

# Fostering Global Value Chains Through International Agreements: Evidence from Vietnam

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## Abstract

Which is more reassuring to foreign investors - domestic laws or international agreements? A substantial literature argues that foreign investment may be under-provided, because governments cannot offer credible guarantees that judicial institutions are impartial and that investors will be able to fairly resolve disputes with business partners and enforce contracts. This time inconsistency problem deters profitable business partnerships between foreign investors and domestic firms in the host country. Consequently, for emerging market leaders seeking to deepen their countries' integration into global value chains (GVCs), enhancing the confidence of investors in contracting institutions is critical. In this paper, we study the emerging market of Vietnam to examine which type of reassurance mechanism is most successful. Using a survey of 1,583 foreign firms, we inform investors about either a domestic law or international treaty designed to strengthen commercial arbitration procedures. We find that priming foreign firms about the international investment agreement has a larger positive impact on their views about the future profitability of their projects and the likelihood of contracting with other firms in GVCs than simply learning about the commitments in domestic law.

**KEYWORDS:** foreign direct investment (FDI), global value chains (GVC), dispute settlement, investment protection, commercial arbitration, BITs, PTAs, Vietnam, ISDS.

The data and replication materials that support the findings will be made available immediately after publication in <https://dataverse.harvard.edu/dataverse/emalesky>

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# 1 Introduction

In the introduction to this Special Issue, “Firms, States, and Global Production,” Soo Yeon Kim demonstrates that, since the 1980s, many developing countries have changed policies to become more welcoming toward foreign direct investment (FDI) and, more recently, participation in Global Value Chains (GVCs). Emerging markets desire to capture ever more of the value added produced within these networks (Kim 2019). Pandya (2014) maps out the significant change in policies over time that countries have undertaken to accomplish these goals. Indeed, one report exclaims, “For many developing countries, upgrading to higher value-added tasks in GVCs therefore remains both a challenge and a critical policy objective to avoid the ‘middle-income trap’” (Berger & Bruhn 2016, p. 7).

One way leaders of developing countries have sought to make their states more attractive to GVC activity has been to focus on negotiating “deep” bilateral or multilateral agreements, such as preferential trade arrangements (PTAs) or bilateral investment treaties (BITs) with developed countries (Laget, Osnago, Rocha, & Ruta 2018; Milberg & Winkler 2013), which cover a wide range of topics beyond just tariffs and trade, such as commercial arbitration, regulations, competition law, and intellectual property rights, and thus require significant adaptation by the participating countries. Because they are so wide-ranging, however, disagreements exist about what exactly the benefits are for developing countries of committing to these deep international agreements. Don’t domestic laws provide similar guarantees, often using the exact same language?

In this paper, we argue that a critical, but understudied benefit of international agreements is that they strengthen foreign investor confidence in firm-to-firm, commercial dispute resolution mechanisms, allowing them to feel more comfortable that business contracts will be upheld and penalties enforced in the host countries where they invest. This facilitates the types of business contracting that undergird all GVC activities, including increased purchases from vendors, increased credit to suppliers for equipment lease and purchase, and increased downstream sales of intermediate and final goods and services to other partners in the value chain (Alfaro, Chor, Antras, & Conconi 2019; Antras 2015; Nunn 2007). In many host countries, foreign investors doubt the capacity, incorruptibility, and independence of domestic courts (H. Lee, Biglaiser, & Staats 2014; Staats & Biglaiser 2012; Xu 2020). Recently, some states have tried to increase confidence by providing alternative means of dispute resolution through commercial arbitration facilities, including the ability to write contracts in foreign laws and choose foreign arbitration panels (Hale 2015; Lynch & Lynch 2003; Mistelis 2004; Sperry 2010a). While there is some quantitative evidence that adoption of such non-

judicial procedures has increased foreign investment, especially in states with weak legal institutions (Myburgh & Paniagua 2016), skepticism remains about domestic commitments to binding, commercial arbitration procedures, as these cannot be hermetically sealed off from local corruption and political connections (Leubuscher 2003). This is especially true, because many states reserve the right to overrule arbitral decisions that contradict national laws (Mistelis 2004).

We propose three mechanisms for increased investor confidence and commercial activity brought about by international agreements above and beyond the domestic status quo of commercial arbitration procedures. First, ratification procedures necessary to adopt international agreements are more visible than domestic legislation in many states, and tend to bring domestic stakeholders, especially private businesses, into the policy-making, implementation and enforcement processes (J. Chen & Ye 2019; Mansfield & Milner 2012). Ratification procedures also engage foreign partners, indirectly enlisting them as guarantors of the treatment of investors, who possess the ability to prompt home country retaliation (Johns & Wellhausen 2016).

Second, international arrangements serve as a signal to foreign investors about a host government's willingness to uphold its commitment to domestic laws, which also provides insight about economic reform trajectories and the overall domestic investment climate (Arias, Hollyer, & Rosendorff 2018; Büthe & Milner 2014; Cho, Kim, & Lee 2016; Ginsburg 2005).

Third, a recent innovation has strengthened the benefits of international agreements by providing a process of investor-state dispute settlement mechanisms (ISDS), which allows firms to bring suit against host governments without the backing of home countries or other actors (Allee & Peinhardt 2014). ISDS may reassure investors that they will receive a fair and impartial hearing beyond the influence of the local judiciary (F. Chen & Xu 2019; Du, Lu, & Tao 2008). To be clear, the focus of our paper is on firm-to-firm commercial arbitration, not ISDS; however, the potential of using ISDS indirectly influences confidence in local arbitration procedures in two important ways (Alschner 2017; Blackaby 2006; Sperry 2010b). First, foreign investors engage in business contracts with the state directly through public-private partnerships (PPP) or indirectly through business with state-owned enterprises (SOEs) (Massman 2019). Commercial disputes between foreign firms and these types of local firms are unlikely to be addressed fairly either in domestic courts or arbitration centers (Hale 2015), so ISDS provides an alternative venue for resolving them. Second, if host governments intervene to affect court or arbitral rulings, foreign firms can turn to ISDS to seek redress. In this way, ISDS provides investors with opportunities to dispute state intervention in commercial arbitral decisions (Blackaby 2006; Sperry 2010a).

Although there is substantial cross-national evidence of correlations between signing international agreements and increased foreign investment (Kerner 2009; Tobin & Rose-Ackerman 2011), scholars have struggled to pin down the specific causal pathway for the relationship. A number of questions remain unanswered. First and foremost, what type of business activities do international agreements lead foreign investors to undertake within host countries? This is important because the manner in which foreign investors engage with economic actors in the domestic economy has a critical impact on whether developing countries benefit from global capital inflows. In particular, do such arrangements actually improve the confidence of individual foreign investors to pursue greater business partnerships with firms within host countries? In a world where GVCs play a critical role in global production, do international agreements facilitate the integration of host-country firms into GVCs as suppliers of intermediate goods and services? Moreover, do they enhance the value-added of production in developing countries and thus augment domestic productivity growth?

Our study of international firms with operations in Vietnam addresses these questions. Vietnam is a particularly enlightening research context for two reasons. First, the country has shown an increasing interest in global integration and FDI attraction over the past three decades (Barklie 2019). In September 2018, Prime Minister Nguyễn Xuân Phúc reaffirmed this commitment by stating at the World Economic Forum on ASEAN that, “Vietnam needs to move to a higher position in global value chains and strengthen the connectivity between Vietnamese and FDI businesses,” (Anh Hong 2019). Second, many of the potential business partners in Vietnam are domestically owned. Some are state owned enterprises (SOEs), where the state has a stake in the outcome of its partnership, while others are connected to the regime through family, personal, or professional connections. Third, the country is a non-democratic regime, which according to the literature should have a much harder time reassuring external investors by providing credible commitments through its domestic institutions (N. M. Jensen 2003; Li & Resnick 2003; Ríos-Figueroa & Staton 2014). These features make the Vietnamese experience illuminating for other countries at similar stages of development.

We use a priming experiment, embedded in the country’s largest and most rigorous survey of investors carried out annually by the Vietnam Chamber of Commerce and Industry (VCCI), to manipulate whether 1,583 foreign firms, operating in Vietnam, are told about a new domestic law or international agreement that provides investment protection. The experiment primed respondents to consider either the contract enforcement protections in Vietnam’s domestic Law on Commercial Arbitration (LCA) or Chapter 28 (Section B) of the eleven-country Comprehensive and Progressive

Agreement for Trans-Pacific Partnership (CP-TPP), which reaffirms members commitments to commercial arbitration. The commitments in both domestic and legal documents are derived directly from the same underlying document - the Model Law by the United Commission on International Trade Law (UNCITRAL) in 1985 and amended in 2006 that provides common procedures for the arbitration of commercial disputes (Myburgh & Paniagua 2016). We ask whether foreign investors know about LCA or CP-TPP, whether they think it is effective, and whether they will increase their economic activity with a variety of other firms in Vietnam because of it. Finally, we ask how the legal documents will affect their profitability through enhanced sales.

There is only a small difference in knowledge about the two laws (foreign investors are four percentage points more likely to know the LCA than the CP-TPP), and respondents in both treatments do not exhibit any differences in the perceived benefit of the laws. All respondents resoundingly claim that the main purpose of the legal documents is to allow for commercial arbitration; only a small minority believe the main purpose is the protection of property rights. Knowing that investors in both treatment groups agree on the main purpose is important for our design, because it indicates that what truly varied between the two primes was whether the commitment was embedded in domestic or international law.

Despite similar levels of knowledge about the two and agreement on their main purpose, however, the effect on preferences about commercial activity is far greater for those receiving the CP-TPP treatment. Firms given the CP-TPP treatment are three percentage points more likely to believe the legal protections are adequate for their operations, expect a 38% greater increase in business activity in the coming year, and are 9% more likely to plan to expand operations in Vietnam than those receiving the LCA treatment. In addition, foreign firms treated with the international agreement were between 7 and 14 percentage points more likely to increase their contracts with other firms, and hence deepen their insertion into GVCs. Increased business activity was expected with local, private and foreign business partners. But while the international agreement fostered more willingness to build GVCs with private firms, it did not do so with SOEs.

These findings make two main contributions to the literature. Numerous studies have pointed to domestic factors (e.g., veto players, democracy, rule of law) as important for FDI (Graham, Johnston, & Kingsley 2018; Henisz 2000; N. Jensen & McGillivray 2005; N. M. Jensen 2003, 2006; Li & Resnick 2003), and others have pointed to international factors (e.g., BITs, PTAs) that might reassure investors and promote FDI by providing an external credible commitment (Aisbett, Busse, & Nunnenkamp 2018; Allee & Peinhardt 2011; Bütthe & Milner 2008; Elkins, Guzman, & Simmons 2006;

Fang & Owen 2011; Kerner 2009; C.-y. Lee & Johnston 2016; Neumayer & Spess 2005; Rosendorff & Shin 2012; Wellhausen 2015). Our study, however, is among the first to compare which — domestic laws or international agreements — is most powerful in increasing the scale and scope of FDI activity. We explicitly compare the two forms of contract enforcement by asking active investing firms which type of legal apparatus they see as most likely to increase their sales and contracts with other companies.

To be clear, the CP-TPP commitments specifically required Vietnam to ratify and enforce legislation enshrining domestic commercial arbitration. Practically, therefore, the LCA and CP-TPP are complements and not substitutes; Vietnam would not be in compliance with the CP-TPP if the LCA did not exist. However, our survey experiment reveals that simply learning about the LCA without hearing about the internationalization of those commitments has a far smaller impact on investor confidence and investment behavior. Thus, we conclude that internationalization of legal commitments is critical for optimizing the benefits of private commercial arbitration. When domestic governments bind their hands in international agreements, they instill greater confidence among foreign investors.

Second, we focus on GVCs. Firms and developing country governments these days are not only interested in FDI but also in connecting more to global production networks. As one study notes, “the goal of industrial upgrading within GVCs has become nearly synonymous with economic development itself” (Milberg & Winkler 2013, p. 238). Creating more value-added in a country by becoming part of an international production network is critical for many firms and governments in the developing world (Nunn 2007). We examine how and whether domestic and international law can induce firms to join and deepen their involvement in GVC networks by asking whether international agreements or domestic laws make firms more likely to sign contracts with third parties of different types. We show that international law makes increasing GVC activity more likely compared to just having a domestic law.

The paper proceeds as follows. We begin by discussing the literature on contract resolution and commercial arbitration to highlight the three mechanisms by which international agreements might strengthen foreign investor confidence in contracting with partners in countries with weak legal institutions. Next, we discuss our research setting of Vietnam and the institutional and methodological reasons that make it an ideal case for our investigation. Third, we lay out our research design and embedded survey experiment, justifying critical decisions in the information revealed to respondents in the priming experiment. Fourth, we present the results of our experiment and test the robustness

of our findings. We conclude with potential extensions of the research program.

## 2 Theory

All GVCs are constructed upon a skeleton of contracts between a large number of business partners, who depend on the sanctity of those legal agreements (Antràs 2014). When firms within GVCs sell goods or services in developing countries, they promise to deliver those products with a specified quality at a specified date. When GVCs produce final or intermediate goods in developing countries for export elsewhere, they often outsource production, signing contracts with firms in a host country to provide inputs into their production and exports. Foreign investors also lend credit to host country firms for the purchase of equipment related to intermediate goods and services in the supply chain. All of these transactions involve contracting between at least two parties, who are often from different countries and familiar with different legal systems (Antras 2015).

The belief that a foreign firm will receive fair resolution of any firm-to-firm commercial disputes is a critical element in its decision to invest in a host country and create a GVC (Alfaro et al. 2019). Nunn (2007) has demonstrated that contract enforcement is strongly associated with increased relationship-specific investments that depend on dedicated assets (i.e. natural resources, employment skills, or technology) that leave one business party subject to potential opportunism of its partners. If foreign investors have disputes with host country firms in any of the above transactions, they may fear that the host government will side with the local firm, especially if it is a state-owned enterprise (SOE) or connected to the leadership in some other way. Foreign investors may also simply fear a "liability of foreignness," because local judges, juries, or national mediators may side with a national champion (Zaheer 1995).

Economists have long known that without the ability to formally uphold contracts, businesses are forced to use informal means, such as local media or social ties, to shame vendors who refuse to deliver or customers who fail to pay (Allen, Qian, & Qian 2005; Beck & Levine 2005; North 1990). These approaches seldom work for foreign investors and will limit their interest in doing business in the host country. Even if they do choose to invest, weak legal institutions limit the scope of potential business partners to those in a firms' immediate network, where social enforcement is likely to be more successful (S. Johnson, McMillan, & Woodruff 2002). Only with external enforcement possibilities will firms be willing to do business outside of their social network, allowing for greater expansion and growth (S. Johnson et al. 2002).

Consequently, an independent legal system that allows business partners to objectively and fairly

resolve disputes is necessary for generating the confidence for GVC contracting (Alfaro et al. 2019; Nunn 2007). Confidence in courts and judges allows businesses to expand to new territories and partners, confident in the belief that they will be able to seek remuneration if contracts are not upheld (Beazer & Blake 2018; Du et al. 2008; H. Lee et al. 2014; Staats & Biglaiser 2012).

In many developing countries, however, ensuring investors of independent contract enforcement through the legal system has proved difficult (Yu & Walsh 2010), because judicial institutions are not seen as sufficiently independent (Dugan, Wallace, Rubins, & Sabahi 2011; Ríos-Figueroa & Staton 2014). This is especially true of non-democratic regimes where judges are appointed by the ruling regime and are often closely connected to national leaders as members of the regime party or through personal relationships (F. Chen & Xu 2019; Xu 2020).

In response, developing countries have recently gravitated toward a domestic solution, known as commercial arbitration, that allows investors to adjudicate their disputes through private fora outside of the court system. Diffusion of arbitration centers in many countries has been facilitated by the publication of the Model Law by the United Commission on International Trade Law (UNCITRAL) in 1985 and amended in 2006, which provides common procedures for the arbitration of commercial disputes (Myburgh & Paniagua 2016). Business partners can specify in their contracts that disputes will be resolved in arbitration centers instead of courts, which will be overseen by professional and trained mediators. Businesses argue that arbitration is a preferable approach to resolving commercial disputes, as it is private, time- and cost-efficient, and more straightforward than domestic court proceedings (Alschner 2017; Hale 2015; Mistelis 2004).

Business contracts can be written to stipulate that the dispute be resolved using domestic law (domestic arbitration) and foreign law but mediated in the host country (foreign arbitration). In fact, contracts can even be written to adjudicate the dispute in an off-shore arbitration center, such as the International Chamber of Commerce International Court of Arbitration in Paris or the Vienna International Arbitral Centre. When transacting parties agree to settle their disputes in international fora, it is known as international commercial arbitration (ICA).

International legal theorists have discussed the importance of commercial arbitration in facilitating the expansion of GVCs (Lynch & Lynch 2003; Mistelis 2004; Sperry 2010b). Myburgh and Paniagua (2016) provide one of the few quantitative analyses of this phenomenon, demonstrating that countries that signed the Convention on Recognition and Enforcement of Foreign Arbitral Awards of 1958 and adopted legal codes based on the UNCITRAL Model Law received greater foreign investment flows in the years after the promulgation of the domestic law. Importantly, the

effects of providing opportunities for commercial arbitration were greatest in countries with weak legal institutions.

Despite these advances, there is reason to be skeptical (Leubuscher 2003). Why should foreign investors trust arbitration centers more than courts? Corruption and political connections can also taint these proceedings as well. Moreover, what provisions are there to keep a host government from interfering or even overturning a decision that it does not like? Many states that permit foreign arbitration reserve the ability to overrule arbitral decisions that contravene state law (Mistelis 2004; Sperry 2010b). Willingness to objectively implement laws on commercial arbitration depend on a host of factors at the domestic level: how democratic they are (N. M. Jensen 2003; Li 2009), how many veto players exist in the political system (Henisz 2000), and how easy it is for governments to overturn previous laws (Daude & Stein 2007). Ultimately, domestic protection for foreign investors may be important, but not strong enough to convince them to invest.

We suggest that enshrining commitments to binding arbitration in multilateral agreement can significantly enhance investors' confidence in the legal commitments and increase their willingness to form business partnerships in the host country. Scholars of international political economy (IPE) have emphasized legal protections embedded in international arrangements, such as bilateral investment treaties (BITs) (Kerner 2009; Neumayer & Spess 2005) and, more recently, in comprehensive economic and trade agreements (UNCTAD 2008), are more credible to investors than domestic commitments alone (Arias et al. 2018). Cross-national econometric analysis has further shown that international agreements are more important than domestic institutions, offering greater reassurance to investors and leading to greater inflows of FDI than domestic constraints (Büthe & Milner 2008, 2014; Dreher & Voigt 2011; Haftel 2010; Tang & Wei 2009). Nevertheless, most work in this vein has analyzed the relationship between signing investment and trade agreements and aggregate international flows of FDI.

Several mechanisms have been discussed in terms of how international agreements can help investors. Burgeoning IPE research has shown how international agreements can act as substitutes for domestic law, as foreign firms often confront limited legal resources in host country courts (Williamson 1985; Zaheer 1995). BITs, in particular, are thought to reduce political risk (Büthe & Milner 2008; Fang & Owen 2011), foster transparency, establish terms for direct investment (Rosendorff & Shin 2012), and help facilitate direct negotiation between countries (Elkins et al. 2006; Neumayer & Spess 2005). BITs can also act as deterrents to treaty violations (Aisbett et al. 2018; Allee & Peinhardt 2011; Wellhausen 2015) and credibly commit leaders to uphold investment

commitments and the rule of law (Kerner 2009; C.-y. Lee & Johnston 2016; Neumayer & Spess 2005).

To be certain, there is vigorous debate over whether and under which circumstances international agreements can foster foreign investment. This is particularly true in the case of BITs, where some research has shown that BITs have no consistent effect on FDI flows (Berger, Busse, Nunnenkamp, & Roy 2013; Hallward-Driemeier 2003), because foreign investors often are unaware that a BIT exists before making an investment (Poulsen 2010; Yackee 2008, 2010). If one considers aspects of domestic law or regime type as a proxy for rule of law, some studies find that international agreements have a stronger effect on FDI flows (Carter, Wellhausen, & Huth 2018; Haftel 2010; C.-y. Lee & Johnston 2016; Neumayer & Spess 2005), whereas others find that domestic institutions may matter more (Kerner 2009).

How might international agreements reassure foreign investors more about their contractual relations with other firms than domestic laws? Three mechanisms are described in the literature: 1) ratification pressures on host governments; 2) signaling the host government's type; and 3) arbitration rules for firms against governments.

First, international agreements can be harder to change than domestic laws, especially for an autocratic government which can alter domestic ones easily (J. Chen & Ye 2019). The necessity of ratifying the international agreement is likely to bring more domestic groups, especially domestic investors, into the policy-making and enforcement process, making it more costly and visible if governments choose to renege (Mansfield & Milner 2012). Ratification also engages the foreign partner(s) in the process and may make them guarantors of the treatment of investors (Johns & Wellhausen 2016). Reneging by the host may also prompt retaliation by the home country.

The second mechanism involves signalling. Agreeing to international agreements allows the host state to send a costly signal about the likelihood of violating its international commitment. Rather than acting as a "substitute" for poor domestic institutions, the agreement informs investors that the government is likely to uphold its legal commitments (Büthe & Milner 2014). In this theory, countries with "poor" investment climates are most likely to sign investment treaties as substitutes for low quality domestic institutions (Arias et al. 2018; Cho et al. 2016; Ginsburg 2005). International agreements thereby send a signal to all investors about the nature of the domestic investment climate, so that both domestic and foreign investors are reassured.

Third, international agreements on investment protection may be stronger because they provide for firms to sue the state for violations without the backing of home countries or other actors (Allee

& Peinhardt 2014). Such ISDS are found in many agreements now.<sup>1</sup> Firms can take their disputes with the host government to a more neutral forum than a local court. Investors may be reassured to know that when they feel the government has tried to expropriate them they can use a foreign court or arbitrator to resolve their issues. Damages may be easier to collect in this setting as well. Domestic law may allow a firm to challenge a domestic company or host government abroad, but international law can make that process more enforceable. In a non-democratic country, this latter commitment may be even more important. Such international commitments may give investors greater confidence to invest and tie themselves to global production networks, especially in countries where governments can reverse domestic policies at low cost (Arias et al. 2018).

Because of these features, an investment treaty with recourse to international investment arbitration offers a more credible commitment against opportunistic host government behavior. Another useful aspect of ISDS is that it depoliticizes problems between investors and host governments (Gertz, Jandhyala, & Poulsen 2018; Price 2000; Puig 2013). The government can be forced to pay full compensation for any expropriation along with additional legal and reputational costs involved in responding to investor claims. International arbitration and enforcement by ISDS agreements between states are credible because they are costly for host governments in terms of the amount of settlements, loss of future FDI, and reputational damage (Allee & Peinhardt 2011). A recent survey of firms using ISDS procedures showed that firms thought the enforceability of awards and the ability to avoid specific legal systems and national courts were the most useful characteristics of international arbitration (Drahozal 2017; White & Case & Queen Mary University of London 2018).

Although ISDS (firm-to-state) and commercial (firm-to-firm) arbitration are very different activities and involve different legal regimes, legal scholars have pointed to intersections between them (Alschner 2017; Blackaby 2006; Sperry 2010a). In particular, ISDS may increase confidence in domestic, commercial arbitration fora, because they provide a mechanism that is clearly outside of domestic interference. In many developing countries, foreign investors engage with the state directly

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<sup>1</sup>ISDS involves adjudication in an international tribunal between the host state and foreign investor, where the arbitrators decide if the investor's claim has merit and can award compensation if a state is found guilty of an adverse action. Compensation is intended to reward investors for alleged losses up to their pre-investment financial position. ISDS has several notable features. First, foreign investors alone (including their subsidiaries and shareholders) are allowed to initiate claims against the host government. The judges in these ISDS proceedings are private arbitrators, who are usually appointed on a case-by-case basis to determine investors' claims against the host government. When evaluating the case, the law arbitrators use is not the domestic law of the "host" state that governs the investment; rather, it is the law specified in the treaty. Third, if the arbitrators decide that the government violated the treaty, they can order the government to pay the investor substantial damages or they can mandate the government to take, or not take, certain punitive actions. Fourth, challenges to arbitral awards are extremely rare; if an ISDS tribunal finds against the government, courts of most countries are obligated to enforce it. These elements of the ISDS process make it unique and very powerful, as they appear to infringe on state sovereignty (L. Johnson, Sachs, & Sachs 2015). They have contributed to controversy about ISDS.

through public-private partnership (PPP) or indirectly through business partnerships with SOEs. If the government or SOE does not abide by a commercial contract, who will adjudicate such issues (Massman 2019)? Additionally, as we will highlight below in our research context of Vietnam, even signatories to international conventions on commercial arbitration reserve some rights for domestic sovereignty. Many states allow the possibility that arbitral decisions can be overridden and sent to domestic courts if they are thought to contravene domestic law. This creates opportunities for interference by states when decisions go against their interest, and opens up possibilities of the same types of interference based on corruption and connection identified by Xu (2020) in the Chinese court system. In our review of the UNCTAD’s database on ISDS proceedings, we found 16 cases of ISDS cases where the underlying dispute stemmed from host state interference in commercial dispute resolution between firms; four of these cases involved disputes with SOEs.<sup>2</sup> When the host state intervenes in a commercial dispute, an international agreement with ISDS provides the foreign firm with an alternative way to resolve the dispute more fairly (in its view).

The overriding question for our project is whether foreign firms are more likely to seek out partners for such networks when they have an international agreement that protects them. Based on the ratification, signaling, and ISDS mechanisms described above, we argue that international agreements will induce more business activity through GVCs.

In this paper we are unable to differentiate between these three mechanisms of ratification, signaling, and arbitration. Bringing the three mechanisms together, we hypothesize that:

**Hypothesis 1 *International Agreements Promote Greater Investor Confidence.*** *Investor protection through an international agreement will induce more confidence in investors that their investment will prosper than if domestic law only is used.*

**Hypothesis 2 *International Agreements Deepen Global Value Chains’ Participation.*** *Investor protection through an international agreement will induce more willingness in investors to deepen their production networks in the country than if domestic law only is used.*

### 3 Why Vietnam?

Vietnam is an excellent case to examine, as the government has been actively trying to attract FDI and to upgrade its role in GVCs. Vietnam has signed numerous PTAs and BITs. In 2015 alone it concluded four PTAs – most notably the Trans-Pacific Partnership (since re-constituted without

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<sup>2</sup><https://investmentpolicy.unctad.org/investment-dispute-settlement>

the United States as the CP-TPP) and a free trade agreement with the European Union – and was projected, as the time of signing, to be the main beneficiary of both agreements.

The Vietnamese government's stated policy objective of moving up the value chain has led it to be one of the first developing countries to take part in the new wave of ever-deepening PTAs with large trading powers such as the EU. Since its accession to the World Trade Organization (WTO) in 2007, Vietnam has received tremendous FDI inflows. In 2019, Vietnam ranked 7th on the fDi Intelligence Greenfield Performance Index with a score of 6.48, meaning its global share of FDI was more than six times its relative global share of GDP.<sup>3</sup> Between 2005 and 2015, the stock of FDI in Vietnam increased from US\$22,400 million to US\$102,790 million. In 2017 FDI inflows into Vietnam as a percentage of gross fixed capital formation was 28%, which increased from 17% before 2008. In 2017, the stock of total FDI as a percentage of gross domestic product was over 60% (UNCTAD 2018), a tremendous increase from 1995 when it was only 28%. Foreign investment has played a key role in Vietnam's economic transformation, representing large shares of output and employment, and accounting for well over half of its total exports (United Nations Industrial Development Organization & Ministry of Planning and Investment, Viet Nam 2012).

The FDI inflows also brought with them insertion into global value chains for Vietnam. Thanks to this strong GVC involvement, Vietnam has emerged as one of Asia's main manufacturing centers (Hollweg, Smith, & Taglioni 2017). Somewhere between 50% and 60% of total value added in the country's gross exports appears to be associated with GVCs.<sup>4</sup>

As a non-democratic, single-party regime, Vietnam faces tremendous issues in terms of reassuring investors that their investments will be fairly treated by the state and that rule of law will also operate in private dealings (Du et al. 2008; N. M. Jensen 2003; Li & Resnick 2003). The credibility of domestic and international dispute resolution mechanisms in enhancing trust between potential business partners and facilitating contracts with far-flung business actors outside of the immediate networks of Vietnamese firms is critical (Berger & Bruhn 2017). But contract enforcement is costly and uncertain in the country. According to the World Bank's Annual Doing Business Report (2019), enforcing a contract in the People's Court of Ho Chi Minh City takes about 400 days, costs firms roughly 29% of the contract value, and involves a judicial process that is well below average in terms of efficiency, management quality, transparency, and equity. As a result, Vietnam ranks 62nd on the Enforcing Contracts sub-index.

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<sup>3</sup><https://www.fdiintelligence.com/article/75351>

<sup>4</sup>The GVC participation index indicates the extent to which a country is involved in a vertically fragmented production process. It adds in the use of foreign inputs in exports (backward participation) and the use of domestic intermediates in third country exports (forward participation) (UNCTAD-Eora 2019).

As Table 1 below shows, while 20% of foreign investors in Vietnam, according to PCI data, have had some sort of dispute since they entered the country, only 2% claimed a court was a useful way to resolve it, believing they were untrustworthy and cases took too long to resolve (Malesky et al. 2018). We also provide the views of private, Vietnamese firms to contrast their differing levels of disputes and confidence in judicial proceedings. Nearly 40% of domestic firms would feel comfortable using courts, indicating clearly that foreigners are significantly less likely to believe that the Vietnamese courts will handle their disputes fairly.

**Table 1: Opinions of Courts in Vietnam.**

<b>Variable</b>	<b>Private</b>	<b>Foreign</b>
	<b>%</b>	<b>%</b>
Dispute in last two years	3.9	20.2
Would use court in dispute	39.4	2
<i>Why didn't you use court?</i>		
Takes too long	35.8	7.8
Expensive	23	5.1
Bribe required	23.2	3.5
Low capacity of officials	8.3	1.4
Reveals trade secrets	16	2.5
Other methods better	40	15.4

From PCI Survey H3-H4; PCI-FDI Survey I1-I3.

With Vietnam's increased global integration, the importance of trust and contracting has been amplified. New business opportunities to sell and purchase from foreign investors and overseas businesses have increased, but each of these transactions also carries the risk of disputes for both parties. Foreign investors worry that local vendors may shirk on quality or timeliness, but they will not be able to hold them accountable in Vietnamese courts. At the same time, Vietnamese businesses worry about taking on debt to purchase high-end equipment or attract expensive technical employees to meet the demands of foreign buyers, only to end up eating those costs in disputes over payment.

Vietnamese authorities are aware of these problems and have sought to deal with them. Domestically, the government in Vietnam has attempted to strengthen local dispute resolution institutions. Beginning in 2003, the country created alternative fora for dispute resolution through local arbitration (Le 2016). After Vietnam's entry into the World Trade Organization (WTO), it began working on a domestic law that was based on the UNCITRAL Model Law (Nam & Ho 2015). In 2010, the Vietnamese National Assembly passed the Law on Commercial Arbitration (LCA) (No. 54/2010/QH12), which took effect in 2011 and opened the door for contract dispute resolution outside of the courts.

**Table 2: Forms of Non-Judicial Contract Enforcement for Firms.**

<b>Outside of courts, what other means do you use to ensure the sanctity of contracts in your province? (Check all that apply)</b>	<b>%</b>
Foreign arbitration	18.07
Local arbitration	18.49
Appeal to local government officials	15.97
Appeal to home country embassy/consulate.	10.08
Write contracts with incentive structures and staged-implementation to encourage compliance	41.60
Only do business with close friends and family	2.52
Asking an influential person in the government to handle	5.88
Bring media attention to the case	3.36
Using criminal gangs, mafia groups	0.42

According to lawyers involved, since its passage, the law has become an “attractive method of resolving domestic and international disputes.” As Table 2 shows, according to PCI data, 37% of foreign investors in Vietnam have used either foreign arbitration (arbitration in Vietnam under foreign law) or local arbitration (arbitration under Vietnamese law) to resolve business disputes in the country. These are significantly more popular than less institutionalized forms of dispute resolution, such as local notables or media. Parties have expressed a preference for the private setting and control over key conditions, such as the relevant legal origin, venue, and language (Malesky et al. 2018). Currently, there are twenty-five operating arbitration centers in Vietnam (Ministry of Justice (MOJ) 2018). Since its establishment in 1993, the Vietnamese International Arbitration Center (VIAC), the country’s largest arbitration venue, has handled 1,768 cases, approximately 70% of which involved sales contracts between domestic firms and a foreign party (Nam & Ho 2015).

Since the passage of the LCA, VIAC has experienced a 60 percent increase in its caseload. In 2018, for instance, VIAC handled 274 cases, 40 percent which were foreign cases, totalling US\$289 million, with the largest dispute worth roughly US\$30 million. The top three foreign parties in VIAC were from China, Singapore, and Korea. Finally, the main areas of dispute in 2017 were purchase and sale (40% ), services (18%), construction (14%), insurance (8%), and real estate (6%), (Dang & Tran 2018).<sup>5</sup>

Despite Vietnam’s best efforts, many foreign investors still distrust the fairness and equity of commercial arbitration in the country (Massman 2019). This can also be seen in Table 2, where over 42% of firms prefer to avoid arbitration altogether through two-staged contract implementation.

<sup>5</sup><http://www.viac.vn/en/statistics/2019-statistics-s30.html>

Because of the close connections between the party-state and courts, they worry that local arbitration may be compromised by political necessity. In particular, international lawyers have pointed to the unusual power of Vietnamese courts to invalidate arbitration settlements, frequently using the justification of “being contrary to the fundamental principles of the Vietnamese law” (Nam & Ho 2015). This has often been the case when the terms of the contract between two parties differed from Vietnamese legal statutes. According to VIAC data, between 2004 and 2018, there were 84 requests to enforce foreign arbitral awards, but only half of these were upheld by the Vietnamese legal system. In 2014, a resolution was issued to address this problem, but its scope has been seen by investors as limited (Nam & Ho 2015). Foreign investors also complain about lack of enforcement of their awards in arbitration. While domestic arbitration cases are enforceable immediately, foreign awards require filing with the Ministry of Justice and then confirmation by the Vietnamese courts for recognition and enforcement in Vietnam. This additional complication has made it very difficult for foreign parties to collect on their dispute settlements, especially when the losing domestic party is a State-Owned Enterprise (SOE) and therefore is seen differently by Vietnamese authorities and the courts (Bich Thuy 2018; Eurocham 2017).

To counteract these negative perceptions, Vietnam has sought to reinforce its domestic legal commitments by using international agreements (Massman 2019). The country has done this through the signing of BITs and bilateral and multilateral PTAs with investment protection provisions. In a few short years, the country has become one of the most globally integrated developing countries. After acceding to the WTO in 2007, Vietnam signed several PTAs as a member of ASEAN and is one of the few emerging markets to take part in the growing trend toward deeper PTAs, which emphasize non-trade issues, such as labor and the environment and include dispute resolution mechanisms. In the past five years, Vietnam has concluded a number of such high-powered arrangements, including the ASEAN Free Trade Area agreement (AFTA), the Vietnam-Korea FTA, the European Union-Vietnam FTA, and, the main subject of our analysis, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CP-TPP). While the main goal has been to provide greater trade and investment opportunities for its firms, Vietnamese leaders have also expressed support for the benefits of dispute settlement mechanisms.

To this end, on January 14, 2019, Vietnam took its most ambitious step yet in encouraging contract enforcement by ratifying the conditions of the CP-TPP with ten other countries in the Pacific Region, including Japan, Singapore, and Australia. In addition to a free trade agreement that will cover nearly 500 million people and GDP of \$13.5 trillion USD (13% of global GDP), the

CP-TPP also includes strong provisions for dispute resolution. Chapter 9 describes ISDS provisions, where foreigners can appeal decisions made by the host state, including court decisions to overrule foreign arbitration decisions. Section A of Chapter 28 spells out the process for those procedures. Section B of Chapter 28 addresses dispute resolution for individual investors.

Most importantly, as we discuss below, Section B specifically commits Vietnam to adhere to the commercial arbitration principles of the Convention on Recognition and Enforcement of Foreign Arbitral Awards of 1958, which are enshrined in the 2006 UNCITRAL Model Law and, by extension, Vietnam’s LCA. Because of the alignment of these commitments with Vietnam’s own law, Vietnamese leaders expect that the CP-TPP will enhance the commitments of local law, including the LCA, and encourage more foreign investors to do business with Vietnamese firms, better linking them in to GVCs. This is the core hypothesis that we seek to test here.

While these expectations are well grounded in academic and policy work, one potential obstacle to enhanced business activity is the low level of knowledge of both domestic and foreign firms in Vietnam regarding these commitments. According to the Vietnam PCI-FDI survey in 2018, only 34% of foreign firms in the country answer that they know more than a little about the CP-TPP (Malesky et al. 2018). However, less than 2% of both groups claim they know a lot about the details of the arrangements. This insight motivates our research experiment. Since so few firms know about the specific obligations of the agreement, how might informing them about the dispute resolution commitments enhance their prospective plans? By learning that the contracts made with foreign parties are more likely to be protected, are they more likely to take steps to increase their investments and deepen their global production networks?

## 4 Research Design

The PCI-FDI survey is a mail-out survey that has been sent annually since 2010 to approximately 1,600 firms in 21 Vietnamese provinces with the highest concentration of foreign investment (Malesky et al. 2018). In 2019, we received permission to add questions to the instrument by its manager, the Vietnamese Chamber of Commerce and Industry (VCCI).<sup>6</sup> Our survey reached 1,583 firms.<sup>7,8</sup>

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<sup>6</sup>These questions replicated but also improved upon a module that was asked in 2018.

<sup>7</sup>The PCI uses a stratified random sampling strategy within each of provinces with strata based on the age (entered before or after 2010) broad sector (agriculture, manufacturing, services, natural resources), and investment type (joint venture versus 100 percent foreign owned). The uncorrected response rate for is 32% for the foreign survey, although after correcting for incorrect addresses and contact information, the final response rate is about 50%. About 70% of surveys were answered by the owner, CEO, or top manager with the rest completed by other high managers or financial officers.

<sup>8</sup>See here for more on PCI-FDI methodology <https://pcivietnam.vn/en>.

Due to budget limitations and the fact that the survey is paper-based, complex randomizations are not feasible. The format only allows for two different versions of the survey (A and B), which are randomly assigned to respondents within each province. This limitation means that the testing of mechanisms and ruling out of alternative interpretations must be dealt with through question wording and ordering, rather than through additional randomization.

#### 4.1 Survey Experiment

Above, we hypothesize that international commitments strengthen foreign firms' confidence in domestic legal protections, allowing them to engage more fully in the legal contracting and business partnerships that undergird global value chains. Our theory implies a counterfactual condition where firms are only exposed to the status quo of legal protections documented in Vietnamese domestic law versus a treatment condition that cites the exact same protections but informs respondents that those are enshrined in a multilateral commitment. The average treatment effect (ATE) calculated from comparing these two conditions provides us with the net benefit of learning that legal commitments are multilateral over and above the exact same commitments under the domestic legal code. After research and consultation, we decided upon the firm-to-firm commitments of the Vietnamese LCA and Chapter 28 of the CP-TPP. While artificiality and abstraction cannot be entirely removed from survey experiments, when dealing with the leaders of actual foreign firms, who are extremely knowledgeable about international business and legal regimes, it is important that the prime cite actual legal commitments. Otherwise, knowledgeable business leaders will recognize mistakes and know they are being misled, leading to attrition, bias, and error. For instance, we could not cite commitments in a domestic law that had not yet been drafted, or from a hypothetical international agreement that had not yet been negotiated. This search for the appropriate framing device led us to Chapter 28 of the CP-TPP on "Dispute Settlement," which contains Section B on "Domestic Proceedings and Private Commercial Dispute Settlement."

Before choosing Chapter 28, we consulted with the VCCI's Legal Department and the VIAC. They guided us toward these legal provisions for a very important reason. According to the Vietnamese International Bar Association (VIBA), the LCA is based on the 2006 version of the UNCITRAL's Model Law,<sup>9</sup> and the CPP-TP Chapter 28 is also based on the UNCITRAL Model Law (Article 28.23), obligating parties to abide by the international convention that Model Law was written to embody with concrete legislation, "A Party shall be deemed to be in compliance with

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<sup>9</sup>According to Dzung and Minh Ha (2018) "The LCA is fundamentally based on the UNCITRAL Model Law on Commercial Arbitration 2006 with some local adaption." <https://www.ibanet.org/Document/Default.aspx?DocumentUid=4DCE3539-D1B4-4251-B850-0B6C61DC0105>

paragraph 2 if it is a party to, and is in compliance with, the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards at New York on 10 June 1958.”<sup>10</sup> According to UNCITRAL, “The UNCITRAL Model Law provides a pattern that law-makers in national governments can adopt as part of their domestic legislation on arbitration” (Rogers & Alford 2009).<sup>11</sup>

Because the LCA and Chapter 28 (Section B) both stem from the same underlying model law explaining rights to binding, commercial arbitration, it allows us to make sure that the primes in the survey experiment were 100% equivalent. From a research design perspective, this made the most sense, the only difference being that the LCA was a domestic law while CP-TPP was multilateral. In full disclosure, Section B of the CP-TPP’s Chapter 28 is much shorter than Section A on state-to-state disputes, which is clearly the central focus, but the obligations of Section B are not meaningless. It clearly states, “Each Party shall, to the maximum extent possible, encourage and facilitate the use of arbitration and other means of alternative dispute resolution for the settlement of international commercial disputes between private parties in the free trade area.”

In the survey experiment below, we provided the same basic details to foreign investors in Vietnam about the legal document they would learn about. The only differences between the two introductory stems were the name of the document (Form A (LCA) versus Form B (CP-TPP)) and whether it was domestic law or a multilateral agreement. These differences are bolded in the question below. The rest of the stem provides the exact same messages about the goals of the document, which in both cases are derived from the UNCITRAL Model Law. Because we were primarily interested in the commercial contracts that underlie GVCs, the treatment we use focuses on firm-to-firm disputes and arbitration centers (italicized in the question below).

In developing a research design that is accurately grounded in existing legal documents, we faced the dilemma that many respondents were likely to be familiar with the legal documents and consequently the name of the legal document itself might have a priming effect on its own. For instance, those receiving the CP-TPP treatment might have already heard about domestic treatment

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<sup>10</sup>The connection between UNCITRAL Model Law is made explicit in the 2006 UN resolution adopting it, “Believing that, in connection with the modernization of articles of the Model Law, the promotion of a uniform interpretation and application of the Convention on the Recognition and Enforcement of Foreign Arbitral Awards, done at New York, 10 June 1958, is particularly timely. . . recommends that all States give favourable consideration to the enactment of the revised articles of the Model Law, or the revised Model Law on International Commercial Arbitration of the United Nations Commission on International Trade Law, when they enact or revise their laws, in view of the desirability of uniformity of the law of arbitral procedures and the specific needs of international commercial arbitration practice.” UN General Assembly Resolution 40/72 (2006). UNCITRAL 2008. UNCITRAL Model Law on International Commercial Arbitration 1985 With amendments as adopted in 2006, Vienna, p. viii. [https://www.uncitral.org/pdf/english/texts/arbitration/ml-arb/07-86998\\_Ebook.pdf](https://www.uncitral.org/pdf/english/texts/arbitration/ml-arb/07-86998_Ebook.pdf)

<sup>11</sup>The full text of the FAQ can be found here: <https://uncitral.un.org/en/texts/arbitration/faq>

provisions for FDI. Those familiar with the LCA might be familiar with the denial of justice provisions in the document. Because these other items might also affect firms' responses about potential contracting, it could potentially confound our experimental estimates. To address this problem without the possibility of additional randomizations to rule out these alternative interpretations, we included a second sentence that listed a few of these items that could affect contracting decisions in order to prime the respondents to think about the documents as similarly as possible. We chose items that could be reasonably connected to both documents. For instance, intellectual property and seizure of property, while not directly discussed in the LCA, are common forms of disputes with domestic parties in Vietnam, especially SOEs, that might be addressed through commercial arbitration. After the initial primes, we asked an immediate Question I5.1 that probed familiarity with the document to help us measure the potential confounding of previous knowledge more directly. Although we are aware this is post-treatment, in some of the analysis below we will disaggregate firms who claim to be knowledgeable in order to see if there are fundamental differences in responses.<sup>12</sup>

I5. FORM A: “Vietnam passed the **Law on Commercial Arbitration (LCA) in 2010. Article 2 and 5 of the domestic law** *give firms in Vietnam more opportunities to address disputes with business partners. The law allows for disputants to seek binding arbitration over contracts in Vietnamese economic courts, but also in local and foreign arbitration centers. The article will protect businesses from discrimination, uncompensated seizure of property, denial of justice, intellectual property theft, and ensure free movement of capital*”

I5. FORM B: “Vietnam recently joined the **Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), an international trade and investment arrangement involving eleven countries. Chapter 28 of the international agreement** *gives firms in Vietnam more opportunities to address disputes with business partners. The law allows for disputants to seek binding arbitration over contracts in Vietnamese economic courts, but also in local and foreign arbitration centers. The chapter will protect businesses from discrimination, uncompensated seizure of property, denial of justice, intellectual property theft, and ensure free movement of capital.*”

I5.1 Are you familiar with this [*Form A=Domestic/Form B=International*] legal document?

Yes /  No

## 4.2 Mechanisms

Despite the attempt to balance the confounders in the second sentence, we cannot fully rule out the possibility that the CP-TPP treatment in the name may prime a range of different of attitudes based on previous knowledge of the respondents. The agreement is a massive and includes discussions of

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<sup>12</sup>Full versions of the 2019 survey in Vietnamese and English can be found here (<https://www.pcivietnam.vn/en/publications/survey-questionnaires>).

state-owned enterprises, intellectual property, labor and environmental protections, and a range of investment protections as well.

A particular worry for testing our theory is that foreign firms might ignore the discussion of commercial arbitration that is highlighted in the prime and focus on ISDS provisions from Chapter 9, which was far more commonly discussed in international media and legal circles. In other words, ISDS might have a *direct* effect on firm responses through its ability to protect property from state expropriation. This concern is particularly salient, because our third mechanism postulates two *indirect* connections between ISDS and commercial arbitration: 1) Vietnam's history of overturning foreign arbitration awards by declaring them in contravention of Vietnamese law could trigger ISDS provisions; and 2) contractual relations between foreign firms and Vietnamese SOEs (responsible for 30% of Vietnamese GDP) could also lead to ISDS proceedings. In the case of our third mechanism, ISDS strengthens the commercial arbitration commitments, but does not affect firms' business decisions directly. Without clarification it was possible for firms to read about the firm-to-firm arbitration provisions in the prime, but actually be thinking about protecting property from the state when answering the questions, especially as Section A is predominantly focused on state-to-state disputes. This would cause us to conflate the direct and indirect effects of ISDS in our interpretation of the results.

To address this in our 2019 version of the survey experiment, we added an intermediate question after the treatment that allowed us to understand what firms thought were the most important provisions of the LCA and CP-TPP for their business. The first choice asked about firm-to-firm dispute resolution through commercial arbitration, while the second asked about protection of property rights domestically through the LCA for those receiving Form A, and through ISDS for those receiving Form B. By including this question, we are able to answer definitively whether our internationalization treatment (CP-TPP) caused firms to reflect on disputes with potential GVC partners or on the potentially confounding firm-to-state disputes over property right infringements that must be resolved through ISDS.

I5.1a. (Only for those receiving form A). Evaluating the **LCA** described above, which of the following protections do you believe is most important for your business? Please choose one.

- The ability to resolve contract disputes with other private parties in local and foreign arbitration centers
- The ability to seek redress for uncompensated seizure of property

I5.1b. (Only for those receiving form A). Evaluating the **CP-TPP** described above, which of the following protections do you believe is most important for your business? Please choose one.

- The ability to resolve contract disputes with other private parties in local and foreign arbitration centers
- The ability to sue national governments in international forums if property rights are infringed

### 4.3 Outcome Variables

We include several different outcome variables to measure the impact of international agreements on confidence in GVC contracting. Our first outcome measure is a direct question (I5.2) about whether firms believe the domestic or international legislation provide adequate legal protections. Because firms are provided with the exact same information about the laws, this outcome variable captures the marginal effect of learning that the stated protections are international and multilateral as opposed to domestic in the perceptions of the respondent.

I5.2 Do you believe the legal protections in the **[Form A=LCA /Form B=CP-TPP]** are adequate?

- Yes
- No

Although perceptions of adequacy are interesting, our ultimate objective is learning whether foreign firms would be more likely to engage in business relations with other parties in Vietnam as a result of the country's entry into the CP-TPP. To capture this, we asked Question I5.3, which probes whether they expect the legislation to affect their business performance over the next year. We use change in sales as an aggregate measure of both their ability to sell more of their product and to service partners in Vietnam, as well as their ability to increase production and, subsequently, sales through increased business activity with vendors located in Vietnam.

I5.3 Please estimate the effect of the new **[Form A=LCA /Form B=CP-TPP]** legal commitments on sales growth for your business for the next year.

Increase by \_\_\_\_\_% Decrease by \_\_\_\_\_%  No change 00%

Questions I5.4 and I5.5 disaggregate the findings in the sales question to provide more nuanced information in two important dimensions. First, in both questions we probe who the increased

business activity will be with. Question I5.4 asks about which type of business the company is more likely to partner with, including: domestic, privately owned Vietnamese companies, SOEs, independent foreign firms in Vietnam, Multi-National Corporations, or third-party buyers. Second, we ask whether the legal commitments are likely to increase downstream sales (Question I5.4) or upstream purchases from vendors (Question I5.5). Again, the more the law or agreement provides credible commitments for the firm about their business, the more they should be willing to participate in the GVCs. Will the international agreement further contracting within the group of actors involved in GVCs more than the current domestic law does?

I5.4 “We are interested in how the new legal protections [**Form A=LCA /Form B=CP-TPP**] will affect your contracting decisions in Vietnam.” Are you more or less likely to *sell* goods or services to the following partners?”

Partner	Much Less Likely	Less Likely	Somewhat Less Likely	No Change	Somewhat More Likely	More Likely	Much More Likely
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
1. Vietnamese Private Firm	<input type="checkbox"/>						
2. Vietnamese State Owned Firm	<input type="checkbox"/>						
3. Foreign Firm in Vietnam	<input type="checkbox"/>						
4. Branch of Foreign Multinational Corporation	<input type="checkbox"/>						
5. Overseas 3rd Party Buyers	<input type="checkbox"/>						

I5.5 “Due to the form [**Form A=LCA /Form B=CP-TPP**], are you more or less likely to *purchase* goods or services from the following partners?”

Partner	Much Less Likely	Less Likely	Somewhat Less Likely	No Change	Somewhat More Likely	More Likely	Much More Likely
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>
1. Vietnamese Private Firm	<input type="checkbox"/>						
2. Vietnamese State Owned Firm	<input type="checkbox"/>						
3. Foreign Firm in Vietnam	<input type="checkbox"/>						
4. Branch of Foreign Multinational Corporation	<input type="checkbox"/>						
5. Overseas 3rd Party Buyers	<input type="checkbox"/>						

Table 3 summarizes the main outcome variables used in the analysis by treatment group. Notice that there are no significant bivariate differences between treatment groups when it comes to whether the main purpose is firm-to-firm, commercial arbitration (46% v. 45%). However, there are significant bivariate differences in whether the document is adequate (4.7% greater for the CP-TPP) and whether sales are expected to increase (1.5 percentage points greater for the CP-TPP). This is critical for our design, because it indicates that treatment effects are driven by the international nature of the CP-TPP and not based upon differential understanding of what it does.

**Table 3: Main Outcome Variables by Treatment Group**

Outcome Variables	CPTPP (n=759)		LCA (n=824)		Difference	
	Mean	SE	Mean	SE	Coef.	p-value
Familiar with Legal Document =1	0.430	(0.019)	0.467	(0.018)	-0.037	(0.165)
Document is Adequate	0.859	(0.019)	0.812	(0.018)	0.047	(0.069)
Main Purpose=Firm-to-Firm	0.461	(0.018)	0.453	(0.017)	0.008	(0.736)
Main Purpose=Firm-to-State	0.123	(0.012)	0.124	(0.011)	-0.001	(0.939)
Main Purpose=Don't Know	0.447	(0.018)	0.468	(0.017)	-0.022	(0.385)
Change in Sales (%)	3.921	(0.541)	2.392	(0.524)	1.529	(0.043)

#### 4.4 Descriptive Statistics and Balance

Randomization was conducted before the mail-out of the survey by the PCI research team based at the VCCI in Hanoi. Because non-response could be potentially related to treatment conditions, Table 4 presents a simple difference of means test of potential confounding variables.

The analysis demonstrates that the randomization was generally successful and covariates are balanced across the two groups. The table indicates that the average firm in both groups has been in Vietnam since about 2010 and is small to medium size by international standards with between 50 and 200 employees and equity capital between \$554,000 USD to \$3 million USD. The median firm lists performance as “breaking even” on a direct question about performance, with sales revenue (averaging \$19.2 million USD) and expenditure (averaging \$13.9 millions) roughly evenly matched. Over 70% of respondents are from other countries in Asia, with 55% listing their home country as either Japan or Korea. Thirty percent of respondent firms are from countries that are members of the CP-TPP. Sixty-one percent are engaged in manufacturing, with 40% selling to private, domestic firms as their main customer and 49% exporting to their main customer. 67% of firms say private, domestic firms are their primary source of intermediate goods and services.

There is some imbalance in treatment groups that we address in the empirics below. In these pre-treatment questions, firms receiving the CP-TPP treatment are statistically 5.8 percentage points more likely to export their goods and 5.4 percentage points more likely to engage in manufacturing. Although not statistically significant at the .05 level, there are also about four percentage points more Japanese firms in the CP-TPP treatment group. In our estimates below, we use two-digit sector and country fixed effects to address these imbalances by comparing respondents only with manufacturing sector and country of origin, allowing us to hold constant specific industry configurations as well as the main customer market for the product. We also disaggregate effects by these important groups to make sure are results are not an artefact of this imbalance. We do not present regressions

with control variables for the imbalanced covariates at the recommendation of (Mutz, Pemantle, & Pham 2019), who argue that controlling for imbalanced covariates causes more bias than unadjusted regressions.<sup>13</sup>

**Table 4: Balance on Covariates**

Covariates	CPTPP (n=759)		LCA (n=824)		Difference	
	Mean	SE	Mean	SE	Coef.	p-value
Entry Year	2010.4	(0.219)	2010.4	(0.209)	0.018	(0.951)
Male Respondent=1	0.928	(0.011)	0.906	(0.010)	0.021	(0.145)
MNC=1	0.286	(0.017)	0.313	(0.017)	-0.026	(0.284)
Employment Size (1-8)	3.725	(0.064)	3.691	(0.061)	0.034	(0.699)
Performance (1-6)	4.246	(0.079)	4.438	(0.076)	-0.191	(0.081)
Investment Size (1-8)	4.367	(0.082)	4.297	(0.079)	0.070	(0.540)
Sales in 2018 (ln)	14.515	(0.081)	14.507	(0.078)	0.008	(0.946)
Expenditures in 2018 (ln)	14.708	(0.075)	14.678	(0.073)	0.030	(0.776)
Sales to Private Firms=1	0.397	(0.018)	0.417	(0.017)	-0.021	(0.398)
Sales to SOEs=1	0.084	(0.010)	0.084	(0.010)	0.001	(0.967)
Purchase from SOEs=1	0.104	(0.011)	0.098	(0.011)	0.006	(0.703)
Purchase from Private Firm=1	0.673	(0.017)	0.647	(0.017)	0.026	(0.268)
Exported in 2019=1	0.518	(0.018)	0.460	(0.017)	0.058	(0.021)
Sector=Manufacturing	0.636	(0.018)	0.583	(0.017)	0.054	(0.028)
Home=South Korea	0.285	(0.016)	0.295	(0.016)	-0.010	(0.652)
Home=Japan	0.277	(0.016)	0.238	(0.015)	0.039	(0.077)
Home=Singapore	0.040	(0.007)	0.036	(0.007)	0.003	(0.746)
Home=China	0.047	(0.008)	0.052	(0.008)	-0.005	(0.665)
Home=US	0.017	(0.005)	0.017	(0.005)	0.000	(0.983)
Home=CPTPP	0.299	(0.017)	0.311	(0.016)	-0.012	(0.617)

## 4.5 Model Specification

For consistency and transparency, we use the same regression specification and sequence of estimates for all outcome variables ( $y$ ). Our basic model is ordinary least squares (OLS) with robust standard errors clustered at the broad level of ISIC Rev. 4 industrial codes ( $s$ ) to address the fact that errors are likely to be correlated among respondents in the same general sectors, who are more likely to be doing business with one another and therefore their experience with disputes cannot be treated as independent. We use OLS, because maximum likelihood approaches for dichotomous variables have been proved to be biased in the presence of fixed effects, which are critical to our research design (Greene 2004). Firms are indexed by  $i$  and  $s$  for their two-digit sector in the ISIC Rev. 4 industrial

<sup>13</sup>Because reasonable minds can disagree on this decision (see (Gerber, Arceneaux, Boudreau, Dowling, & Hillygus 2015)), in Appendix C, we present results that control for imbalance, showing little impact on substantive findings or statistical significance.

codes.<sup>14</sup> In the baseline specification (Model 1), we report the bivariate estimate with no controls. In Model 2, we add two-digit industry fixed effects ( $\delta_s$ ). In Model 3, we add country of origin fixed effects  $\varphi_c$ . Subsequent models present sub-group effects for those familiar with the legislation (Model 4), those in manufacturing (Model 5),<sup>15</sup> and those involved in exporting (Model 6).

$$y_{is} = \beta_0 + \beta_1 \times CPTPP + \delta_s + \phi_c + \epsilon_{is}$$

## 5 Results

In this section, we present the results on the multiple outcome variables under investigation. We begin by analyzing pre-existing knowledge of the domestic or legal documents, finding that respondents are slightly more familiar with the LCA. Next, we study which features of the legal document are most important for their business. We demonstrate that respondents overwhelmingly believe that the firm-to-firm provisions in both legal documents are more important than the property rights protections. The selection of commercial dispute resolution is especially high among respondents who are already familiar with the document. Third, we look into the effects of the CP-TPP on our outcome variables: 1) self-reported adequacy of protections; 2) increased business activity; and 3) enhanced relationships with potential GVC partners. We find that firms in the CP-TPP treatment group express greater confidence in protections, expect more business activity in the coming year, and are more likely to partner with all business types except SOEs.

### 5.1 Knowledge of Legal Document

We begin our analysis by studying the pre-existing knowledge of the legal document in Table 5. Model 3 presents the fully-specified model with standard errors clustered at the broad sector level, two-digit industry fixed effects, and country of origin fixed effects. Models 4, 5, and 6 limit the analysis to manufacturers, exporters, and CP-TPP members, respectively.

Looking at the simple bivariate estimate in Model 1, the first thing to notice is that familiarity with both documents is relatively low. Even though the LCA is was passed in 2010 and became law in 2012, only 46.7% of all firms are familiar with its protections. This helps explain why so few firms have taken advantage of the arbitration provisions it allows. Similarly, despite the high-profile negotiations and extensive coverage in Vietnamese media of the CP-TPP, only 43.05% of all firms

<sup>14</sup><https://ilostat ilo.org/resources/methods/classification-economic-activities/>

<sup>15</sup>The manufacturing-only model drops industry fixed effects and cluster standard errors, because it is limited to only one sector.

are familiar with its provisions. This result has important policy implications. Because firms do not know about these legal protections, they are unable to take advantage of the tools made available to them and resort to informal and less rigorous means of contract enforcement. This decision ultimately stifles the ambitions of their firms and leads to less investment and business growth. An awareness campaign that attempted to inform firms about the opportunities and protection in the LCA and CP-TPP could pay large dividends in enhanced business activity.

Secondly, the fully specified Model 3 shows that there is significantly more knowledge about the LCA than CP-TPP. The knowledge gap is about 4.2 percentage points. This makes sense as the LCA has been around for longer and is more likely to have been utilized by foreign investors. However, the subsequent sub-group Models 4 through 6 show that those most likely to be impacted by the laws, because they engage in manufacturing, exporting, or come from CP-TPP members, do not demonstrate statistically significant differences in knowledge. For instance, manufacturing firms are only 2.4 points less familiar with CP-TPP, a 42% reduction in gap size from the full sample.<sup>16</sup>

**Table 5: Knowledge of Legal Document by Treatment Group**

<i>DV: Familiar with legal document=1</i>	<b>Baseline</b>	<b>Sector FE</b>	<b>Country FE</b>	<b>Mfg.</b>	<b>Exporters</b>	<b>CPTPP</b>
	(1)	(2)	(3)	(4)	(5)	(6)
CPTPP=1	-0.035*	-0.037 <sup>^</sup>	-0.042*	-0.024	-0.028	-0.069
	(0.016)	(0.018)	(0.015)	(0.035)	(0.042)	(0.043)
Constant	0.466***	0.467***	0.402***	0.461***	0.470***	0.434***
	(0.012)	(0.009)	(0.014)	(0.025)	(0.023)	(0.020)
2-Digit Industry FE	No	Yes	Yes	No	Yes	Yes
Country of Origin FE	No	No	Yes	Yes	Yes	No
Observations	1,407	1,407	1,407	847	692	426
R-squared	0.001	0.029	0.043	0.016	0.044	0.088
Clusters	19	19	19	.	16	16
RMSE	0.497	0.495	0.494	0.498	0.503	0.484

Robust standard errors, clustered at broad sector level, in parentheses (\*\*\* $p < 0.001$ , \*\* $p < 0.01$ , \* $p < 0.05$ , <sup>^</sup> $p < 0.1$ ).

## 5.2 Purpose of Document

It is critical to our research design that firms associate the legal documents with firm-to-firm commercial arbitration. If they think of other issues, especially firm-to-state dispute resolution to protect property rights through ISDS, our results might be confounded. In our theory above, ISDS is a mechanism that strengthens confidence in the CP-TPP's commercial arbitration procedures, but does not have a direct effect on its own through its property rights protections. Table 6 now provides clear evidence from the survey that investors are most strongly influenced by the private commercial dispute

<sup>16</sup>Although insignificant, it is fascinating that the knowledge gap grows for CP-TPP members to 6.9 points

obligations of CP-TPP and not ISDS or other property rights protections afforded by the LCA.

The table provides the responses to Question I5.2, illustrating the average selection rate (mean) and 95% confidence intervals around that selection. The table is divided into four panels: 1) Firms that received the LCA treatment but were not familiar with the document (n=824); 2) Firms that received the CP-TPP treatment but were not familiar with the document (n=759); 3) Firms that received the LCA treatment and were familiar with it (n=433); and 4) Firms that received the CP-TPP treatment and were familiar with it (n=374).

There are several important patterns in the table. First, firms were always significantly more likely to cite the most important feature of the document as firm-to-firm dispute resolution as opposed to protection of property rights. For those unfamiliar with the document, between 45% and 46% chose the first option, while only 12% selected property rights protection. For those claiming familiarity, between 76% and 80% checked firm-to-firm dispute resolution, while only 16% and 17% checked property rights protection for the LCA treatment and CP-TPP treatments, respectively. The higher proportion of knowledgeable respondents selecting resolution of contract disputes is critical, because it indicates we are not providing investors with views contradictory to their own insights.

Second, between 45% and 47% checked “Don’t Know” (an option available for all survey questions), which is reasonable, as they admit to not knowing about the document. As might be expected, only a very small proportion of these firms familiar with the law (8.2% and 13.7%) checked the “Don’t Know” option.

Third, notice that there are not significant differences in the answers between the most important item cited and treatment conditions.<sup>17</sup> Firms receiving the LCA and CP-TPP treatments view private commercial arbitration as the most important feature for both documents. This is important because it ensures that in subsequent responses, it is the internationalization of commercial arbitration of the CP-TPP that accounts for the differences, not differences in opinions about the specific protections of the document.

In sum, these additional questions give us confidence that our experiment provides a test of how internationalization of binding arbitration for commercial disputes affects firm contracting behavior. There is very little risk of confounding due to foreign investors’ association of the LCA with property rights protection or the CP-TPP with property protections through ISDS.

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<sup>17</sup>Appendix A provides fully-specified regression results, illustrating that answers to the Question I5.2 are not correlated with the treatment variable, even after adjusting for sector and country of origin fixed effects.

**Table 6: Main Protection Provided by Legal Document** (Answers to Question I5.1A&B)

Treatment/Main Protection	Share of Firms Selecting as Most Important					
	All Firms			Familiar with Law		
LCA Treatment	n	Mean	CI	n	Mean	CI
1. The ability to resolve contract disputes with other private parties in local and foreign exchange centers		43.3%	(41.9% 48.7%)		76.4%	(71.9% 80.9%)
2. The ability to seek redress for uncompensated seizure of property	824	12.4%	(10.1% 14.6%)	433	16.3%	(12.4% 20.3%)
3. Don't know		46.8%	(43.4% 50.3%)		13.7%	(10.0% 17.4%)
CP-TPP Treatment	n	Mean	CI	n	Mean	CI
1. The ability to resolve contract disputes with other private parties in local and foreign exchange centers		46.1%	(42.6% 49.7%)		79.7%	(75.1% 84.4%)
2. The ability to sue national governments in international forums if property rights are infringed	759	12.3%	(9.9% 14.6%)	374	17.2%	(12.8% 21.5%)
3. Don't know		44.7%	(41.1% 48.2%)		8.2%	(5.1% 11.4%)

Percentages do not add up to 100% because a small number of firms selected both options

### 5.3 Adequacy of Protections

Next, we assess question I5.3 which studies how many firms believed the protections were sufficient to address the specific needs of their operations and potential disputes. In Table 7, we can see clearly that beliefs about adequacy are generally quite high. Over 80% of foreign investors rated the legal protections in the document they were exposed to as adequate for their business.

However, significant differences are observable by treatment group. In the fully specified Model 3 of Table 7, we see that while 82% of firms receiving the LCA treatment said protections were adequate, those receiving the CP-TPP treatment were 3.3 percentage points more likely to believe in the adequacy of the legal protections, a difference that is statistically significant at the .05 level.

When we limit the sample to those familiar with the documents or to firms who are involved in exporting industries, the marginal differences climb about 8.2 and 7.6 percentage points, respectively, and demonstrate even greater statistical significance. Manufacturing firms and those in the CP-TPP have substantive effects that are actually larger than the full sample (4.7 and 3.9 points respectively), but are not statistically significant due to declining statistical power caused by the reduction in observations.

While in-line with our hypothesis, the result contradicts conventional wisdom, given that the LCA has been already been legislated (2010), promulgated (2011), and had implementing documents issued to ensure compliance around the country between 2011 and 2014. Firms had more time to become familiar with and use the LCA. Nevertheless, the newer CP-TPP is seen as more adequate, despite merely reaffirming the commitments made in the LCA.

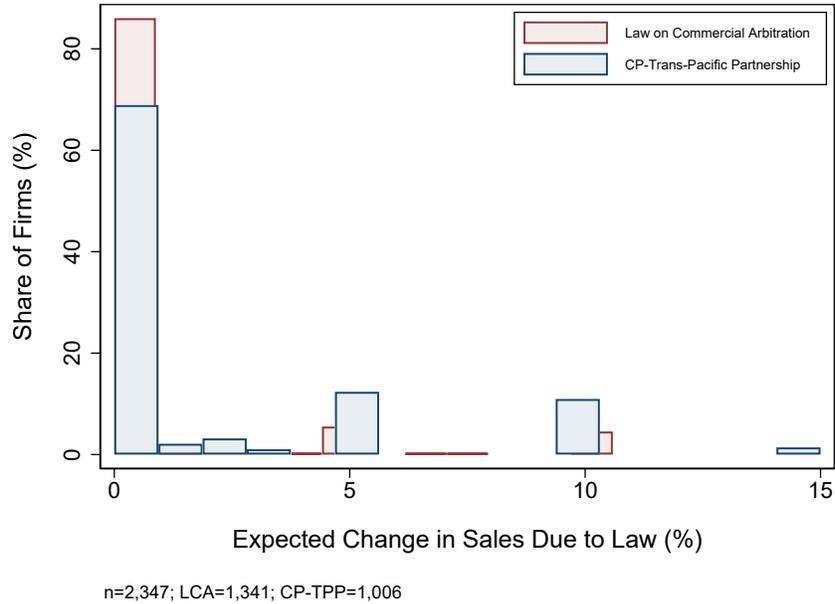
**Table 7: Legal Protections are Adequate** (Answers to Question I5.3)

<i>DV: Document is Adequate=1</i>	<b>Baseline</b>	<b>Sector FE</b>	<b>Country FE</b>	<b>Familiar</b>	<b>Mfg.</b>	<b>Exporters</b>	<b>CPTPP</b>
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
CPTPP=1	0.048** (0.013)	0.040* (0.015)	0.033* (0.015)	0.082*** (0.031)	0.047 (0.033)	0.076** (0.018)	0.039 (0.043)
Constant	0.811*** (0.011)	0.815*** (0.007)	0.824*** (0.018)	0.887*** (0.021)	0.827*** (0.023)	0.843*** (0.018)	0.821*** (0.020)
2-Digit Industry FE	No	Yes	Yes	No	No	Yes	Yes
Country of Origin FE	No	No	Yes	Yes	Yes	Yes	No
Observations	831	831	831	547	497	415	250
R-squared	0.004	0.026	0.045	0.078	0.018	0.090	0.084
Clusters	17	17	17	16		13	13
RMSE	0.372	0.374	0.373	0.300	0.358	0.352	0.371

Robust standard errors, clustered at broad sector level, in parentheses (\*\* $p < 0.001$ , \*\* $p < 0.01$ , \* $p < 0.05$ ,  $\wedge p < 0.1$ ).

## 5.4 Greater Business Activity

In this section, we ask if the international agreement is improving firms' confidence in contracting institutions and affecting their business decisions. To gauge this result, we asked firms to predict how they thought their sales might change as a result of the respective protection to which they were exposed. Figure 1 provides the distribution of the main outcome variable of interest. Notice that nearly three quarters of firms (74.2%) answered zero change, implying that these documents would have no impact on their future contracting. However, we can immediately see a profound difference in zero responses, depending on whether the firm was exposed to the LCA (86%) versus the CP-TPP (69%). At first glance, internationalization appears to increase the confidence in doing business for all firms by 27.1 percentage points. Not only are there far more firms in the CP-TPP treatment reporting positive sales growth, but those firms are also much more optimistic. The average firm in the CP-TPP treatment expects 3.9% greater sales as a result of the legislation, compared to 2.4% for the protections in the LCA.



**Figure 1: Change in Sales Resulting from Legislation** (Answers to Question I5.4)

To dig deeper and account for the origin of the firm, as well as differential effects based on sector, we employ the regression analysis in Table 8. In our preferred Model 3, we find average CPTPP treatment effect of 1.4 percentage points, which implies 38% increase in predicted sales between the CP-TPP (5.1) and LCA (3.7). The effect is statistically significant at the .01 level. This is a staggering effect of simply citing a multilateral document on business activity. Better than Figure 1, it also indicates a potential behavioral response to the document’s adequacy.

Results appear robust to specific sub-groups. Exporters and those in the CP-TPP demonstrate similar substantive effects and statistical significance. For manufacturing firms, we recover roughly the same substantive effect, but it is not statistically significant at conventional levels.

The coefficient shrinks 44 percent and becomes marginally insignificant for those who acknowledged familiarity with the document. That is, for the group who were already familiar with the legal commitments in the CP-TPP, learning about the document does not change their behavior, as the new information is superfluous. They have already altered their business to take advantage of its provisions. Methodologically, this result is helpful, because it reinforces that what mattered is what firms learned in the prompt, not pre-existing information that was circulating about the other provisions in the CP-TPP or the business benefits from expanded markets. And remember, the only thing different about the two prompts was that one documented the multilateral nature of the commitment.

In sum, foreign investors exposed to the binding arbitration in the CP-TPP treatment are significantly more likely to believe they can do greater business and even expand their operations within the country.

**Table 8: Change in Sales Resulting from Legislation** (Regression Analysis)

<i>DV: Increase in Sales %</i>	<b>Baseline</b>	<b>Sector FE</b>	<b>Country FE</b>	<b>Familiar</b>	<b>Mfg.</b>	<b>Exporters</b>	<b>CPTPP</b>
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
CPTPP=1	1.514** (0.377)	1.163** (0.394)	1.414** (0.349)	0.757 (0.629)	1.486 (1.234)	1.273* (0.470)	1.376** (0.420)
Constant	2.407*** (0.557)	2.577*** (0.194)	3.692*** (0.655)	4.839*** (1.129)	3.176*** (0.895)	2.242** (0.545)	3.631*** (0.209)
2-Digit Industry FE	No	Yes	Yes	No	No	Yes	Yes
Country of Origin FE	No	No	Yes	Yes	Yes	Yes	No
Observations	621	621	621	387	364	312	201
R-squared	0.006	0.055	0.086	0.108	0.051	0.189	0.105
Clusters	16	16	16	15		13	13
RMSE	9.410	9.378	9.325	9.994	11.51	8.238	12.63

Robust standard errors, clustered at broad sector level, in parentheses (\*\* $p < 0.001$ , \*\* $p < 0.01$ , \* $p < 0.05$ ,  $\wedge p < 0.1$ ).

## 5.5 Contracting with Whom?

In our final analysis, we look to see whether the contract enforcement provisions of the CP-TPP will increase greater integration of GVCs through contracting with different parties in the country. Will foreign investors be more likely to purchase from and sell goods to firms in Vietnam?

The original answers were coded on a 7-point scale ranging from very unlikely to very likely.<sup>18</sup> For ease of interpretation and comparability with other estimates, we transform these outcomes into dichotomous variables. Firms that answered that they were likely ( $>4$ ) to increase business were coded as 1, while those that answered no-change or less likely to do business ( $\leq 4$ ) were coded as zero.<sup>19</sup> We run the same linear analysis with two-digit industry and country fixed effects as above, but this time we analyze respondents' willingness to do business with other parties.

Figure 2 presents the results of twenty separate regressions of each potential business partner on the treatment variable, adjusting for country and industry fixed effects.<sup>20</sup> The top set of graphs presents all respondents, while the bottom two graphs present results for only those that were familiar with the respective legal document. The left panel of the graph shows respondents' willingness to sell to a particular business partner, while the right panel demonstrates respondents' willingness to purchase from the partner.

<sup>18</sup>Appendices C1 and C2 present the full distribution of results for the two questions.

<sup>19</sup>Results do not change substantively when a linear regression is performed on the full seven-point scale.

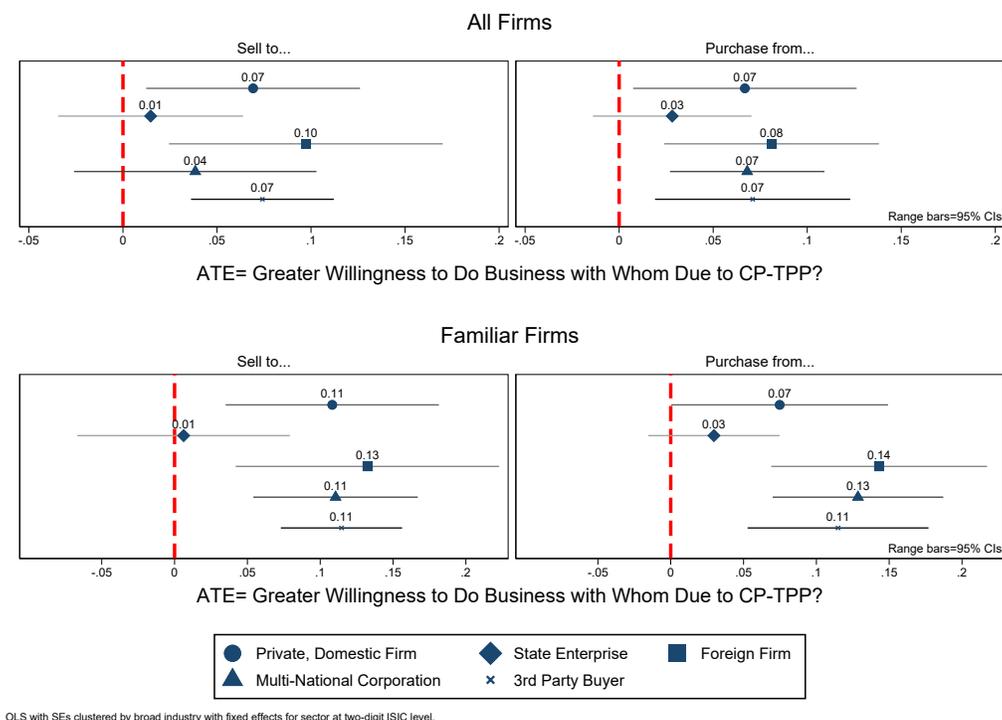
<sup>20</sup>Full regression results can be found in Appendix C3 and C4.

The CP-TPP positively influences the contracting decisions with most partners. Foreign investors respond that they will at least marginally increase their business with all parties after hearing about the commitment. Among all firms, the ATE on sales revenue is expected to increase from a low of 1% in sales to SOEs to a high of 10% to other foreign firms, purchases are expected to increase from 3% from SOEs to 8% from other foreign firms. For more familiar firms, the maximum value of sales and purchases is greater, reaching a maximum of 13% and 14%, respectively.

It is especially important that foreign firms believe the CP-TPP will increase their willingness to contract with private firms for both sales and purchases, drawing them into GVCs, which has been an important development goal for the Vietnamese government.

While most of these effects are statistically different from zero, the effects are never distinguishable from zero for one type of business - SOEs - and are always substantively small, never increasing more than 3%. This result is important because it illustrates the limitations of internationalization. Even with the CP-TPP, firms do not believe that the CP-TPP will improve their business engagement with SOEs. Both lines clearly cross the dashed line, implying null results.

This is fascinating, because it implies that even international commitments cannot overcome the barriers to trust that firms have with SOEs. Many firms believe that SOEs receive special treatment and might be favored due to their connections and favoritism by government officials. It also reflects the beliefs in the foreign investment community that arbitration agreements have not been well-enforced against state actors. This finding provides some tentative evidence that the ratification and signalling mechanisms may be more important than the indirect effect of ISDS on strengthening commercial arbitration. Unfortunately, due to limited power, we cannot tell whether contracting decisions are significantly different for SOEs than other potential partners. The confidence intervals overlap. Moreover, even if statistical differences were visible, the ISDS mechanism could still operate by reducing state interference in arbitral decisions.



**Figure 2: Average Treatment Effect (CP-TPP): Willingness to Contract With Specific Partners**

## 5.6 Alternative Outcome Variables

In this section, we take advantage of the organization of the PCI-FDI questionnaire to perform additional sensitivity tests of firms' optimism about doing business in Vietnam that is related to GVCs, which is provided by a question that followed our module on the CP-TPP survey. Immediately after the execution of our survey module, the PCI-FDI survey asked two standard questions that have been part of the survey since 2010. Because they immediately followed our module before the introduction of additional experiments, they can be employed as further elaborations of the internationalization hypothesis.

First, we analyze question J3, which asks firms whether they plan to expand operations into a province in Vietnam other than the one where they have their current operations. Given our theory, we expect firms exposed to the CP-TPP treatment to be more optimistic about expanding their operations in the country to other provinces. This is an extremely relevant test for our theory, as moving to another province requires establishing new relationships with intermediate vendors, especially those providing inputs to business services. Relocation also means finding new buyers of a foreign firms' own goods and services in the new market, which again involves a host of new contractual relations. Next, we analyze question J2 about whether there are biases in favor of

government procurement for state firms. We expect that firms will believe procurement (a legal contracting exercise) will be more fair if they have been exposed to the additional multilateral protections of the CP-TPP.

J3. Are you currently considering expanding or changing your business' location in Vietnam?<sup>21</sup>

Yes

No

J2. Do you agree with the following statement "*The provincial authorities favor state owned enterprises in government contracting*"?

Strongly Agree

Agree

Disagree

Strongly Disagree

Looking at firm expansion plans as an additional test of confidence in doing business in Vietnam in Table 9 (Model 3), we find that a baseline 28% of firms exposed to the LCA claim to be interested in expansion within Vietnam. The ATE of the CPTPP, however, is 2.4 percentage points, and an 8.9% increase. Limiting the sample to those familiar with the document, leads to a 7-percentage point effect of CP-TPP, which translated into a 25% marginal increase in expansion plans. We do not find effects for manufacturers, exporters, or respondents from CP-TPP member countries.

In Table 10 (Model 3), we find that 27% of firms exposed to the LCA claim that SOEs receive biased treatment in competing for local government contracts. However, for those exposed to the CP-TPP, the result is 5.5 percentage points less, a 20.4% marginal reduction in their attitude toward the state. Effects for firms in manufacturing are similarly sized but inefficiently estimated. As with sales, firms familiar with the CP-TPP have much smaller effects, because the document is unlikely to change their behavior. Null results on exporters makes a lot of sense in this context, because exporters are unlikely to be competing to provide services or products to local authorities. These activities are more likely to be associated with domestically oriented investors.

Together, these results provide additional evidence that learning about the CP-TPP increased firms' willingness to do expand their business activities in Vietnam.

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<sup>21</sup>3.1. If your firm were planning to expand your business to another province /city or country, which province/city or country would you choose?

**Table 9:** Expansion Plans to Another Province in Vietnam

<i>DV: Planning to Expand = 1</i>	<b>Baseline</b>	<b>Sector FE</b>	<b>Country FE</b>	<b>Familiar</b>	<b>Mfg.</b>	<b>Exporters</b>	<b>CPTPP</b>
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
CPTPP=1	0.021* (0.009)	0.021^ (0.010)	0.024* (0.010)	0.071** (0.018)	0.018 (0.030)	0.034 (0.027)	-0.008 (0.062)
Constant	0.260*** (0.018)	0.260*** (0.006)	0.271*** (0.011)	0.274*** (0.037)	0.240*** (0.021)	0.332*** (0.012)	0.281*** (0.029)
2-Digit Industry FE	No	Yes	Yes	No	No	Yes	Yes
Country of Origin FE	No	No	Yes	Yes	Yes	Yes	No
Observations	1,399	1,399	1,399	605	846	686	428
R-squared	0.001	0.042	0.051	0.107	0.022	0.102	0.095
Clusters	19	19	19	17	.	15	16
RMSE	0.444	0.439	0.439	0.457	0.432	0.439	0.441

Robust standard errors, clustered at broad sector level, in parentheses (\*\* $p < 0.001$ , \*\* $p < 0.01$ , \* $p < 0.05$ , ^  $p < 0.1$ ).

**Table 10:** SOEs Favored by Officials in Government Contracting

<i>DV: Favor SOEs in Contracting = 1</i>	<b>Baseline</b>	<b>Sector FE</b>	<b>Country FE</b>	<b>Familiar</b>	<b>Mfg.</b>	<b>Exporters</b>	<b>CPTPP</b>
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
CPTPP=1	-0.064** (0.021)	-0.057** (0.017)	-0.055** (0.016)	-0.028 (0.031)	-0.057 (0.050)	0.018 (0.013)	-0.129** (0.032)
Constant	2.739*** (0.046)	2.736*** (0.010)	2.683*** (0.011)	2.726*** (0.020)	2.685*** (0.036)	2.651*** (0.017)	2.730*** (0.017)
2-Digit Industry FE	No	Yes	Yes	No	No	Yes	Yes
Country of Origin FE	No	No	Yes	Yes	Yes	Yes	No
Observations	1,170	1,170	1,170	534	707	589	365
R-squared	0.003	0.038	0.049	0.102	0.021	0.056	0.079
Clusters	19	19	19	17	.	15	16
RMSE	0.628	0.624	0.624	0.633	0.652	0.639	0.630

Robust standard errors, clustered at broad sector level, in parentheses (\*\* $p < 0.001$ , \*\* $p < 0.01$ , \* $p < 0.05$ , ^  $p < 0.1$ ).

## 6 Conclusion

Policy-makers in developing countries have been extremely concerned about the ability of domestic companies to join global supply chains. While a number of solutions to this problem have been explored, a key concern among both foreign and domestic businesses operating in emerging markets is that they may not be able to defend themselves in contract disputes with parties outside their immediate network. While countries like Vietnam have taken steps to address this problem by permitting both local and foreign arbitration in the country, some foreign investors have complained that these protections are inadequate, especially in non-democratic regimes without independent courts.

In this paper, we present a micro-level study of firms' reactions to information about domestic laws versus international agreements protecting investment. Our survey experiment in Vietnam randomly assigned whether foreign investors were told about the domestic law or the international

treaty. We then compared their beliefs about their future sales prospects and desire to work with other firms in the country. The international treaty induced greater optimism about the adequacy of arbitral arrangements, future profits, a greater likelihood of investing more, and a greater desire to partner with other firms in Vietnam, thus indicating more interest in joining a global value chain.

Our findings have important policy implications. They suggest that countries might want to enter international treaties to both garner more FDI and to deepen their insertion into global value chains. In addition, it is critical for domestic policy makers to understand that while our experiment compared the relative importance of domestic versus international laws, finding that the same legal commitment carried more weight among foreign investors when they learned it was in an international agreement, in practice these commitments are not so easily separable. CP-TPP commitments specifically required Vietnam to ratify and enforce national legislation enshrining domestic commercial arbitration. In other words, policy makers should think of domestic law and international law as complements rather than substitutes with international law enhancing confidence in domestic commitments. Our research also suggests that governments need to do a better job of informing their firms that they have commercial arbitration laws on the books and have ratified international commitments, since most of our firms had not heard of them.

One current limitation of our research is our inability to distinguish the three mechanisms that drive this relationship - ratification, signaling, and investor-state dispute settlement procedures. We do not know which of these potential channels is most influential in foreign investor decision-making. But some tentative evidence that we find suggests the the third mechanism (i.e., the ISDS) is less important. Future work might benefit from a larger survey that is able to prime these mechanisms separately.

An additional limitation is our reliance on data from foreign investors in Vietnam. While it is a non-democratic regime where external enforcement is thought to be more helpful, it is also a country uniquely committed to global integration through investment openness and international agreements. How might Vietnam's neighbors in Laos and Myanmar, who have far less global integration under their belts, benefit from committing internationally to binding, commercial arbitration within their borders? Relatedly, is it possible that a democratic country may actually have more trouble ensuring investors, because international commitments are more subject to the whims of domestic voters? Future research should endeavor to answer these questions.

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# APPENDIX

## Appendix A: Main Protection Provided by Legal Document

<i>Dependent Variable</i>	<b>Firm to Firm=1</b>		<b>Property Rights=1</b>	
	<b>All</b>	<b>Familiar=1</b>	<b>All</b>	<b>Familiar=1</b>
	(1)	(2)	(1)	(2)
CPTPP=1	0.005 (0.027)	0.014 (0.029)	-0.000 (0.014)	0.015 (0.024)
Constant	0.422*** (0.017)	0.766*** (0.018)	0.112*** (0.017)	0.145*** (0.012)
2-Digit Industry FE	Yes	Yes	Yes	Yes
Country of Origin FE	Yes	Yes	Yes	Yes
Observations	1,580	632	1,580	632
R-squared	0.029	0.064	0.035	0.091
Clusters	19	17	19	17
RMSE	0.497	0.416	0.328	0.369

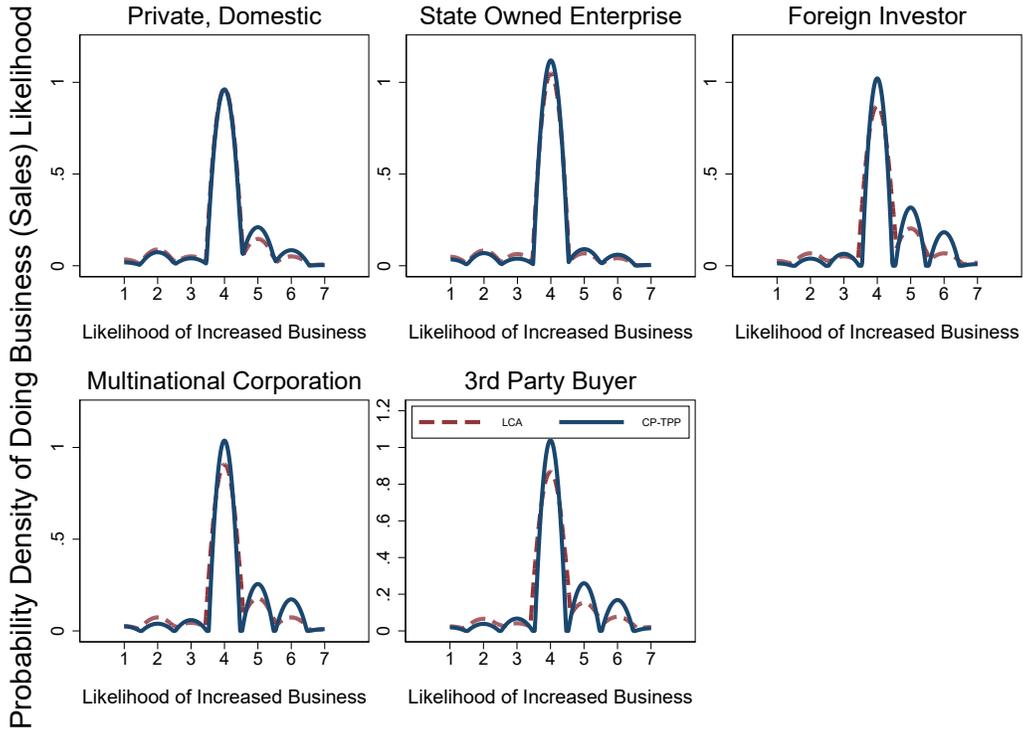
Robust SEs, clustered at broad sector level, in parentheses (\*\* $p < 0.001$ , \*\* $p < 0.01$ , \* $p < 0.05$ , ^  $p < 0.1$ ).

## Appendix B: Replication of Main Results Controlling for Unbalanced Covariates (Model 3 in All Tables)

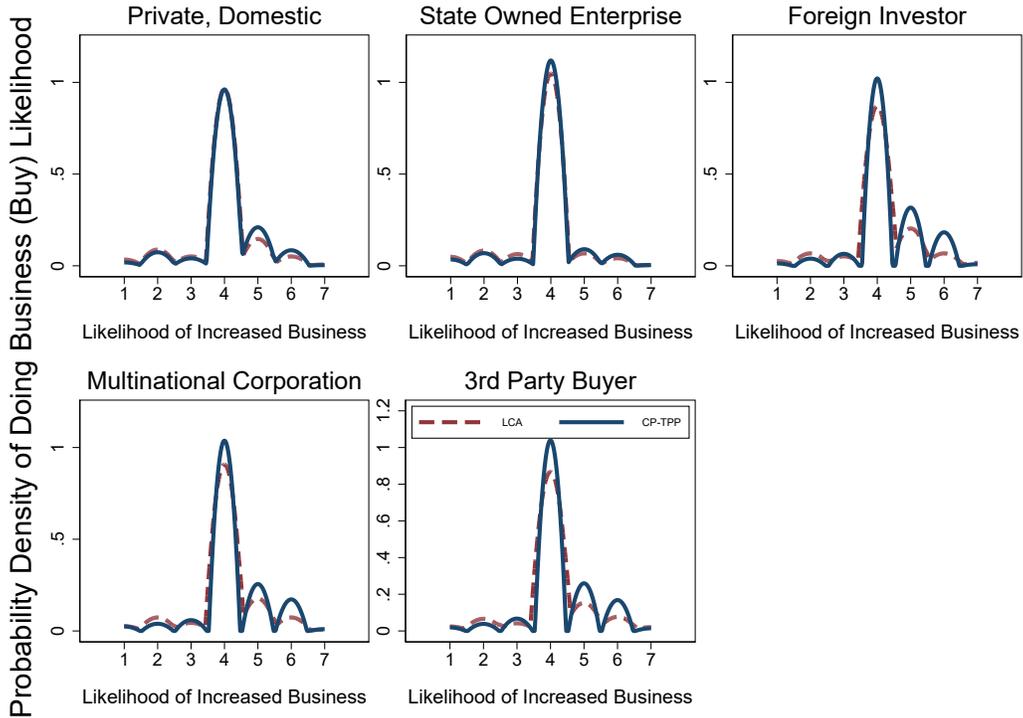
<i>DV: Dependent Variables</i>	<b>Purpose of Legislation</b>							
	<b>Familiar</b>	<b>Adequate</b>	<b>Firm-to</b>	<b>Familiar</b>	<b>Mfg.</b>	<b>Sales</b>	<b>Expand</b>	<b>SOE Bias</b>
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
CPTPP=1	-0.043** (0.014)	0.032^ (0.015)	0.004 (0.026)	-0.000 (0.014)	-0.017 (0.035)	1.449** (0.357)	0.022^ (0.010)	-0.052** (0.016)
Manufacturing=1	-0.210^ (0.103)	0.076 (0.068)	-0.033 (0.092)	-0.041 (0.028)	0.066 (0.072)	-0.306 (0.844)	0.008 (0.051)	-0.341*** (0.018)
Export=1	0.066** (0.018)	0.047 (0.029)	0.026 (0.029)	0.003 (0.014)	-0.031 (0.023)	-0.785* (0.311)	0.065* (0.023)	-0.028 (0.023)
Constant	0.503*** (0.061)	0.760*** (0.051)	0.432*** (0.069)	0.136*** (0.010)	0.479*** (0.066)	4.184*** (0.281)	0.242*** (0.039)	2.897*** (0.016)
2-Digit Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country of Origin FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	621	621	621	387	364	312	201	201
R-squared	0.006	0.055	0.086	0.108	0.051	0.189	0.105	0.105
Clusters	16	16	16	15	.	13	13	13
RMSE	9.410	9.378	9.325	9.994	11.51	8.238	12.63	12.63

Robust standard errors, clustered at broad sector level, in parentheses (\*\* $p < 0.001$ , \*\* $p < 0.01$ , \* $p < 0.05$ , ^  $p < 0.1$ ).

Appendix C1: Distribution of Responses to Questions I5.41-I5.4.5



Appendix C2: Change in Business Partnerships Due to Legal Document



### Appendix C3: Increased Sales with Whom (All Firms)

<i>More likely to do business with y=1</i>	<b>Private Companies</b>		<b>State Owned Enterprises</b>		<b>Foreign Firms</b>		<b>Branch of MNC</b>		<b>Overseas Buyers</b>	
	(Sales)	(Purchase)	(Sales)	(Purchase)	(Sales)	(Purchase)	(Sales)	(Purchase)	(Sales)	(Purchase)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
CPTPP=1	0.069*	0.067*	0.015	0.028	0.097*	0.081**	0.038	0.068**	0.074***	0.071*
	(0.027)	(0.028)	(0.023)	(0.020)	(0.034)	(0.027)	(0.030)	(0.019)	(0.018)	(0.024)
Constant	0.182***	0.148***	0.145***	0.106***	0.306***	0.252***	0.257***	0.208***	0.253***	0.212***
	(0.032)	(0.024)	(0.024)	(0.019)	(0.021)	(0.021)	(0.032)	(0.033)	(0.023)	(0.027)
2-Digit Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country of Origin FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	789	770	708	687	826	780	700	678	716	691
R-squared	0.060	0.051	0.081	0.053	0.070	0.073	0.062	0.070	0.059	0.058
Clusters	16	16	17	17	16	16	16	16	16	16
RMSE	0.395	0.386	0.318	0.296	0.456	0.435	0.445	0.421	0.441	0.425

Robust standard errors, clustered at broad sector level, in parentheses (\*\*\*)  $p < 0.001$ , (\*\*)  $p < 0.01$ , (\*)  $p < 0.05$ , ^  $p < 0.1$ .

### Appendix C4: Increased Sales with Whom (For those already familiar)

<i>More likely to do business with y=1</i>	<b>Private Companies</b>		<b>State Owned Enterprises</b>		<b>Foreign Firms</b>		<b>Branch of MNC</b>		<b>Overseas Buyers</b>	
	(Sales)	(Purchase)	(Sales)	(Purchase)	(Sales)	(Purchase)	(Sales)	(Purchase)	(Sales)	(Purchase)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
CPTPP=1	0.108**	0.075*	0.006	0.030	0.132**	0.143***	0.111***	0.129***	0.115***	0.115**
	(0.034)	(0.035)	(0.034)	(0.021)	(0.042)	(0.035)	(0.026)	(0.027)	(0.019)	(0.029)
Constant	0.194***	0.119***	0.160***	0.073**	0.356***	0.264***	0.271***	0.239***	0.319***	0.248***
	(0.042)	(0.014)	(0.027)	(0.021)	(0.028)	(0.024)	(0.039)	(0.031)	(0.028)	(0.027)
2-Digit Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country of Origin FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	471	452	426	407	488	458	422	399	426	405
R-squared	0.114	0.096	0.153	0.080	0.127	0.116	0.147	0.129	0.110	0.113
Clusters	15	15	16	16	15	15	15	15	15	15
RMSE	0.410	0.398	0.327	0.294	0.463	0.455	0.447	0.440	0.450	0.435

Robust standard errors, clustered at broad sector level, in parentheses (\*\*\*)  $p < 0.001$ , (\*\*)  $p < 0.01$ , (\*)  $p < 0.05$ , ^  $p < 0.1$ .