China into the global economy.

As the largest economic conflict in the contemporary era, the U.S.-China trade war has stimulated growing scholarly interest in its economic impact, including its impact on American and Chinese firms, workers, and consumers; regional or global trade patterns; or global value chains (Amiti et al. 2020, 2019, 2020, Bellora and Fontagné 2020,?, Mao and Görg 2020, Wu et al. 2021). With regard to trade patterns, recent studies have yielded some preliminary evidence that the trade war has dampened US-China trade, at least until the onset of the more recent pandemic (Zeng et al. 2022), although it did not necessarily lead to a slowdown in global trade growth due to the reallocation of exports targeted by the tariffs by producers elsewhere in the world (Fajgelbaum et al. 2021).

This study directs attention to an important gap in our understanding of the US-China trade war: how has the exchange of tariffs affected investment behavior? In examining this underexplored area of the trade conflict, this study offers a firm-level analysis of the impact of the trade war on the determinants and locational patterns of Chinese greenfield investment. Leveraging both the Orbis firm-level data and the Orbis Crossborder Investment dataset, we not only examine the determinants of Chinese outbound greenfield investment at the firm- and country-levels during our sample period (2013-2022), but also track the changes in such investment in the trade war period which started in 2018 compared to the pre-trade war period.

The analysis yields several findings of interest, both for understanding the consequences of the trade conflict and for the relationship between trade and investment.

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[1].

First, our results show that the Trump administration's tariffs had a negligible impact on Chinese firms' investment behavior overall. The analysis generated negative estimates for the likelihood of Chinese investment in sectors where there is tariff exposure. However, as the analysis did not yield statistically significant estimates, the effects are at best weak. Second, at the firm-level, our results indicate that state-owned enterprises (SOEs) are important in spearheading China's overseas investment. Our analysis of the post-2018 period, however, generated some evidence that SOEs have been less active in investing abroad compared to the pre-2018 years. One possible explanation of this pattern may be that, as a major driving force of China's outbound investment, SOEs may have been most directly exposed to the impact of global geopolitical and economic changes. It is also possible that as the trade war has led the Chinese Communist Party (CCP) to embrace the "Made in China" policy, with its emphasis on "independence" and "self-reliance" (Hirsh 2022), Chinese SOEs may have increasingly responded to such a policy directive by investing in the domestic market. Unfortunately, our research design does not allow us to fully answer this question. Third, political distance between a host country and Chine matters more for Chinese firms in the trade war years. Before 2018, the host country's political alignment with China had no definable impact on the likelihood of investment; however, since 2018, the analysis shows that Chinese firms are less likely to invest in host country's that are politically distant from China, as observed through lack of alignment in UNGA voting records. Fourth, in terms of the geographical distribution of Chinese greenfield investment, Chinese firms have been less likely to invest in North America since the onset of the trade. The region effect for North America is positive and statistically significant for the pre-2018 period; however, the effect turns negative and statistically significant for the 2018 and later years in the full model of the empirical analysis. With the exception of the North American region, the regional distribution of Chinese greenfield FDI so far has not shown any significant changes since the onset of the trade conflict.

This paper contributes to a growing body of literature (Blanchard 2019, Nugent and Lu 2021, Sutherland et al. 2020) on the drivers of Chinese outward foreign direct investment (COFDI). The paper's findings enrich our understanding of the consequences of the U.S.-China trade war and represents one of the first systematic analysis of how the trade war may have driven changes in COFDI.

The paper proceeds as follows. The next section derives our main hypotheses based on a survey of existing literature on the location choice of FDI in general and that of COFDI in particular. The following section presents a descriptive analysis of the pattern of Chinese firms' greenfield investment during the years of analysis. The research design follows with descriptions of the data and variables used for the empirical analysis, followed by a report of the main empirical results and robustness checks. The paper concludes with a discussion of the implications of the findings and directions for future research.

Literature Review and Hypotheses

Investigating the impact of the US-China trade war on Chinese firms' investments highlights the link between trade protection and foreign direct investment. In this section, we build on previous literature on the factors that influence the location choices of Chinese investors and develop the study's central hypotheses about the impact of the trade war on COFDI patterns.

Motivations and Location Determinants of COFDI

China's rise as a major destination and, more recently, a major host country of foreign investment has captured growing scholarly interest. What motivates this emerging stream of research is the puzzle as to why firms without significant ownership advantages turn out to be successful multinational corporations (MNCs) in their own industries in a way that challenges existing theories of firm internationalization (Child and Rodrigues 2005). Questions have also been raised as to whether firms from emerging market economies such as those from China are more likely to be drawn to host countries with a different set of characteristics than those from developed countries (Buckley et al. 2007, Ramasamy et al. 2012, Shi and Zhu 2018).

Existing theories of the determinants of firm internationalization provide a useful starting point for understanding the factors that influence the FDI location choice of MNCs from both developed countries and emerging economies. Economists have emphasized the importance of trade costs or that of firm characteristics in influencing the decision to undertake FDI. Where trade protection in the form of tariffs is regarded as a trade cost, scholars have argued that it depresses investment (Duval and Utoktham 2014). For example, the "proximity concentration" hypothesis holds that firms may be motivated to spread production activities across national borders when trade costs such as those arising from transportation, trade barriers, or other frictions negatively affecting trade flows outweigh the potential gains from scale economies (Brainard 1997). This perspective is consistent with the argument that firms may develop new plants or expand existing operations through the so-called tariff-jumping FDI when trade barriers are sufficiently high. Recent research inspired by the New, New Trade Theory also points to the importance of firm-level characteristics such as size or productivity as determinants of firm internationalization (Antras and Helpman 2004, Helpman et al. 2004).

While similarly interested in the drivers of multinational production, the international business literature focuses on the liability of foreignness that firms may incur when operating in a foreign country. As foreign firms face additional costs relative to local firms arising from unfamiliarity with the host market, cultural and institutional distance, political and economic differences, and discriminatory policies and practices (Hymer 1976, Zaheer 1995), they should find FDI attractive if they possess sufficient or-

ganizational and managerial capabilities or firm-specific resources that will help to offset such costs and they are able to maintain internal control across operations to minimize the information and transaction costs associated with operating in imperfect markets (Buckley and Casson 1976, Hennart 1982, Nelson 1991). Dunning 1977, 1979 builds on the above perspectives to develop the eclectic paradigm which emphasizes the ownership, location, and internalization advantages that could help overcome the liability of foreignness and make it cost effective for firms to undertake FDI. Ownership advantages refer to a firm's control of ownership rights and propriety information that may enhance its competitiveness over foreign rivals. Location advantages pertain to host country characteristics such as resources, labor costs, markets, or favorable institutional and political environments that may help lower the costs of production and transportation for foreign firms. Finally, internalization advantages arise when it is more beneficial for the firm to produce the product in-house rather than contracting with a third party. Foreign investment becomes a rational strategy for a firm when all three conditions have been met.

The above theories for explaining when firms decide to become multinational have implications for understanding their location choice as well. In particular, they point to the importance of the characteristics of parent firm, those of the host country, and the dyadic relationship between the home and destination countries for shaping FDI. In the following analysis, we build on this literature to examine the influence of a set of factors specific to the firm (e.g., firm size, ownership, or productivity), host country (e.g., level of economic development, regime type, or natural resource rents), or the dyad (e.g, bilateral political relations or the existence of international economic agreements such as bilateral investment treaties or free trade agreements) that may influence Chinese firms' decisions about whether to invest in a particular destination country.

Impact of the Trade War on COFDI

We expect that the trade war may have affected the investment patterns of Chinese firms in the following ways:

Impact of the Tariffs

The most direct channel through which the trade war may have impacted COFDI may be through the elevated U.S. tariffs on Chinese products. On the one hand, the trade war has ruptured decades of U.S. policy of engagement of China and accelerated the decoupling of the U.S.-China relations in the spheres of trade, investment, and technology cooperation, a strategy intended to reduce U.S. dependence on China-centered production and supply chain networks. It is possible, therefore, that by generating heightened uncertainty and unpredictability in the business environment, the trade war may have

undermined business actors' expectations of the stability of business transactions and reduced their willingness to undertake overseas investments. This effect may have been further compounded by the more recent COVID-19 pandemic which has further aggravated supply chain disruptions and dampened global economic activities. The rising specter of a prolonged commercial conflict amidst the background of growing U.S.-China strategic competition may therefore have undercut Chinese investors' willingness to invest in not only the U.S. market, but also elsewhere in the world.

On the other hand, however, it is also possible that increased U.S. tariffs on Chinese products may have prompted Chinese firms to evade the tariffs on their exports to the U.S. by establishing production facilities in the U.S. market. Known as "tariff-jumping FDI," such moves are often considered to be motivated by cost-saving considerations and tend to occur when the costs of exporting exceed those of direct investment (Horstmann and Markusen 1992, Hwang and Mai 2002). Existing literature (e.g., Riker and Schreiber (2019)) has further suggested that whether a tariff increase will affect FDI flows will depend on the magnitude of the tariff change, with more significant tariff increases more likely to induce shifts in FDI flows. Following the logic of this argument, we should expect rising U.S. tariffs on Chinese products to lead to increased Chinese investments in the U.S. market.

Still another possibility, which is more closely connected to the first scenario above, is that the tariffs may have had a direct negative impact on Chinese investments in the U.S., but may have also led Chinese investors to search for alternative production sites, adjust suppliers, or reallocate resources in order to minimize the heightened risks and uncertainty associated with investing in the U.S. market. This may in turn lead to increased Chinese investments outside of the U.S. market. Due to these potentially contradictory expectations, we do not place any expectations on the sign of the tariff variable.

Hypothesis 1: The impact of the U.S. tariffs on Chinese firms' willingness to invest abroad is indeterminant.

Ally-shoring

The U.S.-China trade war, compounded by the COVID-19 pandemic, has called into question the benefits of an integrated global economy and led to the revival of calls for companies which have engaged in the offshoring of production to markets that offer less expensive labor or natural resources to bring back manufacturing capabilities to their home countries through onshoring or reshoring. Amidst such growing trends of deglobalization, ally-shoring or friend-shoring has also gained increasing traction. According to a recent Biden administration report on U.S. supply chains, such strategies emphasize the importance of cooperating with "allies and partners to foster and pro-

mote collective supply chain resilience" (Kollewe 2022). While the concept was initially developed by democracies to reduce the vulnerabilities associated with dependence on foreign supplies of essential materials, goods, and services by strengthening supply chain relationships with countries with shared values and ideology, Beijing has also sought to deepen relations with its regional neighbors and countries along the BRI route in an effort to expand China's international influence and to undercut Washington's perceived encirclement strategy of China. In addition to promoting regional trade cooperation through the Regional Comprehensive Economic Partnership (RCEP), Beijing has also sought to address the concerns of regional leaders by emphasizing the shared priority attached to socioeconomic development through the adoption of initiatives such as the China-ASEAN agenda for 2021 (Petri and Plummer 2020).

In such a context, sound pre-existing diplomatic relations between China and the partner country may provide a permissive environment for Beijing to cultivate the good-will of the latter and aid in Beijing's efforts to elevate China's position as a central actor both in Asia and on the world stage. Political alignment with China captures the diplomatic environment for China's investor firms. The hypothesis of interest is that Chinese firms are likely to locate investments in countries that are closely aligned with China, as observed through United Nations (UN) voting patterns (Bailey et al. 2017). Chinese firms, in an effort to minimize risk, will look favorably upon investment destinations with favorable diplomatic climates for China's economic actors. Recent scholarship has found that Chinese investments are increasingly subject to strict screening in host countries, whose governments may cite national security concerns as grounds for rejecting investor applications (Bauerle Danzman and Meunier 2021, Chan and Meunier 2022, Canes-Wrone et al. 2020). In the United States, the government undertook a reform of the Committee for Foreign Investment in the United States (CFIUS) to tighten screening procedures. In the European Union, the first EU-level investment screening mechanism was adopted in 2019. Chan and Meunier 2022 finds that investment screening in EU member states is stricter in high-tech sectors and notes that overall, investment screening is likely to become more restrictive over time. In the United States, scholarship has noted increasing public backlash against Chinese investment activities in recent years (Canes-Wrone et al. 2020). With animosity towards Chinese investors rising in many recipient countries, Chinese firms are likely to invest in countries that have good political relations with China. The trade war may have reinforced this pattern as Chinese investors seek to cushion the impact of U.S. tariffs by seeking to expand its trade and investment relations with like-minded countries. The analysis thus tests the following hypothesis on political relations between China and the destination country:

Hypothesis 2: Chinese investment should be less likely to flow to countries that are politically distant from China post-2018.

A BRI Effect?

The U.S.-China trade war is first and foremost a political war, pitting the world's leading economy against its second largest one that is challenging the U.S.' dominant position in the international economic system (Kim 2019, Liu and Woo 2018, Chong and Li 2019). Scholars have noted how U.S. concerns about its own hegemonic decline and the rise of China as a challenger have sparked the U.S.' initiation of the trade war. The trade war also politicizes the impact of China's sustained trade surplus with the United States, highlighting the effects of China's unfair trade practices on job creation and its acquisition of technology from the United States through unfair trade practices. Scholarship advancing China's position has gone so far as to claim that the Trump administration's initiation of the trade war is actually an attempt to obstruct the rise of China (Lai 2019). In advancing China's foreign economic activities as part of its economic statecraft, the central government has sought to promote export-related overseas investment, securing the supply of natural resources, enhancing Chinese firms' competitiveness, as well as tending to the political side by maintaining strong and positive political ties with host countries (Wei 2010).

The U.S.-China trade war has additionally prompted China to adopt its own strategies to enhance its own geopolitical and economic influence and counter efforts by the United States to separate the two economies. Notable among these was Beijing's renewed emphasis on the Belt and Road Initiative (BRI), an ambitious infrastructure and investment project launched in 2013 to increase China's political and economic influence by offering incentives for infrastructure development and financial investment in the region. The BRI comprises two components, namely the Silk Road Economic Belt on land and the Twenty-First-Century Maritime Silk Road in the seas. The BRI is China's grand strategy designed to forge international cooperation on Beijing's terms, to wield influence regionally and globally, and to counter the political and economic influence of the United States, especially in Asia (Callahan 2016, Chaisse 2018, Cheng 2016, Huang 2016, Kim 2022, Pencea 2017). More recently, the BRI has further expanded to include a Digital Silk Road (DSR) linking countries through fiberoptic technology and even a "Space Silk Road" (Davis 2017). Even before the onset of the trade war in 2018, Chinese academics had come to view the initiative as an important means of offsetting the potentially damaging effects of trade tensions with the United States by fostering international economic connectivity with partner countries in the BRI.

In the early years of the BRI, when the initiative was advanced under the label "One Belt, One Road," partner countries were located in the broader Eurasian continent. Since 2017, the BRI has been expanded to include partners in Africa, Latin America, Oceania, and the Artic Ocean. Given the diversity of BRI partners, the outbreak of the trade war has given additional credence to the view that it may not only represent an offensive tool to enhance China's global standing, but may also serve a defensive purpose by providing alternative sources of trade and investment which may in turn help to mitigate the

impact of the trade war (van de Ven 2019). In such a view, then, the trade war may have led Chinese firms to increasingly shift investment towards BRI partner countries.

Hypothesis 3: Chinese firms should be more likely to invest in BRI partner countries post-2018 compared to the pre-trade war period.

It should be noted though that our expectations are tempered by the understanding that shifting investment towards the BRI countries also entails a sectoral change, moving away from those goods subject to U.S. tariffs towards sectors such as construction or infrastructure development that are more compatible with the objectives of the BRI. Moreover, such a geographical shift is likely to take more than the four years since the outbreak of the trade war. Thus, for this hypothesis, we take a more investigative and exploratory stance, with the expectation of a positive impact of the trade war in investment in BRI countries but with reservations that, for many firms, shifting investments away from established destination markets and towards countries along the BRI route may take place over the long term.

Firm Ownership

Previous studies of COFDI suggest that firm ownership may play an important role in influencing the investment decisions of Chinese firms, with state-owned enterprises (SOEs) more likely to undertake FDI than firms in the non-state sector. This is because, due to their historically strong ties to the government, SOEs are more likely to have access to the financing, foreign exchange, and other forms of support such as heavily subsidized raw materials, energy, input, and monopoly production rights needed to engage in international operations (Dollar and Wei 2007, Haley and Haley 2013, Stone et al. 2022). SOEs' privileged access to natural and financial resources may therefore have made them more likely to venture into international markets compared to non-state firms. Firms under the direct supervision of the State-Owned Asset Supervision and Administration Commission (SASAC), in particular, are more likely to respond to the government's calls by conducting international activities aimed at acquiring natural resources or other strategic assets (Ramasamy et al. 2012).

Despite growing evidence that SOEs and state-run banks have gained flexibility and autonomy in the implementation of Beijing's main initiatives designed to expand Chinese firms' global footprints such as the Go Out Policy and the BRI (Ye 2020), SOEs may have remained the principal agents for China's global investment expansion (Zhao and Lee 2021). Scholarship on the BRI has found that SOEs are leading economic actors in investor activities in partner countries (Wildau and Ma 2017), carrying out key responsibilities such as negotiating contracts and establishing partnerships. SOEs are reported to have undertaken more than 3,100 projects in BRI partner countries, and participating SOEs include not only national-level SOEs but also local SOEs, semi-SOEs, as well as

their subsidiaries (Rolland 2017, Suokas 2018). SOEs invest in "hard" infrastructure, covering a wide range of activities in transportation, energy supply, and telecommunications.

We expect that the trade war may have enhanced the incentives for Chinese SOEs to invest more aggressively in overseas markets to offset the impact of the trade war. As rising protectionism threatened Chinese firms' access to the U.S. market, SOEs, which played a pivotal role in the government's efforts to promote mutually beneficial economic initiatives in partner countries and which faced strong imperatives to meet political mandates, may therefore have made a more forceful foray into international markets in order to compensate for the reduction in market access to the U.S. market.

Hypothesis 4: SOEs should be more likely to engage in outward foreign direct investment compared to non-state-owned enterprises post-2018.

Chinese Greenfield FDI Patterns

China's phenomenal economic ascent and the country's emergence as a major trading national and center of global manufacturing activities have facilitated its transition from a capital importing to a capital exporting country. By 2015, China has overtaken Japan to become the country with the second largest FDI flows in the world. While China's outward FDI stock of 2.4 trillion in 2020 is still a relatively small fraction (6.4 percent) of the world total, China's share of global FDI stock has experienced a five-fold increase during the past decade (Molnar et al. 2021). Looking at Chinese greenfield investment, illustrated in Figure 1, Chinese investors have made a total of 3,450 investment projects between 2013 and 2021, with the total number of projects gradually increasing from 310 in 2013 to a high of 573 in 2018, followed by a decline to 161 projects in 2021. The capital expenditures associated with these projects demonstrated a somewhat different trend. While peaking at $53.27 billion in 2014, total expenditures dropped to $8.04 billion in 2016 before rebounding to $20.08 billion in 2018. This was followed by another decline to $3.94 billion by 2021.

Figure 2 presents the top 10 destinations of Chinese greenfield investment by the total number of projects. As we can see, the top three destination countries of Chinese investment prior to 2018 were Germany, the United States, and India. The United States has surpassed Germany as the number one destination market for Chinese investors since 2018. Other top destinations in both periods included the United Kingdom, France, and Hong Kong. Spain and Mexico have replaced Singapore and Russia as the other two major destinations in the 2018-2021 period.

Figure 1. Chinese Greenfield FDI, 2013 - 2021
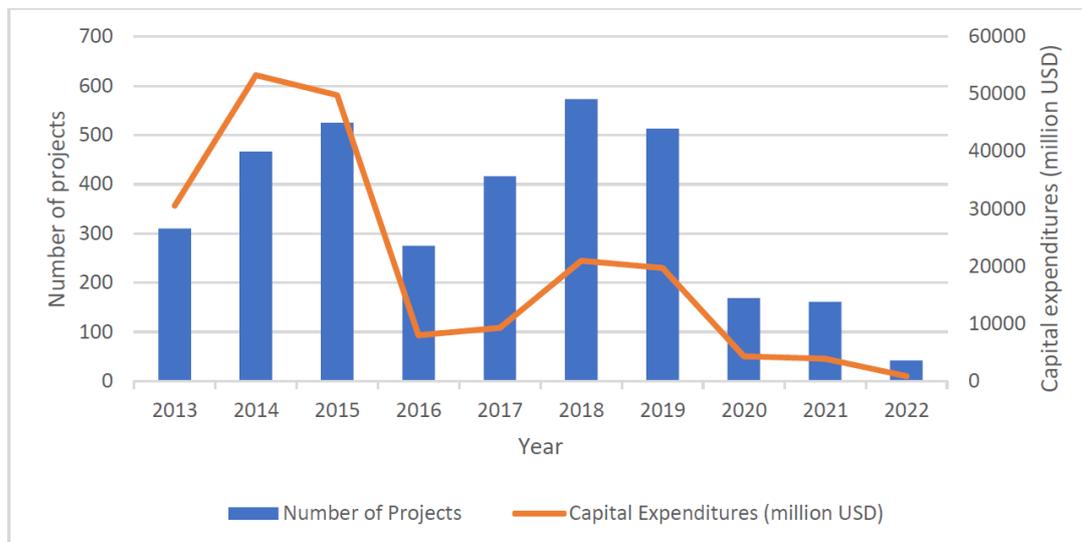
Figure 3, which depicts changes in the sectoral composition of Chinese greenfield investment by the total number of projects in the primary investing sector, indicates that sectors such as retail, business services, and biotechnology have become increasingly popular sectors of investment post-2018. Within the manufacturing industry, computer software, transport manufacturing/OEM manufacturing; and industrial, electric, and electronic manufacturing remain relatively important sectors during both periods.

Figure 4 presents the distribution of Chinese greenfield investment by world region between 2013 and 2021. As Figure 4 indicates, Chinese investment in the European Union far outpaced investment in other world regions, with North America trailing behind at least until 2016. The data additionally point to the negative impact of the trade war on Chinese outward investment. COFDI peaked in 2018-2019, saw a clear drop in 2019-2020, and only started to experience a gradual rebound in 2020-2021 for most world regions.

Figure 2. Top Destinations of Chinese Greenfield Investment
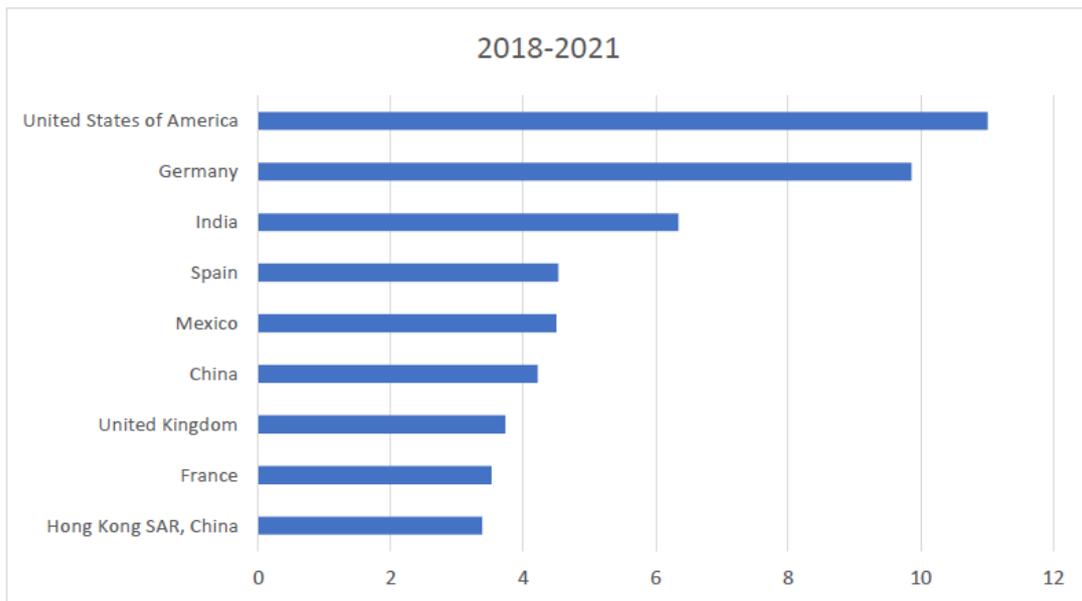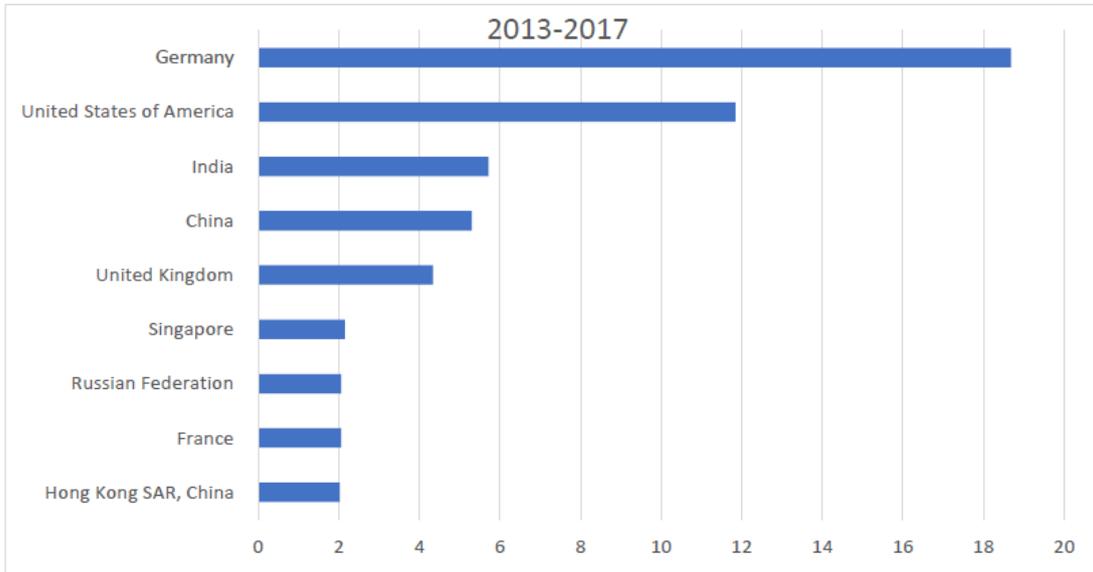by Number of Projects, 2013-2021

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Figure 3. Sectoral Composition of Chinese Greenfield Investment,
by Number of Projects in Primary Investing Sector, 2013-2021

2013-2017

Sector	
Travel, Personal & Leisure / Travel	
Communications / Radio & Television Broadcasting	
Computer Software / Web Hosting & Internet	
Wholesale	
Transport Manufacturing / Automotive Manufacturing / OEM	
Business Services	
Banking, Insurance & Financial Services / Banks	
Transport Manufacturing / Automotive Manufacturing / non-...	
Industrial, Electric & Electronic Machinery / Electronic &...	
Retail	

2018-2021

Sector	
Retail	
Travel, Personal & Leisure / Travel	
Biotechnology and Life Sciences / R&D Laboratories	
Business Services	
Computer Software / Software Services	
Transport, Freight & Storage / Warehousing	
Computer Software / Web Hosting & Internet	
Transport Manufacturing / Automotive Manufacturing / non-...	
Industrial, Electric & Electronic Machinery / Industrial...	
Industrial, Electric & Electronic Machinery / Electronic &...	

Source: Orbis Crossborder Investment Dataset.

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Figure 4. Geographical Distribution of Chinese Greenfield Investment, 2013-2021
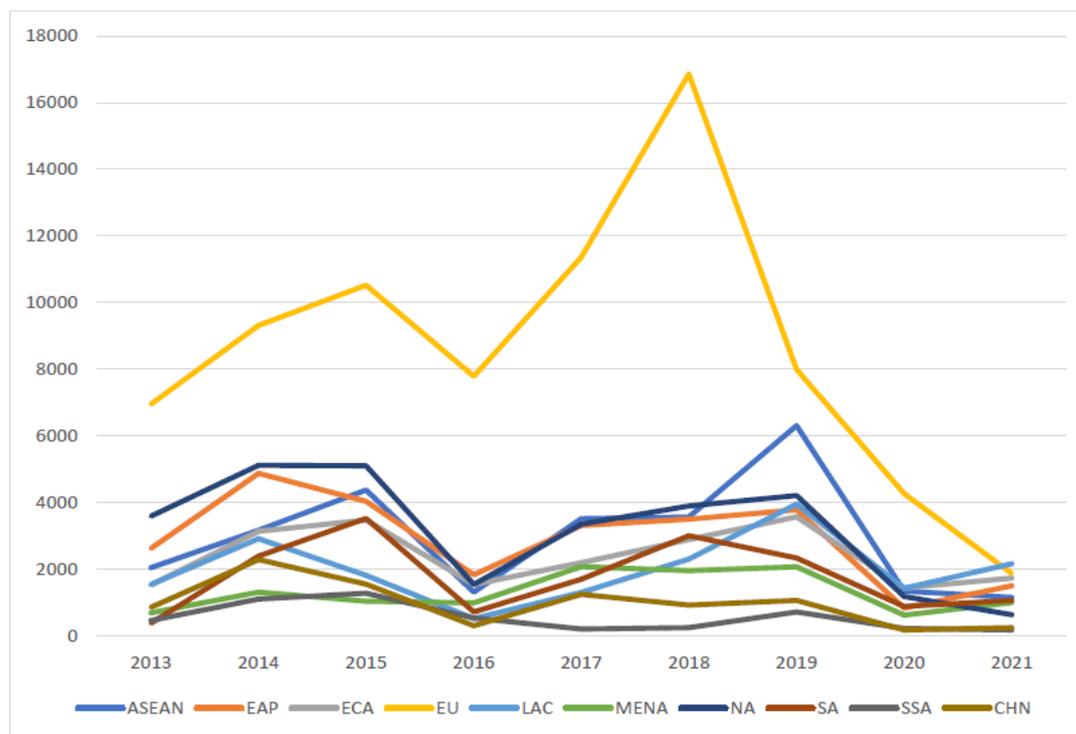
Source: Orbis Crossborder Investment Dataset.

Data and Variables

To test our hypotheses, we construct an estimation sample by matching data on Chinese firms from the Orbis firm-level dataset with those from the Orbis Cross-border Investment dataset. We focus on Chinese greenfield investment in the manufacturing industry as tariff data from WITS are only available for manufacturing industries. The resulting sample covers 4,217 greenfield investment projects made by 1,627 unique Chinese firms to 129 destination countries in the 2013-2021 period. We run cross-sectional, time-series models with firm-destination market as the cross-section.

Our main dependent variable, invest, is a dummy variable which equals 1 if firm i has invested in country j in year t. We include the following main independent variables into our analysis:

Tariff Exposure_dummy is measured as the interaction between a dummy variable measuring whether a firm is subject to the Trump tariffs in a given year (U.S. tariff) and the total exports to the U.S. of the industry to which the firm belongs in the industry's

total exports (export share).[2]

Tariff data for the pre-trade war period are drawn from the World Integrated Trade Solution (WITS) database maintained by the World Bank, whereas data on the Trump tariffs are from the United States Trade Representative.2

SOE. We further include a dummy variable for SOEs to test hypothesis 4 about the differences in the investment behavior of state- vs. non-state-owned firms.

Political Distance. It has been argued that COFDI Is more likely to flow to countries with good political relations with China as sound diplomatic relations may insulate firms from the political risks of investing in the host country (Li and Liang 2012). The disruptions caused by the trade war may have further accentuated the importance of good political relations for China's outward investment, as hypothesized above. We use the ideal point distance between China and its partner country in United Nations General Assembly (UNGA) voting as a proxy of political relations. A negative relationship is expected between this variable and our main dependent variable.

BRI partner. BRI partner is a dummy variable for whether a country has joined the BRI by signing either a memorandum of understanding or a cooperation agreement with China in a given year. BRI is coded as 1 if a country is part of the BRI in a given year and 0 otherwise. A total of 139 countries have joined the BRI by 2021 (Sacks 2021).

We control for a battery of variables that may potentially influence a firm's investment decisions: At the firm level, we consider the potential influence of a firm's size and productivity on its FDI patterns. Theories of firm heterogeneity (Blomström and Lipsey 1991, Helpman et al. 2004) would lead us to expect that larger and more productive firms should be more likely to engage in multinational production. We use the firm's number of employees (employees) and profit margin as proxies for size and productivity, respectively.

At the country level, we take into account the possibility that Chinese investment is more likely to flow to countries with a higher level of economic development, as measured by the logged value of its GDP and GDP per capita.[3] We also include a host country's natural resource rents on the expectation that firms may be drawn to host countries with an abundant supply of mineral deposits, raw materials, and other natural resources in their investment decisions. China's unprecedented economic growth may have further accentuated the demand for natural resources, reinforcing the resource-seeking motivations behind COFDI (Buckley et al. 2007, Kolstad and Wiig 2012, Wang and Yu 2014). Considering the disruptions that the COVID-19 pandemic has generated for global and

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[2]Orbis' Cross-Border Investments database provides sectoral information using the NAICS classification. These were matched with product-level export data using the HS classification from the UNComtrade database. We employed the concordance package in R (**?**) to match product codes.

[3]Data for the above country-level variables are taken from the World Development Indicators.

investment activities, we further control for the cumulative number of COVID-19 cases in the destination country. Data for this variable are from the World Health Organization. Since regulatory barriers in the host country may deter foreign investment, we also include the FDI Regulatory Restrictiveness Index (FDI restrictiveness index) which measures "statutory restrictions on foreign direct investment in 22 economic sectors across 69 countries, including all OECD and G20 countries" in some of the models.[4] Since this variable is only available for a subset of the countries in our sample, models including this variable necessarily have a smaller number of observations.

Whether Chinese firms are more likely to be attracted to countries with a higher level of political risk has also been the subject of considerable scholarly debate. An earlier study by Buckley et al. 2007 suggests that as most Chinese investment was led by the government, the more amicable political relations between China and host countries in the developing world may have made Chinese firms less sensitive to political risks in the destination country. Kolstad and Wiig 2012 and Ramasamy et al. 2012 yielded somewhat similar conclusions, showing that SOEs are less risk averse than firms in the non-state sector. Moreover, there was some evidence that COFDI flows were positively associated with corruption in the host country. It has also been suggested that, as investors from many other emerging market economies, Chinese investors may be more likely to be attracted to autocracies as their greater familiarity with systems that are not fully transparent may have offset the liability of foreignness that they face in weak institutional environments (Child and Rodrigues 2005, Holburn and Zelner 2010, Morck et al. 2008).

However, more recent scholarship has challenged the view that Chinese investments tend to be destined to countries with poor institutions. Shi and Zhu 2018, for example, argue that as MNCs embedded in autocracies cannot easily transfer the political connections and influence they have developed at home which are country-specific to other contexts, this may have limited the extent to which they can utilize similar strategies or tactics to cope with political risks abroad. Biglaiser and Lu 2021 find that, with the exception of natural resource investment, Chinese state investment tends to flow to low-risk developing countries in a way that is not too dissimilar to the pattern for U.S. investors. It is also possible that the global expansion of Chinese investment may have also increased Chinese investors' sensitivity to host country political risks. Other empirical studies (e.g., GaoYan (2020), Zeng (2019)) also yielded limited to no evidence that Chinese investors favor politically risky destinations.

Given that many of the indicators of political risks such as rule of law, control of corruption, and regulatory quality are highly correlated with one another as well as with a country's regime type, we choose to focus on regime type (regime) in our analysis. Regime, which is measured as the sum of a country's political rights and civil liberties

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[4]OECD, FDI Regulatory Restrictiveness Index (Accessed August 20, 2022).

ratings provided by the Freedom House, is a continuous variable ranging from 0 for a highly authoritarian country and 14 for a highly democratic one. We do not place any expected sign on the relationship between political risk and Chinese greenfield investment due to the contrasting theoretical expectations and mixed empirical evidence described above.

At the dyadic level, we consider the possibility that geographic distance (distance) inhibits FDI and that the presence of a bilateral investment treaty (BIT) between China and the partner country has the opposite effect. It has been shown that BITs' liberal investment protection and liberalization provisions tend to boost COFDI (Lu et al. 2021) and that this effect is especially pronounced for SOEs which enjoy strong government support (Zhao and Lee 2021). BIT is a dummy variable that equals 1 if China and the host country have a bilateral investment treaty in effect in a given year and 0 otherwise. Data for this variable are drawn from the International Investment Agreements Navigator maintained by UNCTAD. All of the above variables are lagged by one year to take account of the potential for reverse causality.

We create a dummy variable for the year 2018 which marked the beginning of the trade war (2018 dummy). We additionally include dummy variables for the following world regions –Association of Southeast Asian Nations (ASEAN), East Asia and Pacific (EAP), the European Union (EU), North America (NA), South Asia (SA), Latin America and Caribbean (LAC), Middle East and North Africa (MENA), and sub-Sahara Africa (SSA) – based on World Bank country classifications to test for any region-specific effects associated with Chinese greenfield investments.[5] We further examine the interaction terms between each of these regional dummies and the 2018 year dummy to see if there have been any changes in the geographical distribution of Chinese investment since the beginning of the trade war in early 2018.

Findings

We estimate population-averaged logit models for panel data recorded at the firm-destination level during the 2013-2021 period. The results are reported in Table 1. The population-averaged logit model (Neuhaus et al. 1991, Neuhaus 1992), in contrast to the random effects model, highlights cross-sectional differences in a panel context. The estimates, therefore, provide a comparison of firms across destination countries rather than within-unit comparisons of firms in the same host country. Table 1 reports the results of the analysis. Model (1) provides a baseline set of results, and it reports estimates for our major independent variables of interest – *Tarif exposure, SOE, Political Distance,* and *BRI partner*, controls for national level characteristics – *GDP, GDP per capita, Distance,*

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[5]World Bank classification of country and income groups by region.

and *Covid-19 cases*, and regions. The model also includes a dichotomous indicator for the trade war years, 2018 and later, and interact this with *SOE, Political Distance,* and *BRI partner* to test for a structural break. We do not interact *Tariff exposure* with 2018 as this is already accounted for in the construction of the variable. Model (2) builds on Model (1) to acount additionally for structural breaks for the regions. Models (3) and (4) include controls for *Regime, FDI restrictiveness,* and *Natural resource rents.* As the limited data availability for these variables significantly reduces sample size, we report the estimates including these variables separately.

The results in Table 1 also show findings for the four hypotheses developed in this paper. On the first hypothesis the estimates for *Tariff exposure* are negative across the different model specifications. The estimate is statistically significant in Model (4) only, the full model with all control variables and structural breaks are included. The consistently negative estimates is indicative of the link between the trade protectionism of the trade war and subsequent investment behavior as a response. It appears that in general, in sectors that are affected by the Trump tariffs and with substantial trade, there is a lower likelihood of Chinese investment. However, the estimate is statistically significant in only one model specification, and the estimates are generated using a small sample relative to the other model specifications. Second, the specific sample that yields the significant estimate for *Tariff exposure* may be illustrative of the short-term effect of the trade war on Chinese firms' investment activities. The four years since the onset of the trade war, 2018-2021 inclusive, have not deterred Chinese investment in the sectors affected for a larger sample. The result may also highlight the differences between trade and investment, where economic actors engaged in trade are more affected by the trade war in the short term than investors seeking new locations with a view to long term profits.

Table 1 shows that before the trade war, *Political Distance* from China, observed through UNGA voting records, had an inconsistent and inconslusive impact on Chinese investment. Estimates are positive in Models (1) and (2) without controls for *Regime, FDI restrictiveness* and *Natural resource rents* but negative in Models (3) and (4) and a smaller sample. The trade war appears not to have changed the calculus of Chinese investors. The exception is Model (2), where the estimate for *Political Distance*2018* is negative and statistically significant. Greater political distance between a host country and China appears to lower the likelihood of Chinese investment in the post-2018 period. This result provides preliminary empirical support for the "friendshoring" argument.

Table 1. Cross-Sectional Time-Series Logit Models of Greenfield FDI by Chinese Firms

Independent Variable	(1)	(2)	(3)	(4)
Tariff exposure	-0.00708	-0.00872	-0.00581	-0.0141**
	(-1.56)	(-1.47)	(-1.12)	(-2.03)
Employees	-0.0358	-0.0341	-0.0375	-0.0377
	(-1.00)	(-0.96)	(-0.93)	(-0.93)
Profit Margin	-0.0366	-0.0390	-0.0414	-0.0393
	(-0.93)	(-0.98)	(-0.93)	(-0.88)
GDP	-5.885**	-7.198**	-5.092	10.50
	(-2.19)	(-2.03)	(-1.02)	(-1.58)
GDP per capita	4.167	6.098	4.937	11.47
	(1.32)	(1.51)	(0.81)	(1.49)
Distance	-25.83***	-29.55**	9.980	19.35
	(-2.82)	(-2.41)	(1.10)	(1.50)
SOE	**0.118**	**0.196***	**0.118**	**0.208***
	(1.18)	**(1.75)**	**(1.06)**	**(1.72)**
Political Distance	**0.0815**	**0.146**	**-0.0177**	**-0.0564**
	(0.77)	**(1.35)**	**(-0.11)**	**(-0.36)**
BRI partner	**0.0673**	**-0.245**	**-0.119**	**-0.316**
	(0.29)	**(-0.75)**	**(-0.36)**	**(-0.71)**
BIT	-0.742	-0.550	-0.751	-0.145
	(-0.88)	(-0.65)	(-0.87)	(-0.17)
COVID-19 cases	-0.106***	-0.0800***	-0.125***	-0.108***
	(-5.59)	(-3.88)	(-5.88)	(-4.06)
Regime			-0.0566	0.0129
			(-0.33)	(0.07)
FDI restrictiveness			-9.312*	-2.195
			(-1.69)	(-0.36)
Natural resource rents			0.296*	0.353*
			(1.86)	(1.66)
2018 dummy		0.674**		0.794**
		(2.36)		(2.26)
SOE*2018		**-0.395**		**-0.592***
		(-1.63)		**(-1.91)**
Political Distance*2018		**-0.000706***		**-0.00022**
		(-3.43)		**(-0.67)**
BRI partner*2018		**0.0615**		**-0.271**
		(0.22)		**(-0.49)**
Regime*2018				0.0191
				(0.29)

ASEAN	31.45**	37.25**	-10.33	-20.85
	(2.52)	(2.27)	(-1.11)	(-1.45)
East Asia and Pacific	-58.81***	-66.64**	20.68	39.69
	(-2.89)	(-2.45)	(1.12)	(1.54)
European Union	-18.19***	-21.23**	-9.923	-18.38*
	(-2.62)	(-2.33)	(-1.26)	(-1.81)
Middle East and North Africa	-7.064***	-6.042*	1.158	4.981
	(-2.69)	(-1.70)	(0.19)	(0.60)
North America	17.98**	21.55**	5.594	11.75*
	(2.48)	(2.24)	(1.07)	(1.74)
South Asia	-20.27***	-18.99**	24.09	49.58
	(-3.58)	(-2.31)	(0.96)	(1.53)
Sub-Sahara Africa	-10.24***	-8.153		
	(-2.77)	(-1.60)		
ASEAN*2018		0.533		0.898
		(0.99)		(1.31)
East Asia and Pacific*2018		-0.279		-0.607
		(-0.61)		(-1.20)
European Union*2018		-0.538*		-0.478
		(-1.91)		(-1.37)
Middle East and North Africa*2018		0.511.		1.081*
		(1.26)		(1.74)
North America*2018		-0.554		-0.986**
		(-1.51)		(-2.27)
South Asia*2018		-0.154		-0.147
		(-0.33)		(-0.24)
Sub-Saharan Africa*2018		-1.105		
		(-1.34)		
Constant	352.2***	401.8**		
	(2.73)	(2.31)		
N	361,264	361,264	188,420	188,420

Estimates generated using *xtlogit* in *Stata 17*

t-statistics in parentheses; * p < .1, ** p < 0.05, *** p < 0.01

The analytical framework also advanced the hypothesis is that Chinese firms would be more likely to invest in BRI partner countries post-2018 compared to the pre-trade war period. The results of the analysis do not strongly support this geostrategic dimension to US-China relations. For the trade war period since 2018, *BRI partner* is positive in Model (2) but negative in the fully-specified Model (4), and estimates are not statistically significant. The main effects (pre-trade war, 2018) for *BRI partner* are negative in models (2) - (4) and positive in Model (1) but all estimates are not statistically significant. For the trade war period since 2018, the estimate for *BRI partner* is positive in Model (2) but negative in Model (4). Whether in the years before the trade war or after, Chinese firms are neither more nor less likely to locate investments in BRI partner countries. The finding that Chinese firms are not likely to invest in BRI partner countries may be due to the emphasis on infrastructure investments in the BRI, which would be different from the largely manufacturing sectors that are at the center of the US-China trade war.

Finally, the expectation in the fourth hypothesis is that SOEs should be more likely to engage in outward foreign direct investment compared to non-state-owned enterprises. The results reported in Table 1 show that before the onset of the trade war, *SOEs* were more likely to invest overseas. The coefficient estimates are positive and also statistically significant in Models (2) and (4). However, the results also show that SOEs, following on the onset of the trade war, are significantly less likely to locate investments overseas. The estimates for *SOE*2018* are consistently negative and statistically significant at the .10 level for Model (4). It is possible that the overall decline in investment flows in the post-2018 period may have more disproportionately affected SOEs which were the main actors involved in China's overseas investment activities. A follow-on analysis of this effect can examine whether SOEs have shifted their production to concentrate more on the domestic market during the trade war years.

In terms of the effects of the control variables, the results indicate that larger (*Employees*) and more profitable (*Profit Margin*) firms are less likely to invest, though the results are not statistically significant for either of the estimates. As for characteristics of the destination country, the estimates for *GDP per capita* show some evidence that Chinese investors favor more developed countries, but the estimates are not statistically significant. The estimates for *GDP*, reflecting the size of the conomy, are consistently negative and statistically signfiicant in Models (1) and (2) but not Models (3) and (4). The effect of *Distance* is inconsistent, with negative, large, and statistcallysignificant estimates for Models (1) and (2) but positive, relatively smaller, and not statistically significant for Models (3) and (4). Chinese investors are less likely to invest in countries that are geographically distant in the larger sample without controls for *Regime, FDI restrictiveness*, and *Natural resource rents.* Distance in in trade and investment activity calls for further investigation. Unlike trade, where greater distance to the destination market entails higher transport costs, it is possible that investments are more likely in distant lands, where production may take place if the intention is get closer to the destination market. Finally, the number of new COVID-19 cases in the host country also

has a negative sign and is statistically significant across model specifications, suggesting that the pandemic has had a major chilling effect on investment flows.

Among the institutional and political variables, the estimates for *BIT* with China are negative though not statistically significant, indicating that having a bilateral investment treaty with China has a negligible impact on the likelihood of investment. *Regime type*, measured in terms of a country's political rights and civil liberties as provided by the Freedom House database, yields inconsistent estimates Models (3) and (4) that are not statistically significant. This is consistent with expectations, given contrasting arguments and findings in the existing scholarship showing that at best, Chinese investment is not affected regime type. Estimates for *Natural resource rents* appears to have a positive impact, with minimal statistical significance, on the likelihood of investment by Chinese firms where it is included. *FDI Restrictiveness*, as a measure of the regulatory barriers to investment in a destination country, appears to lower the likelihood of investment for the most part, though the estimate is statistically significant in Model (3) only. Finally, the analysis also controlled for various region effects to gauge changes in investments in these countries before and after the onset of the trade war. Among the regions, the estimate for North America is the most interesting. Before the trade war, Chinese firms were more likely to invest in *North America*, and the positive estimate is also statistically significant for three of four model specifications. For the years 2018 and later, however, the estimate for *North America* is negative, and this estimate is statistically significant in Model (4). The trade war has dampened Chinese investment, suggesting that Chinese firms are more likely seeking other investment destinations than boosting their investments in the US and Canada to avoid newly imposed tariffs.

For other regions, the ten countries of the Association of Southeast Asian Nations (*ASEAN*) is a favored location for Chinese investment. In the trade war era, 2018 and later), the estimate for *ASEAN* is still positive though not statistically significant. Estimates for other regions are negative and statistically significant, though mostly for Models (1) and (2) only. Chinese firms were less likely to invest in *East Asia and Pacific*, the *European Union, Middle East and North Africa, South Asia, and Sub-Saharan Africa* before 2018, and this pattern has not been affected by the onset of the trade war.

Overall, the above results do not provide strong evidence that the trade war has induced a shift in China's investment flows toward BRI countries and that the pandemic may have been a more proximate source of the overall decline in Chinese greenfield investment in recent years. However, they do provide some evidence indicating that the trade war has reduced the willingness of Chinese SOEs to engage in greenfield investment. It may also have led Chinese investors to increase investments in countries with good political relations with China, although the results are not overwhelming.

Additional Analyses and Robustness Checks

We conducted a series of additional analyses to increase our confidence in the robustness of our results. First, we re-ran the logit models using an alternative measure of a firm's exposure to the Trump tariffs, Tariff Exposure_weighted. Specifically, this variable is calculated as the interaction between the average weighted tariffs of the destination country on the Chinese firm's industry (U.S. tariffs_weighted) in a given year and export share. Test results are consistent with those reported in Table 1.

Second, we estimated a mixed effect regression model to take account of the time-invariant characteristics of our independent variables of interest: SOE, BRI Partner, and Political Distance. The mixed effect regression model (Schunck 2013, Schunck and Perales 2017) allows us to apply a random effects approach to estimating the effects of time-invariant variables and at the same time distinguish within-unit and between-unit effects, allowing us a closer look at how over-time and cross-sectional variation affect the outcome, which in this case is still the likelihood of investing in a given country in a given year. The results are reported in Table 2.

This robustness check analyzed how Political Distance, BRI Partner, and SOE affected the likelihood of Chinese investment in a given destination country. In the results reported in Table 2, Model (1) excludes the control variables FDI Restrictiveness and Natural Resource Rents, while Model (2) includes them. The estimate for Tariff Exposure is negative and statistically significant for the estimates of between unit effects, showing that in sectors covering products subject to the trade war tariffs, investment declined, and that this trend could be explained by cross-sectional variation. The within-unit effects for Tariff Exposure are positive and marginally statistically significant for one of the two estimates. The estimate for Political Distance is negative for both before and after the trade war, showing that Chinese investors are less likely to invest in countries that are politically distant from China, as measured through UN General Assembly voting records. The estimate for BRI Partner is negative in Model (1) that does not control for FDI Restrictiveness and Natural Resource Rents and positive with these controls, though all of the estimates for BRI Partner are not statistically significant. SOEs, on the other hand, is the only variable that switches the direction of effect before and after the onset of the trade war. Where SOEs appear to have been more likely to have invested overseas, this likelihood has declined since the onset of the trade war in 2018.

Table 2. Likelihood of Investment: Mixed Effects Regression Model

Dependent Variable: likelihood of Investment	(1)	(2)
Within-unit and Random effects:		
Tariff Exposure	0.0133	0.0158*
	(1.52)	(1.70)
SOE	0.270**	0.263**
	(2.20)	(2.03)
SOE * 2018	-0.510*	-0.665**
	(-1.84)	(-2.14)
BRI Partner	-0.0460	0.0263
	(-0.18)	(0.09)
BRI Partner * 2018	-0.400	-0.408
	(-0.78)	(-0.68)
Political Distance	-0.170*	-0.315**
	(-1.71)	(-2.35)
Political Distance*2018	-0.0419	-0.0492
	(-1.42)	(-1.56)
Bilateral Investment Treaty	0.0931	0.459
	(0.45)	(1.51)
Number of Employees	0.129	0.272*
	(0.90)	(1.78)
Profit Margin	-0.164**	-0.155*
	(-2.13)	(-1.90)
GDP	-1.816	-3.809
	(-0.52)	(-0.73)
GDP per capita	3.226	5.203
	(0.77)	(0.82)
Distance	0.252	0.207
	(1.31)	(0.90)
Covid-19 Cases	-0.0634***	-0.0596***
	(-3.71)	(-3.18)
Regime	0.0354	-0.00661
	(0.92)	(-0.13)
Regime*2018	0.0487	0.0564
	(0.78)	(0.79)
FDI Restrictiveness		-5.620***
		(-3.72)
Natural Resource Rents		0.198***
		(3.81)

ASEAN	1.777***	2.584***
	(4.72)	(5.16)
ASEAN*2018	0.0615	0.506
	(0.08)	(0.59)
East Asia and the Pacific	-0.294	0.0124
	(-0.82)	(0.03)
East Asia and the Pacific*2018	-0.352	-0.497
	(-0.79)	(-1.10)
European Union	1.162***	1.406***
	(6.33)	(6.88)
European Union*2018	-0.793***	-0.838***
	(-3.01)	(-2.97)
North America	-1.128***	-1.075***
	(-3.36)	(-2.67)
North America*2018	-0.748*	-0.800**
	(-1.94)	(-2.02)
South Asia	1.490***	1.671***
	(3.52)	(2.94)
South Asia*2018	-0.608	-0.458
	(-1.08)	(-0.77)
Middle East and North Africa	0.605	1.671***
	(1.51)	(3.10)
Middle East and North Africa*2018	0.712	-0.333
	(0.83)	(-0.24)
Sub-Saharan Africa	1.457***	
	(3.28)	
Sub-Suharan Africa*2018	0.0246	
	(0.02)	

Between-unit effects:		
Tariff Exposure	-0.0411***	-0.0388***
	(-4.52)	(-4.07)
Number of Employees	-0.0228	-0.0526
	(-0.56)	(-1.22)
Profit Margin	0.0604	0.0390
	(0.96)	(0.59)
GDP	1.121***	1.390***
	(19.44)	(17.40)
GDP per capita	0.381***	0.314**
	(4.10)	(2.31)
Covid-19 Cases	-0.0750*	-0.0212

	(-1.67)	(-0.46)
Constant	-43.11***	-48.15***
	(-14.88)	(-13.53)
N	444,621	240,285

t-statistics in parentheses; * p < .1, ** p < 0.05, *** p < 0.01;

estimates generated using *xthybrid* in *Stata 17*

On the country-level variables, GDP estimates are negative, GDP per capita and Distance estimates are positive; however, none of the estimates are statistically significant. The number of COVID-19 cases, on the other hand, has a strong negative impact on the likelihood of investment. Regime has a negligible impact on the likelihood of investment, FDI Restrictiveness measuring the regulatory environment for investment is negative and statistically significant. Where regulatory barriers to investment are high, Chinese firms are less likely to invest there. Chinese firms are also morel likely to invest in countries featuring higher resource rents. Estimates for both FDI Restrictiveness and Natural Resource Rents are statistically significant.

For the firm-level variables, the estimates are positive but not statistically significant for Number of Employees and negative and statistically significant for Profit Margin. The estimates for Distance go in opposite directions across the two specifications. Among the region variables, ASEAN, European Union, Middle East and Africa, and South Asia all have positive estimates for the pre-2018 period, while East Asia and the Pacific and North America have negative estimates. ASEAN, South Asia, and Sub-Saharan Africa appear not to have been affected by the trade war, and the European Union and North America see a decline in investment by Chinese firms.

Conclusion

In this paper, we have analyzed the impact of the U.S.-China trade war on the outward investment of Chinese firms. Our findings make the following contributions to the existing literature. Above all, our research contributes to a better understanding of the political economy of COFDI. Our firm-level analysis highlights the importance of firm ownership as a major determinant of greenfield investment. Contrary to the conventional wisdom that Chinese investors may be more likely to be attracted to destination markets with authoritarian countries with similar systems, our analysis yielded no evidence to this effect. There is also little support for the view that COFDI may be more likely to flow to countries with good political relations with China, rich in natural resources, or those along the BRI route. In other words, our findings do not lend support to the argument that Chinese investors may have distinctively different preferences about investment locations compared to their counterparts in the advanced industrialized world.

Just as important, our research helps to illuminate the impact of the largest commercial conflict in modern history on the investment patterns of the country that is the subject of hefty tariffs imposed by its trading partner and enriches our understanding of the effectiveness of the use of tariffs as a tool of economic statecraft. At least in the over-time context, our findings present a challenge to the "tariff-jumping" argument, suggesting that instead of leading to increases in Chinese investment in the U.S. market, the tariffs by themselves have had negligible impact on Chinese investment, either in the U.S. or elsewhere in the world. Nor have the tariffs resulted a perceptible shift in China's investment flows toward BRI countries. As mentioned above, the substantial changes that would be needed for Chinese investors to shift toward the products, services, and projects that are more in line with the goal of the BRI may have rendered it difficult for us to observe any clear changes in the short term. Nevertheless, our analysis did generate some evidence that the trade war may have incentivized Chinese investors to increasingly invest in countries with good political ties with Beijing, presumably to shield Chinese commercial actors from rising tensions in the bilateral relationship. Interestingly and somewhat counterintuitively, we observe that the trade war has been associated with a reduced willingness by Chinese SOEs to engage in overseas investment. We conjecture that SOEs may have either been most directly impacted by the downturn in bilateral political and economic relations or increasingly turned inward under the influence of the government's recent policy which re-emphasized the importance of self-sufficiency and autonomous domestic development. However, our research is unable to directly speak to this possibility. Future studies could engage in a more detailed examination of the extent to which the CCP's recent "dual-circulation strategy" may have galvanized Chinese investors to direct investment toward the domestic market through the so-called backshoring, or the relocation of production toward the home market.

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