Explaining Deference: Why and When do Policymakers think FDI needs Tax Incentives?*

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Abstract

Why do governments compete for investment through tax holidays when there is strong evidence that these incentives are rarely consequential to locational decisions (James, 2013; Jensen, 2016)? Previous scholarship has attributed pro-business policies such as investment incentives to: the structural power of business in an era of international capital mobility (Lindblom, 1977; Frieden, 1991; Strange, 1996), fiscal competition generated through political decentralization (Li, 2016; Rodriguez-Pose and Arbix, 2001), or electoral pandering by political leaders (Jensen and Malesky, 2018). However, there is currently little understanding about how government agents form beliefs over how to best attract investment. Building on insights from the bureaucratic politics and behavioral economics literatures, we anticipate investment promotion professionals are more likely to view investment incentives as effective attraction tools when they have limited private sector experience and when they work for investment promotion agencies that are more integrated into the national bureaucracy and that evaluate employee performance based on deals closed. We test these expectations with a conjoint survey experiment of investment promotion professionals designed to uncover respondents' beliefs over the relative importance of different components of the investment environment to firms' locational decisions.

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Introduction

Why do governments compete for capital through the use of investment incentives – which we define as tax holidays, subsidies, or other targeted inducements that governments offer specific firms in order to locate an establishment in that government's jurisdiction – when there is strong evidence that incentives are rarely consequential to locational decisions? A growing body of research has established three related understandings of investment incentives: they are rarely consequential to locational decisions (James, 2013; Jensen, 2016), incentive offers tend to generate fierce competition among competitor locations (Rodriguez-Pose and Arbix, 2001; Seppala et al., 2014), and local politicians have strong strategic motives to offer incentives as a way to generate voter approval (Jensen, 2008; Jensen et al., 2015). However, there is currently little understanding about how variations in bureaucratic organization and governance influence the incentives government officials tasked with economic development face, the ways in which individual staff members' professional backgrounds impact their beliefs over what motivates investors, and how these organizational and agency factors combine to shape the investment facilitation policies and strategies that governments pursue.

This project extends our understanding of investment incentive use by examining how governmental officials in investment promotion agencies (IPAs) develop beliefs over the policy environment priorities of potential investors. Now, over 160 countries have at least one IPA charged with attracting multinational firms through a combination of image promotion, tax incentives, and assistance with bureaucratic procedures associated with investment. IPAs are the bureaucratic gatekeepers of incentives, and are the part of the state that works most closely with multinational enterprises (MNEs) to encourage them to pursue local investment opportunities.

Specifically, we ask the following question: how do institutional configurations and individual experiences influence investment promotion professionals' attitudes over the usefulness of investment incentives as tools of FDI attraction? Building on insights from the bureaucratic politics and behavioral economics literatures, we anticipate investment promotion professionals are more likely to view investment incentives as effective attraction tools when they have limited private sector experience and when they work for investment promotion agencies that are more integrated into the national bureaucracy and that evaluate employee performance based on deals closed. Accordingly, IPAs with such institutional structures and that hire mostly from within government are likely to foster a professional atmosphere that views investment incentives as important for attracting foreign investment, and that under-invests in other facilitation policies such as governance reforms, development of local suppliers, and investment in domestic physical infrastructure and human capital. We test these expectations by administering a conjoint survey ex-

periment on officials in national-level IPAs. Results from a small pilot confirm that there is substantial variation in what sorts of policies IPA officials view as central to attracting investment. We are currently fielding a full survey to have the statistical power necessary for statistical inference.

Explaining why and when bureaucrats are more amenable to the use of investment incentives is important for both narrow policy and broad theoretical reasons. Narrowly, despite their general ineffectiveness at shaping investment patterns, incentive policies redistribute a portion of the gains from economic openness from domestic citizens to (often) globally mobile firms. It is estimated that such programs cost governments over $100 billion a year (Thomas, 2011), foregone revenue that could otherwise be used for critical infrastructure projects, education and social services, health care, tax relief to citizens, or other pressing public works projects of high priority. Critics of investment incentives often point to the tyranny of capital mobility, the tendency of decentralization to generate self-defeating competition for capital, and electoral benefits of pandering as reasons why investment incentive programs are so ubiquitous and difficult to restrain. But these arguments are often dissatisfying because they are not well equipped to explain variation in incentive use. Moreover, attributing incentive overuse to structural conditions and largely unchangeable realities of political behavior provides few obvious avenues to which policymakers interested in curbing incentive program can turn. By identifying how elements of bureaucratic design and patterns of professionalization influence the beliefs agents hold over the importance of investment incentives, our theory generates implications that provide more tractable potential reforms for governments wishing to reduce investment incentive use.

More broadly, investment incentive proliferation is ultimately an example of fundamental phenomenon of central interest to scholars of international political economy: public deference to private power. Why and under what conditions do governments cede their regulatory and taxation authority to private firms is an enduring and divisive question in globalization literatures. While many have isolated the structural power of mobile capital (Lindblom, 1977; Strange, 1996; Frieden, 1991) or the mediating effects of domestic institutions (Mosley, 2003; Gourevitch and Shinn, 2005; Rudra, 2008) to explain firm-government bargaining outcomes, these accounts have largely uncritically accepted the claim that international capital mobility is a background condition that imposes on all states a consistent technocratic pressure. Variation in outcomes, if any exist, stem from heterogenous capacities to respond to this general and ultimately apolitical constraint. The argument we advance here challenges this “anti-politics" script and instead builds on a growing strand of IPE theory that problematizes the language of international capital mobility as a social, rather than a brute, fact that arises from particularly belief structures that are built, maintained, and changed through particular professional networks

(Chwieroth, 2010; Chwieroth and Sinclair, 2013; Chwieroth, 2015; Pauley, 1995). Such work, however, tends to assume that beliefs either trump or constitute interests without considering how beliefs and institutional ecologies may intersect in complex and sometimes countervailing ways. Our research design allows us to consider how institutional choices, material incentives, and professional cultures combine to influence actors' beliefs over the power of firms in a global economy. Ultimately, we demonstrate that public deference to international business is not just a product of apolitical, anonymous market forces but a reflection of socialization processes that make policymakers believe firms have great capacity to exit their jurisdictions. And, in the negotiation over the right to regulate or the necessity to accommodate business interests, *beliefs*, rather than facts, over who wields power are central.

The remainder of this article proceeds as follows. First, we introduce investment incentives as a puzzle and articulate why previous research leaves important theoretical and empirical gaps in our collective knowledge. Next, we develop an agent-centered theory over the institutional, material, and ideational factors that influence investment promotion officials' beliefs over the usefulness of tax incentives in attracting FDI. Third, we explain the design of our conjoint survey experimental design, which is still in the field. A final section concludes.

Incentives: Marginal Benefits, Maximal Advocates, Variable Implementation

Governments in developed and developing countries alike have placed increasing emphasis on attracting multinational enterprises (MNEs) to invest in their localities. As global value chains proliferate, and as MNEs increasingly use outsourcing and offshoring techniques to create cost-savings, many governments increasingly see MNEs as relatively "footloose" and therefore the competition to attract scarce investment dollars is increasingly fierce. The quest to attract investment has led to the increasing popularity and use of investment incentives (Blomstrom and Kokko, 2003; Thomas, 2007; Tavares-Lehmann et al., 2016; UNCTAD, 2013) Despite their high cost and questionable financial benefits, recent estimates suggest developing countries spend over $50 billion yearly in such tax breaks and financial outlays to investors, while the US spends over $46 billion yearly on such programs (Oman, 2000; Thomas, 2011).

There is growing evidence that incentives very rarely work as intended. That is, the rationale behind granting investment incentives is that doing so is necessary to "close the deal." Yet, surveys of investor sentiment and behavior suggest incentives are rarely pivotal in firms' locational decision-making processes. A UNIDO survey of 7000 firms in 19 countries from 2000-2001 found executives ranked tax policies

11th out of 12 factors they deem most critical when selecting an investment site (UNIDO, 2011). A more recent World Bank survey of multinational firms located in 12 developing countries found 58 – 98 percent of firms that received incentives would have invested without being offered these deals (James, 2013).[1] In a study of tax policy among Russian subnational units, Li found that, in the aggregate, targeted tax incentive programs did not lead to higher levels of localized foreign investment (2016).

Scholars have previously explained this puzzle – why offer costly investment incentives if they are ineffective – in two ways. First, pro-MNE policies such as investment incentives may reflect the structural power of firms in an era marked by fierce competition for globally mobile capital. Because MNEs can choose between multiple countries to locate their activities, they can more easily extract benefits from governments that seek to attract capital by threatening to exit or to choose another location if their demands are not met. This power asymmetry helps to explain the proliferation of bilateral investment treaties (BITs) through the 1990s and early 2000s, which often subjected governments to expensive investor-state dispute settlement arbitration clauses (Elkins et al., 2006; Simmons, 2014; Poulsen and Aisbett, 2013; Poulsen, 2015). Others have examined whether capital mobility reduces states' ability to tax corporate profits. This literature has generated mix findings. A growing body of research, mostly in economics, finds negative relationship between corporate tax rates and FDI flows (Bellak and Leibrecht, 2009; Bellak et al., 2009; Blonigen and Davies, 2004; P. and Griffith, 1998; Egger et al., 2009; Grubert and Mutti, 2000; Mutti and Grubert, 2004).

However, scholars operating within an institutional perspective argue domestic political considerations often mitigate "race to the bottom" dynamics across multiple policy domains including taxation, labor rights, and environmental regulations (Basinger and Hallerberg, 2004; Hays, 2003; Plumper et al., 2009; Mosley, 2011; Mosley and Uno, 2007; Greenhill et al., 2009; Blanton and Blanton, 2007; Prakash and Potoski, 2007). More specific to the relationship between FDI and fiscal policy, Jensen argues that decreases in corporate taxation are not exogenously given, and instead may reflect broader commitments to pro-business economic policies (2012). Once correcting for endogeneity, he finds no evidence that corporate tax rates are related to FDI flows among 19 OECD countries from 1980-2000. In contrast, Egan argues the relationship between FDI and taxation policy is reversed; he finds evidence that increased FDI flows led to subsequent declines in corporate tax rates among Latin American countries from 1978-1998 (2010). Yet others have advocated for subnational designs to leverage how differences among local tax authorities

[1] See also (Johnson et al., 2013) for a review. Countries covered in the survey include: Burundi, Guinea, Jordan, Kenya, Mozambique, Rwanda, Serbia, Tanzania, Thailand, Tunisia, Uganda, and Vietnam.

drive patterns of FDI, with most subnational studies finding decreased corporate tax rates lead to increased FDI inflows (Baccini et al., 2014; Hines, 1996; Becker et al., 2012). Indeed, rather than erasing "race to the bottom" dynamics, fiscal decentralization may instead exacerbate bargaining asymmetries between firms and states by encouraging subnational units to engage in "fiscal wars" as they compete for scarce investment projects (Li, 2016; Rodriguez-Pose and Arbix, 2001). In other words, the structural power of globally mobile firms may help explain a broad increase in pro-MNE policies such as tax incentives, but cannot adequately explain remaining variation among and within countries.

Second, the offering of investment incentives may have more to do with the strategic interests of politicians than the structural power of global firms. Rather than reflect dynamics of firm-country bargaining, investment incentives may be convenient tools for politicians to use to pander to their constituents or party leaders. Tax incentive policy is technical and confusing, and it is challenging to assess whether such deals are decisive in firms' locational decision-making processes. Because of this, voters are often poorly equipped to evaluate the efficacy of incentives, and instead defer to politicians who they believe to have better information about how to attract jobs and generate localized economic growth to an area (Tullock, 2005). These information asymmetries create incentives for politicians to pander to voters by enacting policies based on their popularity rather than their economic efficiency (Maskin and Tirole, 2004). Offering tax incentives can help politicians signal to their constituents that they have a strong "record" on economic growth, even if these inducements are rarely necessary to attract MNEs' investments. Survey experimental research finds US voters are more likely to vote for incumbent governors who pursue active incentive programs, even if attempts to attract investment are ultimately unsuccessful (Jensen et al., 2014). Observational data reveal US cities where electoral competition is stronger provide more incentives than do cities with non-elected executives (Jensen et al., 2015). And, data on investment incentives in Vietnam reveal that politicians in non-democratic context can also face incentives to pander, though not "down" to voters but rather "up" to party officials who determine the fate of local political actors (Jensen and Malesky, 2018).

Both structural power and political pandering theories help to uncover why governments continue to provide FDI incentives despite ample evidence that they are costly and largely ineffective. But, these theories also have limitations. First, structural theories have yet to adjudicate the relative importance of global forces and local politics. They also have a difficult time explaining variation in incentive policies cross-nationally and cross-industry, especially when incentives accrue more often to firms that are less globally mobile, such as domestic firms and corporations with high redeployment costs that are already locally invested (Bauerle Danzman and Slaski, 2018). Political pandering theories also may help explain why incen-

tives have traditionally been so popular in some countries and what drives these incentives in polities marked by political competition. Yet, a political pandering theory leaves little room for explaining firm- and industry-level variations in incentives and also would predict that incentives are ubiquitous. This may be the case in the US, but investment incentives in other regions are far less common. In other words, structural and pandering theories can help explain why inefficient incentives exist, but are less capable of explaining heterogeneity in incentive programs across countries and across industries.

Explaining Deference

Investment incentive programs are supported largely by bureaucrats who work in agencies tasked with investment promotion and economic development. Countries vary in how these programs are administered and by whom. Some countries have worked to make their tax incentive programs automatic and fully incorporated into the tax code. Others only offer incentives on a case-by-case basis. Many countries employ a combination of automatic and project-specific incentives. Moreover, countries frequently revisit and revise incentive policy. Between January 2010 and October 2018, governments enacted a total of 146 new incentive-related investment measures.[2] These programs require champions within the ranks of both elected officials and the bureaucratic agencies that advise, support, and implement economic development policy. Even "automatic" incentives often require bureaucratic implementation, as firms wishing to benefit from special tax breaks must apply for covered status.[3] Helping firms navigate incentive programs is a task that frequently falls to IPAs, and these agencies also often directly administer incentive programs; a 2017 World Bank survey of national IPAs found that 45 percent of responding IPAs identified incentive administration as central to their mandate.[4] Moreover, IPAs are sites not only of policy implementation, but also of policy entrepreneurship; the same World Bank survey found that 76 percent of IPAs consider policy advocacy as central to their activities. Therefore, to fully explain how incentive policies are made and why they look the way that they do, we look to the motivations of individuals involved in crafting and implementing incentive programs.

[2] See UNCTAD's Investment Policy Monitory http://investmentpolicyhub.unctad.org/IPM, accessed October 31, 2018.

[3] The term "automatic" can create some confusion around how these programs are structured. Usually, automatic incentives mean that there is a precise set of qualifications made publicly available that explains under what conditions firms can receive a tax incentive. To avail themselves of these tax benefits, firms must submit a request to a government agency (often but not always an IPA) that documents how firms' activities qualify them for particular tax incentives. Upon review, if a firm's activities align with program qualifications, the firm should be "automatically" granted the tax benefit. That is, the bureaucratic agency is not allowed to use discretion in granting and denying incentives.

[4] Data obtained from the World Bank's Investment Policy and Promotion Unit.

To explain variations in IPA agents' attitudes over the usefulness of investment incentives, we build on theoretical approaches that emphasize the impact of institutional configurations, bureaucratic rules, and prevailing heuristics (social knowledge) on actors' beliefs, attitudes, and behaviors ((Poulsen, 2015; Poulsen and Aisbett, 2013; Chwieroth, 2015, 2010; Barnett and Finnemore, 1999; Weaver, 2008). We consider three attributes of IPAs and their employees that may contribute to individual-level beliefs: the degree to which the IPA is a political appendage of the government (strategic forces), the methods through which IPA employees' performance are evaluated and rewarded (material forces), and the professional backgrounds of IPA employees (ideational forces). How IPAs fall along these attributes influences the extent to which individuals operating within them prioritize short-term, high-visibility projects and therefore have less understanding of the more chronic issues that prevent most firms from investing and/or expanding production in their economies.

First, we consider how the relationship between IPAs and their central governments can influence attitudes toward incentives. In particular, the degree to which IPAs are integrated into state bureaucracies will affect the incentives IPA officials and their employees face, which in turn will influence individuals' beliefs over the importance of providing tax incentives to investors. IPAs vary substantially in how they are positioned within the state. A 2009 World Bank survey of IPAs found that globally, approximately 70 percent of IPAs operate as autonomous agencies while 30 percent are a sub-unit of a ministry.[5] However, regions also display a great deal of variation in how IPAs are structured. East Asian countries are most likely to integrate their IPAs into a ministry structure, with 73 percent of IPAs structured this way. At the other extreme, sub-Saharan African countries are least likely to integrate their IPAs into government; only 13 percent of agencies are a sub-unit of a ministry while 87 percent are autonomous.

When IPAs are closely integrated into the government, individuals working within the agency should be more likely to view incentives as a central component of investment attraction. There are several reasons why this should be true. First, integrated IPAs are usually headed by political appointees who are closely connected with the current government and who can turn over frequently when governments change or cabinets are reorganized. This creates pressure on the IPA to generate short-term deliverables in order to demonstrate their effectiveness to the government and to the public. Since incentives can be used to claim credit for economic performance, individuals operating in such structures are likely to view incentives more positively. Note that this is similar to a political pandering explanation of incentives (Jensen and Malesky, 2018); it differs in that the incentive to pander comes not from electoral considerations but instead from principal-agent dynamics inher-

[5] Data provided by the World Bank's Investment Policy and Promotion Unit.

ent in a politicized bureaucracy.[6] Second, individuals working within more integrated bureaucracies are also likely to view their role as to support government development priorities. Increasingly, countries implement national industrial policies that use targeted investment incentives as a central component of their development strategies (UNCTAD, 2018). Therefore, individuals in integrated IPAs are more likely to be socialized to believe investment incentives are crucial to governments' achieving their economic development objectives.

> Hypothesis 1: Individuals who work in IPA that are closely integrated into the government will be more likely to view investment incentives as important for attracting investment.

Second, we argue IPAs vary in the way they evaluate employee performance, and these differences generate heterogeneity in the extent to which IPA employees face material incentives to embrace tax incentives as key components of investment promotion. When IPAs evaluate employees for raises and promotions through key performance indicators that emphasize deals closed, jobs created, and contacts made rather than investment retention, exports facilitated, and domestic sales to foreign affiliates, employees are incentivized to chase new investment of all kinds rather than to focus on increasing the economic growth potential of investments already made.[7] Again, because tax incentives are often seen as discrete offers to "sweeten the pot" for potential investors, IPA employees who are evaluated based on the deals they close will be more likely to reach for these policy tools.

> Hypothesis 2: Individuals in IPAs that use key performance indicators that emphasize new deals will be more likely to view investment incentives as essential for attracting investment.

Third, we expect individuals to vary in their beliefs over the usefulness of incentives based on their professional backgrounds. IPAs vary in the extent to which they recruit talent primarily from within the government bureaucracy or externally from the private sector. IPAs vary substantially in how many staff have private sector backgrounds. A 2017 survey found individuals with business backgrounds comprised, on average, 55 percent of employees. However, 40 percent of respondent IPAs reported individuals with private sector experience accounted for 40 percent or less of their staff, and 19 percent reported less than 20 percent of their staff had

[6] Jensen and Malesky make a similar argument in the context of Vietnam. However, they focus on regional governors rather than on IPAs. They also view this explanation as specific to non-democratic contexts.

[7] A 2017 World Bank survey of key performance indicators found that 95% and 88% of IPAs use investment facilitated and jobs created indicators, respectively. In contrast, just 29% of IPAs report using export facilitated as a key performance indicator and just 16% report tracking domestic sales to foreign affiliates.

any business experience. Conversely, 20 percent of respondent IPAs on the same survey reported that over 90 percent of their staff had previous experience in the private sector.[8]

We draw on insights from behavioral economics that emphasize the boundedly rational behavior of goal-oriented agents facing cognitive constraints (Simon, 1957; Weyland, 2006; Poulsen, 2015). When agents face substantial information gaps over how to best achieve a policy goal – such as attracting FDI – they tend to reach for readily visible and available policy options – such as investment incentives (Tversky and Kahneman, 1979). This availability heuristic is powerful because agents reach for the tools they know exist rather than search for new tools that are perhaps better positioned to achieve their policy objectives.

Investment incentives are highly visible policy interventions that are always tied to a particular FDI project. Governments publicize the projects they have supported through incentives, but do not usually publicize projects that they unsuccessfully pursued. Moreover, it is easy to see an immediate benefit associated with a investment incentive – breaking ground of a new facility and the promised employment of a specific number of people – but it is much harder to evaluate the costs associated with incentives through lost tax revenue, increased usage and stress on local infrastructure, and market distortions. No matter how many econometric studies show incentives very rarely “work," investment promotion professionals have at easy reach examples such as BMW in South Carolina or Intel in Costa Rica as FDI projects that transformed local economies and that local governments “won" in part through their incentives offer. Thus, investment promotion professionals with little knowledge of how investors make locational decisions will systematically overvalue incentives and discount their costs. The *cognitive distance* between firm agents and investment promotion professionals generates uncertainty and low confidence in officials’ ability to anticipate investor needs. As a result, IPA officials without private sector backgrounds reach more readily for investment incentives when trying to induce global firms to invest locally.

In contrast, IPA officials with more experience in the private sector will fact less cognitive constraints with respect to evaluating the factors that lead businesses to invest in particular locations. Individuals with extensive experience in the private sector have a deeper understanding of what drives investor behavior, and therefore are likely better aware of the limitations of investment incentives in altering firms’ locational strategies. Their superior knowledge of firm preferences and decision-making processes mean they are less susceptible to availability heuristics and instead will view other dimensions of investment policy such as assistance navigating licensing agencies, developing local talent, and finding local suppliers as more influential in firms’ locational decisions. A bounded rationality approach to explaining invest-

[8]Data provided by the World Bank’s Investment Policy and Promotion Unit.

ment promotion professionals' attitudes toward investment incentives, therefore, predicts that individuals with more private sector experience will be less likely to view incentives as important components of investment attraction strategies. This stands in sharp contrast to access-oriented arguments about business regulation that generally argue that private-sector affinities in government bureaucracies lead to regulatory capture (Culpepper, 2011).

> Hypothesis 3: Individuals with previous professional experience in the private sector will be less likely to view investment incentives as essential for attracting investment.

Empirical Approach

In this section we explicate our empirical approach, survey design, and sampling techniques.

Conjoint Design

While it is generally a safe assumption that businesses prefer to pay lower tax rates, all else equal, firms do not have the luxury of choosing locations that differ solely on tax policy. Rather, business executives must make decisions about where to invest by considering a constellation of policy, macroeconomic, cultural, and geographic characteristics simultaneously. Since individuals make decisions in multidimensional spaces, inference techniques that do not take seriously the multidimensionality of choice have serious external validity limitations. Just as firms make discrete locational choices based on constellations of local characteristics, governments also must craft investment facilitation policies within a multidimensional context. To the extent that different policies involve trade-offs – for instance, larger tax incentives reduce government revenue, which may decrease governments' ability to fund infrastructure improvements or to provide more cost-intensive investment facilitation programs such as supplier training programs and technical assistance – governments need to determine how to optimize their investment policies amid competing priorities.

In this paper, we are most interested in uncovering how investment promotion professionals' individual backgrounds and institutional milieus explain their beliefs over what kinds of investment policies and attraction tools will be most likely to induce FDI. To identify these perceptions, we implement a conjoint survey experiment. Conjoint analyses are designed to allow researchers to estimate the causal effects of many treatment components at the same time. This class of survey experiment was first developed in the 1970s in the context of marketing, because conjoints are well suited to measuring consumer preferences across products that

vary on multiple dimensions. Overtime, conjoints have been increasingly used for commercial purposes in business, have been sparingly implemented in sociology, and are beginning to gain more traction among political scientists interested in designing survey experiments with enough dimensional realism to satisfy concerns over external validity while still maintaining the ability to cleanly identify causality across multiple components of an experiment. Moreover, recent advances in statistical inference techniques allow researchers to estimate causal effects of multiple components non-parametrically, and agnostic to the particular mental models through which individuals make their choices.[9]

To administer a conjoint experiment, one must provide survey respondents with a discrete choice between two alternatives that differ across several dimensions. Respondents are usually asked to repeat the experiment five to ten times; each time, the exact choices available differ and are randomized both over the values of included dimensions and the ordering of those dimensions. By estimating how theoretically relevant covariants relate to how an individual prioritizes scenario attributes, one can test how individual characteristics relate to decision-making. In the context of this paper, we test how IPAs' bureaucratic structure and relationship with the central government, as well as respondents' prior professional background relate to the weight investment promotion professionals place on tax incentives versus other forms of investment facilitation.

Question Wording and Design

We generate a survey that first asks respondents a series of questions designed to measure theoretically interesting attributes, then asks them to complete eight tasks which comprise the conjoint experiment component of the survey, and finally asks a series of questions designed to probe potential causal mechanism that might connect respondents' attributes and investment priority believes.

The conjoint experiment component of the survey asks respondents: "Now we will ask you to review several pairs of policy packages. There will be a different pair shown on each of the next 8 screens. Please read each pair of packages carefully as each package may be only slightly different. For each pair, please identify the one that you believe would be most likely to entice investment and select the button under that package." Each policy package includes five dimensions, and each dimension has two to three potential options. Four out of the five dimension relate to policies for which IPAs generally have direct control or administration over: skill development support, business-to-business matchmaking services, licensing and permitting assistance, and tax incentives. We included these because investment promotion professionals should have substantial knowledge over such kinds

[9] See Hainmueller et al. 2014 for an overview of conjoint experiments as they apply to political science.

of program and because these programs vary in terms of how much IPA capacity is necessary to fully implement them. For example, grants for job training may only require a small fiscal outlay in order to contract skill development to investing firms or local universities and trade schools while matchmaking services require substantial proactive knowledge of local businesses, their technical capabilities, and the supply chain and logistics needs of investing firms. We also include a valuation of proximity to a deep water port, which is a proxy for economic geography concerns and helps identify the extent to which respondents view features largely beyond the government's control as decisive in foreign firms' locational decisions. Table 1 provides an overview of these policy choices. Table 2 provides an example scenario respondents are asked to choose between.

Table 1: Policy Choices

Policy Dimension	**Options**		
Location of nearest deep water port	$<$ 5km	$>$ 5 and $<$ 50 km	$>$ 50 km
Government-provided grants for job training?	Yes	No	
IPA Matchmaking Services	IPA provides grants for developing local supplier networks	List of Potential Suppliers	None
IPA Assistance with Permits and Licenses	IPA facilitates meetings with government officials to resolve permitting issues	IPA assists in application processes	None
Tax Incentives	10 year holiday on corporate profits	5 year holiday on corporate profits	None

Table 2: Example Conjoint Scenario

	Site A	Site B
Location of nearest deep water port	More than 50 km away	Less than 5 km away
Government-provided grants for job training?	Yes	No
IPA Matchmaking Services	List of Potential Suppliers	None
IPA Assistance with Permits and Licenses	None	IPA facilitates meetings with government officials to resolve permitting issues
Tax Incentives	None	5 year holiday on corporate profits

Prior to the conjoint experiment, respondents are asked a series of questions designed to measure the three key attributes that our theory expects will influ-

ence respondents' beliefs. The full survey (minus the conjoint experiment, which is computer generated for each respondent) is available in the appendix, but here we highlight the three questions that directly relate to each of our three hypotheses.

First, to test hypothesis 1, which expects individuals working in highly politicized or integrated IPAs will be more likely to view investment incentives as important for attracting investment, we ask the following question: "What best characterizes your IPA's relationship with the central government?" Potential answers include: "The IPA receives specific guidance from cabinet-level ministers on strategy and implementation; " "The IPA has independent authority over its strategy and implementation but interacts frequently with ministries to coordinate policy objectives;" and "The IPA operates independently and without much interaction with other government officials." We also ask how the head of the IPA is chosen, to differentiate between IPAs with politically-appointed executives from those whose leadership is chosen in other ways.

To test hypothesis 2, which expects individuals working in IPAs that use key performance indicators that emphasize short-term new project targets for raises and promotion to be more likely to view investment incentives as effective promotional tools, we ask respondents to explain how their performance for promotion and for salary increases is evaluated. Because we are less confident in our ability to develop an exhaustive list of the different key performance indicators that IPAs often use, we structured this question to accept open ended answers. This had the added benefit of allowing respondents to indicate when there is a disparity between stated and actual performance evaluation tools.

To test hypothesis 3, which expects individuals with prior experience in the private sector to view incentives less favorably, we ask: "What best describes your professional background before arriving at your current investment promotion authority (IPA)?" Potential answers include "Career government bureaucrat;" "private sector; "I have always worked for this IPA;" and "other" (with a space to explain). We also ask respondents about their educational background.

To further probe causal mechanisms, we ask respondents several questions. First, we ask respondents to evaluate how much autonomy their IPA has to pursue investment attraction strategies most likely to facilitate investment. We also ask whether greater autonomy would make their facilitation efforts more successful. To gauge what respondents think the purpose and proper activities of IPAs are, we ask respondents to rank the top three most important roles of an IPA in attracting investment. Allowable answers include: Facilitate linkages between businesses and the government; Facilitate linkages between investors and local businesses; Promote the location as a good place to do business; Provide incentives to convince firms to invest; Resolve obstacles for firms who are already invested in a location; Close deals on new investments; Identifying high priority investments to target for

broad development objectives; Facilitating workforce training and development to increase local pool of qualified workers. Prior to administering the experimental treatment, we also ask respondents to identify any priority sectors for the IPA so that we can estimate whether the types of investments IPAs seek to attract influences officials' perceptions about what kinds of investment policies are most likely to entice investors.

Survey Target Population and Sample

Because our targeted survey respondent is a policy elite, we do not have a large enough sampling frame to realistically administer a random survey design. Instead, we employ a convenience sample with a snowball technique. We first generated a list of all IPAs that are members of the World Association of Investment Promotion Agencies (WAIPA). We then visited each IPA's website and pulled every email address listed on it. Because we are interested in individual-level attributes, we want to generate responses from as many investment promotion professional as possible, even ones employed in the same agency. We sent email invitations of participation to over six hundred professionals, and engaged in follow-up requests on a weekly basis. We also asked, in our invitation, that respondents forward the survey to other professionals in their network. We augmented the email push with a visibility campaign on Linked In, as many IPAs and their employees have a presence on that professional networking website. As of (date), we have (number) responses.

Conclusion

We look forward to writing a conclusion when our survey experiment is back from the field and we can run statistical analysis on our data. For now, we are particularly appreciative of feedback on our framing and theory. This is a new line of inquiry for us, and so suggestions on particularly seminal theoretical work on organizational theory and elite behavior to read and incorporate would be especially useful to us.

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Investment Facilitation Priorities Survey

Thank you for agreeing to help us with this important research.

This study is part of a broader research collaboration between Indiana University and Princeton University, and is endorsed by WAIPA, the World Association of Investment Promotion Agencies. Your response is critical to gaining a complete picture of the strategies that investment promotion authorities (IPAs) use and believe to be most successful in attracting investment. Final results will be shared with you and can be used to understand successful strategies to promote investment.

The study should only take 10-15 minutes. Your participation is voluntary. Please be assured that your responses will be kept confidential and reported on in the aggregate only.

We encourage you to complete the study on a desktop or laptop computer so that it will be easiest for you to see and answer the questions.

If you have any questions about the study, please contact Sarah Bauerle Danzman, Assistant Professor of International Studies at Indiana University, at sbauerle@indiana.edu.

Please select "Next >>" to begin.

Note: While completing the survey if you need to leave and come back later, you can do so, and your responses will be saved.

What best describes your position within your investment promotion agency (IPA)?

- ◯ Senior Management
- ◯ Middle Management
- ◯ Non-Management

Which of the following describes your highest level of education?

- ◯ No university degree
- ◯ Undergraduate university degree
- ◯ Professional business degree (MBA)
- ◯ PhD
- ◯ Other, please specify: ____

What best describes your professional background before arriving at your current investment promotion authority (IPA)?

- ◯ Career government bureaucrat
- ◯ Private sector
- ◯ Other, please specify: ____
- ◯ *I have always worked at this IPA*

What best describes your IPA's mandate?

- ◯ National
- ◯ Subnational (such as state or province)
- ◯ Local/municipal
- ◯ Other, please specify: ____

How is the head of your IPA chosen/hired?

◯ Political appointment

◯ Seniority through the civil service

◯ Open candidate search

◯ Other, please specify: ____

How many employees does your IPA have?

◯ Less than 10

◯ 10-19

◯ 20-29

◯ 30 or more

What best characterizes your IPA's relationship with the central government?

◯ The IPA receives specific guidance from cabinet-level ministers on strategy and implementation.

◯ The IPA has independent authority over its strategy and implementation but interacts frequently with ministries to coordinate policy objectives.

◯ The IPA operates independently and without much interaction with other government officials.

Has your IPA identified priority sectors to target?

◯ Yes

◯ No

◯ Don't know

Which of the following are priority sectors for your IPA? *Please select all that apply.*

- ☐ Agriculture and fishing
- ☐ Air and spacecraft
- ☐ Apparel, textiles, and footwear
- ☐ Automotive industry and other transport equipment
- ☐ Biotech, pharma, and medical products
- ☐ Business services
- ☐ Construction and building materials
- ☐ Education and health
- ☐ Entertainment
- ☐ Extractive industries
- ☐ Financial services
- ☐ Food and beverages
- ☐ IT services
- ☐ ITC and electronics
- ☐ Machinery and equipment
- ☐ Other manufacturing

- [ ] Power, utilities, and telecom
- [ ] Recycling
- [ ] Renewable energy
- [ ] Tourism and hospitality
- [ ] Trade and retail
- [ ] Transport and logistics services
- [ ] Other, please specify:

____

Approximately how many investment deals did your IPA manage in the past year? If you are unsure, please provide your best guess. *Please enter a number.*

____

On what basis is your performance evaluated for salary increases and promotion?

[TEXT RESPONSE]

Now we will ask you to review several pairs of policy packages. There will be a different pair shown on each of the next 8 screens. Please read each pair of packages carefully as each package may be only slightly different. For each pair, please identify the one that you believe would be most likely to entice investment and select the button under that package.

(COMPUTER-GENERATED PAIRS HERE)

For the next two questions, please consider the following scenario:

Imagine an IPA helped attract a foreign investor that specializes in road construction, an industry in which 80 percent of the market consists of federal government procurement contracts. After the company has invested, the federal government changes its procurement policies to favor domestically-owned companies, thus significantly harming the foreign investor's profitability.

Which of the following best describes your view regarding this scenario?

- ◯ The government should be allowed to use procurement practices to favor domestically-owned firms
- ◯ The government should NOT be allowed to use procurement practices to favor domestically-owned firms

Imagine the foreign investor decides to pursue arbitration or litigation over this issue, the costs of which amount to USD$1 million. How should this cost be allocated between the government and the firm? *Please answer in percent (%). The percent values should add to 100%.*

Government	____%
Firm	____%
Total	100%

To what extent can your IPA pursue the strategies most likely to attract investment?

- ○ Not at all
- ○ Somewhat
- ○ To a large extent

To what extent could your IPA attract more investment if it had more autonomy from the government over strategy and tactics?

- ○ Not at all
- ○ Somewhat
- ○ To a large extent

In your opinion, when your IPA attempts to close an investment deal, who are its competitors?

[TEXT RESPONSE]

Please rank the *top three* most important roles of an IPA in attracting investment (1 = most important, 2 = 2nd most important, and 3 = 3rd most important).

_______ Facilitate linkages between businesses and the government
_______ Facilitate linkages between investors and local businesses
_______ Promote the location as a good place to do business
_______ Provide incentives to convince firms to invest
_______ Resolve obstacles for firms who are already invested in a location
_______ Close deals on new investments
_______ Identify high priority investments to target for broad development objectives
_______ Facilitate workforce training and development to increase local pool of qualified workers

Which of the following best characterizes the proper role of the IPA in relation to foreign investors and the government?

○ The role of the IPA is to advocate for the investing firm

○ The role of the IPA is to advocate for the policy priorities of the government

Before asking for any final comments or additional feedback you'd like to share, we have a couple of quick questions. First, please provide your email address, so that we can be sure to exclude you from any follow-up email reminders. Please note that your email address will ONLY be used for this purpose. We will separate email addresses from the survey data before analyzing any responses.

[TEXT RESPONSE]

Second, how were you approached about participating in this study?

○ I received an email with a link to the survey

○ I saw the link to the survey on LinkedIn

○ Other, specify: ____

Finally, please provide any comments that you would like to share about your survey responses or any additional thoughts you may have related to successful strategies to promote investment. If none, please leave blank.

[TEXT RESPONSE]