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HOST-COUNTRY NON-MARKET RISK AND CHINESE ENTERPRISES' OUTWARD INVESTMENT: EVIDENCE FROM STATE AND FIRM LEVEL DATA

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Abstract: This paper examines how host-country non-market risk affects Chinese enterprises' outward foreign direct investment (OFDI) and how firm ownership shapes this response. Using an unbalanced panel of Chinese A-share listed firms from 2009 to 2024, we construct indicators of adverse host-country events according to their source and scope, and estimate a two-way fixed effects model. The results show that rising host-country risk significantly reduces Chinese firms' overseas investment, indicating that uncertainty in the external operating environment increases expected costs, weakens asset security, disrupts contract enforcement, and lowers project continuity. Further evidence suggests that risks with broader international spillovers generate stronger country-level deterrence, while locally embedded disturbances exert a more stable negative effect at the firm level. Ownership heterogeneity is central to the transmission mechanism. The inhibitory effect is concentrated among non-state-owned enterprises, whose decisions are more sensitive to market-based risk-return calculations. By contrast, state-owned enterprises show weaker and statistically insignificant responses, reflecting their strategic roles, institutional support, and stronger risk-absorption capacity. This study enriches the literature on non-market risk and international business, and provides firm-level evidence for differentiated overseas investment risk management and policy support.
Keywords: Non-market risk; Outward foreign direct investment; Ownership heterogeneity

1 INTRODUCTION

Over the past two decades, the global environment for cross-border investment has become increasingly complex. Episodes of host-country non-market uncertainty, such as institutional fragility, policy discontinuity, social instability, and deterioration in local operating conditions, have posed growing challenges to multinational enterprises. At the same time, China has emerged as one of the world's leading sources of outward foreign direct investment, with Chinese enterprises expanding their overseas presence across emerging markets, developing economies, and resource-rich regions. This expansion has inevitably increased firms' exposure to diverse forms of external risk in host economies. Understanding how such adverse host-country conditions influence the overseas investment decisions of Chinese enterprises is therefore important for both international business research and the design of effective risk-management policies.

A substantial body of research has established that non-market risk, including internal and interstate conflict, acts as a powerful deterrent to foreign capital. Classic studies using developed-country samples demonstrate that the outbreak of militarized disputes sharply reduces bilateral FDI flows, with investors exhibiting forward-looking risk-aversion even before the onset of open hostilities [1], and that international sanctions can unintentionally redirect global investment toward sanctioned states [2]. Research within the Chinese context has corroborated this general pattern, finding that heightened geopolitical risk in a host country is associated with a significant decline in FDI [3]. Studies focused on specific regions further reveal that conflict not only suppresses current investment but also generates spatial spillover effects that raise risk in neighboring territories [4-6]. Evidence from countries along the Belt and Road also shows strong spatial correlation in economic growth; defense expenditure inhibits both domestic and neighboring countries' economic growth, whereas FDI has an insignificant direct effect on domestic economic growth but indirectly contributes to growth in other Belt and Road countries [7]. Importantly, scholars have begun to disaggregate the effects of different types of conflict. These insights indicate that the nature of violence matters, yet most of the empirical literature still treats conflict as a homogeneous shock, and systematic comparisons between interstate conflicts and internal civil conflicts within a single framework remain rare. A parallel body of work has drawn attention to the heterogeneous responses of firms. Ownership structure has emerged as a critical moderator. Existing evidence suggests that Chinese state-owned enterprises tend to adopt a "pause and observe" strategy during conflicts, while private firms, guided by market logic, are more prone to rapid disinvestment and scale-back [4]. Related research confirms that the negative impact of host-country political conflict is more pronounced for non-resource-seeking industries and for non-state-owned enterprises [5]. Other firm-level resources and capabilities also condition investment resilience. Digital transformation has been shown to enhance firms' ability to weather conflict risk by reducing information costs and improving supply chain management [8,9]; the adoption of artificial intelligence and industrial robots similarly boosts OFDI propensity [10,11]; and strong ESG performance and managerial overseas experience serve as additional risk

buffers [12,13]. Yet, despite these rich findings, we still lack a systematic understanding of how the most prominent institutional divide—state versus private ownership—shapes firms' sensitivity to different types of armed conflict.

The mechanisms through which conflict depresses investment have also been extensively investigated. The "reverse selection" theory suggests that firms from countries with high institutional quality and dispersed ownership tend to shun conflict zones, while those with concentrated ownership or reliance on location-specific resources may be willing to enter [14]. In response, firms often employ spatial reallocation strategies—freezing existing projects while redirecting capital toward safer neighboring countries rather than withdrawing entirely [15,16]. A notable strand of the literature has further explored the bidirectional relationship between OFDI and conflict. Empirical evidence indicates that Chinese OFDI significantly reduces the probability of internal conflict in developing host countries by lowering unemployment and raising the opportunity cost of insurrection, a finding that underscores the potential stabilizing role of investment from China [17]. External institutional support can also substantially moderate the impact of conflict. Close bilateral political relations, such as voting alignment at the United Nations, have been shown to mitigate the negative effect of conflict on Chinese investment in Africa [18]. Chinese foreign aid can similarly buffer the adverse impact of political turmoil on OFDI by improving bilateral relations and reducing information asymmetry [5]. Overseas economic and trade cooperation zones act as "institutional enclaves" that provide substitute infrastructure and governance when the host state fails [19,20]. Meanwhile, export credit insurance partially absorbs conflicts-related losses, although in complex war-time claim scenarios, frictions between bilateral investment treaties and insurance mechanisms may reveal gaps in policy coordination [15,21].

Despite this considerable progress, the existing literature suffers from a notable fragmentation. The macro-level evidence on conflict and FDI, the micro-level insights into corporate heterogeneity, and the institutional analysis of support mechanisms have largely proceeded along parallel tracks, without an integrated framework that connects the type of conflict, the nature of the investing firm, and the resulting investment response. Crucially, the ownership boundary—the systematic difference between state-owned enterprises and non-state-owned enterprises in their sensitivity to conflict—has been repeatedly noted but never subjected to a rigorous, multi-conflict-type empirical test that simultaneously controls for firm-level fundamentals and time-invariant heterogeneity.

This study addresses these gaps. Using an unbalanced panel of Chinese A-share listed firms spanning from 2009 to 2024, we construct a two-way fixed-effects model to estimate the impact of conflicts on firm-level OFDI. We disaggregate conflict into three categories—all conflict, interstate conflict, and internal conflict—to capture the distinct risk transmission channels of different forms of political violence. We then test whether the inhibitory effect of conflict is uniformly experienced or is instead concentrated among market-oriented non-state-owned enterprises while being muted for state-owned enterprises that operate under a multi-layered strategic logic and enjoy special institutional buffers. In doing so, we contribute not only a more precise quantification of conflict costs, but also a micro-institutional explanation of why macro-level political risk is absorbed so unequally across firms.

The remainder of the paper is organized as follows. Section 2 develops the analytical framework and formal hypotheses. Section 3 describes the data and empirical methodology. Section 4 presents the main results and robustness checks. Section 5 concludes with a discussion of policy implications and directions for future research.

2 HYPOTHESIS

Armed conflict, as an extreme manifestation of political risk, fundamentally alters the risk-return calculus that governs foreign investment decisions. Rather than reiterating established theoretical paradigms at length, this section distills the core economic logic linking conflicts to enterprise OFDI and develops testable hypotheses concerning the differential effects across conflict types and firm ownership structures.

The primary economic mechanism through which conflict deters investment operates via a sharp escalation in both the expected costs and the perceived uncertainty of returns. This occurs through four interconnected channels. First, conflict destroys productive infrastructure and disrupts local market demand, directly compressing operational revenues. Second, it exposes physical assets and personnel to expropriation, damage, or harm, constituting an uninsurable tail risk in many contexts. Third, conflict precipitates the collapse of legal and regulatory institutions that underpin contract enforcement and property rights protection, raising transaction costs to prohibitive levels. Fourth, the heightened risk profile triggers a tightening of external financing conditions, as international lenders and insurers reprice or withdraw coverage for projects in conflict-affected regions. The combined effect of these channels is to reduce the risk-adjusted net present value of an investment, leading a profit-maximizing firm to defer, scale back, or cancel its OFDI commitments in the affected host country.

The magnitude of this deterrent effect, however, is unlikely to be uniform across all forms of conflict. Interstate conflict, involving armed forces of two or more sovereign states, generates economy-wide shocks through the rupture of bilateral diplomatic and trade agreements, the imposition of international sanctions, and systemic macroeconomic disruption such as currency collapse. Its impact is pervasive across sectors and regions. Internal conflict—civil wars, insurgencies, and large-scale political violence within a nation's borders—operates through a more direct channel: the localized destruction of the domestic governance and social order on which day-to-day business operations depend. By undermining local law enforcement, enabling predatory violence, and rendering infrastructure in specific regions unusable, internal conflict poses a more immediate and micro-level threat to an enterprise's physical operations and asset security. We therefore expect both conflict types to inhibit OFDI, but with internal conflict exerting a particularly robust and consistently estimable negative effect due to its direct assault on operational viability.

This leads to our first set of hypotheses:

H1a: The occurrence of conflicts in a host country has a significant negative effect on Chinese enterprises' OFDI.

H1b: Both interstate conflict and internal conflict significantly suppress Chinese OFDI, with the effect of internal conflict showing greater empirical robustness owing to its direct disruption of local operational environments.

The core proposition of this paper, however, is that even the elevated risk of armed conflict is not absorbed uniformly across all firms. A critical source of heterogeneity lies in the institutional identity that divides Chinese enterprises into two groups with fundamentally different objective functions: state-owned enterprises (SOEs) and non-state-owned enterprises (non-SOEs). Non-SOEs operate according to a market-profit logic. Their investment decisions are governed by a relatively undistorted assessment of risk-adjusted returns, and they typically lack privileged access to government-orchestrated risk buffers. For these firms, the dramatic increase in uncertainty and the potential for catastrophic loss associated with armed conflict will unambiguously trigger risk-aversion behavior, leading to a sharp curtailment of OFDI.

SOEs, by contrast, operate under a complex objective function in which commercial returns coexist with, and are sometimes subordinated to, national strategic mandates. Their OFDI decisions are often embedded in state agendas related to long-term resource security, geopolitical influence, and industrial policy. This strategic logic is reinforced by a unique set of institutional advantages: implicit sovereign guarantees, preferential access to policy bank financing, and the prospect of diplomatic protection in times of crisis. These advantages function as an extra-market risk buffer, effectively lowering the marginal cost of risk for an SOE compared to a non-SOE facing the same objective threat environment. The economic consequence is a structural decoupling: SOE investment decisions are predicted to be systematically less sensitive to conflict risk, as the shadow price of that risk is discounted by strategic considerations and institutional backstops unavailable to private competitors.

This yields our second, central hypothesis:

H2: The inhibitory effect of conflicts on OFDI is significantly moderated by firm ownership. Specifically, the negative impact is concentrated among non-SOEs, while the OFDI of SOEs exhibits a weaker or statistically insignificant response to conflict risk.

Beyond the ownership boundary, other firm-level attributes that enhance an enterprise's capacity to absorb or manage adverse shocks should, in theory, condition the conflict-OFDI relationship. Larger firms can diversify risk across a broader portfolio of international assets, possess greater financial slack to weather temporary disruptions, and maintain more sophisticated risk management capabilities. Similarly, firms with higher ownership concentration may benefit from more stable, long-horizon decision-making, as controlling shareholders with substantial capital at stake are better positioned to look through short-term volatility to pursue long-term strategic value. Both attributes should increase a firm's investment resilience, dampening the observed negative effect of conflict. We therefore hypothesize:

3 DATA AND METHODOLOGY

3.1 Data Sources and Sample Construction

To investigate the impact of conflicts on Chinese enterprises' outward foreign direct investment (OFDI), we draw on three primary data sources. Firm-level financial and OFDI data are obtained from the China Stock Market and Accounting Research (CSMAR) database and the Wind database. Host-country macroeconomic variables are collected from the World Bank's World Development Indicators, the International Monetary Fund, and other standard sources. Data on armed conflict are sourced from the Uppsala Conflict Data Program (UCDP) and the Peace Research Institute Oslo (PRIO), which provide georeferenced, annual information on the incidence, type, and intensity of armed conflicts worldwide.

Our analysis is conducted at two complementary levels: a macro country-level panel and a micro firm-level panel. The country-level sample covers the period from 2003 to 2024 and includes all host economies for which Chinese OFDI data are reported in the Statistical Bulletin of China's Outward Foreign Direct Investment. We exclude micro-states that primarily serve as offshore financial centers and observations with persistent missing data on key macroeconomic controls. This yields an unbalanced panel of host countries spanning 22 years.

The firm-level sample constitutes our primary dataset. We begin with all firms listed on China's A-share markets over the period 2009–2024. The following screens are applied: (i) firms designated as ST, *ST, or PT due to abnormal financial status are removed; (ii) firms in the financial and real estate sectors are excluded because their capital structure, regulatory environment, and investment patterns are structurally distinct from those of industrial enterprises; and (iii) firm-year observations with missing values on the core dependent or explanatory variables are dropped. All continuous variables are winsorized at the 1st and 99th percentiles to mitigate the influence of outliers. The final firm-level dataset is an unbalanced panel of 19,132 firm-year observations across 2,772 unique firms.

3.2 Variable Construction

At the country level, we employ the natural logarithm of China's OFDI stock and OFDI flow to a given host country in a given year, drawn from the official statistical bulletin. At the firm level, our dependent variable, OFDI, is defined as the natural logarithm of a firm's total overseas investment in a given year. This captures the scale of a firm's outward investment activity and accommodates the highly skewed distribution of investment values across firms. Our principal independent variables measure the incidence of armed conflict in a host country. Following the UCDP definition, an

armed conflict is a contested incompatibility that concerns government or territory, involves two or more organized armed groups, and results in at least 25 battle-related deaths in a calendar year. We construct three binary indicators:
1. General Conflict equals one if a host country experiences any form of armed conflict in a given year.
2. Interstate Conflict equals one if the conflict involves the government forces of two or more sovereign states.
3. Internal Conflict equals one if the conflict occurs between a state government and one or more non-state armed groups within its territory and includes cases with direct foreign military intervention (internationalized internal conflicts).
In our classification, the historically rare category of "Extra-state Conflict" (Colonial Wars) is merged with internationalized internal conflict, as the formal colonial context is absent from our sample period, and the remaining cases are substantively equivalent to internal conflicts with external military involvement. This binary typology yields a clean distinction between state-to-state wars and violence arising from domestic political instability.

Table 1 Country Level Summary Statistics

Variable	N	Mean	SD	Min	Max
ofdi stock	857	1999	5224	0.0500	77800
edu yrs	698	6.294	0.737	4	8
tech	549	21200	64900	1.620	438000
ex rate	669	1089	4553	0.710	42000
hum cap	418	29.87	26.31	0.888	125.8
pop struct	702	59.58	7.169	47.92	72.13

For firm-level analysis, the conflict indicator is assigned to each firm-year observation by matching the firm's disclosed overseas investment destinations with the conflict status of the respective host countries. For country-level analysis, the conflict indicators are assigned directly to host country-year observations, see Table 1.
Control Variables. To isolate the effect of conflict from other determinants of OFDI, we include a standard set of control variables. At the firm level, these capture key financial and governance characteristics: Size (natural logarithm of total assets), Leverage (total liabilities to total assets), Return on Assets (net income to total assets), Cashflow (operating cash flow to total assets), Fixed Assets (net fixed assets to total assets), Growth (annual revenue growth rate), Board Size (natural logarithm of the number of directors), Board Independence (proportion of independent directors), Ownership Concentration (shareholding ratio of the top five shareholders), and Firm Age (natural logarithm of years since establishment). At the country level, we control for host-country characteristics that may simultaneously attract Chinese OFDI and correlate with conflict risk: the level of human capital (average years of schooling), education expenditure, technological capacity (patent applications), the exchange rate against the RMB, GDP, demographic structure (share of working-age population), urbanization rate, and electrification rate, see Table 2.

Table 2 Firm Level Summary Statistics

Variable	N	Mean	SD	Min	Max
OFDI	19132	15.2037	5.9944	0	25.6204
Conflict_it	19132	0.1239	0.3295	0	1
Size	19132	22.5402	1.3841	18.9017	28.6969
Lev	19132	0.4291	0.2021	.0075	1.7969
ROA	19132	0.0406	0.0799	-1.8591	1.2848
Cashflow	19132	0.0506	0.0710	-0.6498	0.8385
FIXED	19132	0.1906	0.1417	0.0001	0.8804
Growth	19132	0.2994	5.9948	-1.3092	526.0425
Board	19132	2.1125	0.2052	0	2.8904
Indep	19132	0.3799	0.0574	0	0.8000
Top5	19132	0.5340	0.1605	0.0691	0.9923
FirmAge	19132	2.9287	0.3620	0	4.0431

3.3 Empirical Models

We employ a two-tiered empirical strategy. At the macro level, we estimate a country-level panel model to establish the aggregate relationship between conflict and Chinese OFDI. At the micro level, we estimate a firm-level panel model to identify the impact of conflict on individual enterprises' investment decisions and, crucially, to test for ownership-driven heterogeneity. Both specifications use two-way fixed effects to absorb unobserved, time-invariant confounders and common temporal shocks.
Country-Level Model. For a host country j in year t, the model is specified as:

$$\ln OFDI_{jt} = \alpha_1 + \beta_1 Conflict_{jt} + \gamma X_{jt} + \mu_j + \delta_t + \epsilon_{jt} \quad (1)$$

where $\ln OFDI_{jt}$ is the log of China's OFDI stock or flow to country j in year t; $Conflict_{jt}$ is one of the three conflict indicators; X_{jt} is a vector of the country-level controls described above; μ_j denotes host-country fixed effects; $\delta_t$denotes year fixed effects; and ϵ_{jt} is the error term. The parameter of interest, β_1, captures the average within-country effect of conflict on Chinese OFDI after controlling for observed and unobserved country characteristics and global trends. Standard errors are clustered at the country level to account for serial correlation within host countries.

Firm-Level Model. For firm i in year t, our benchmark specification is:

$$OFDI_{it} = \alpha_2 + \beta_2 Conflict_{it} + \theta_1 \times X_{it} + \omega_i + \varphi_t + \varepsilon_{it} \quad (2)$$

where $OFDI_{it}$ is the log of firm i's overseas investment in year t; Conflictit is the conflict status of the host country(ies) in which firm i operates its foreign affiliates in year t; X_{it} is a vector of time-varying firm-level controls; ω_i represents firm fixed effects, which absorb all time-invariant firm heterogeneity (e.g., industry, founding cohort, baseline international orientation); φ_t are year fixed effects that control for common macroeconomic and policy shocks; and $\varepsilon_{it}$is the idiosyncratic error term. The coefficient β_2 identifies the within-firm change in OFDI associated with a change in the conflict exposure of that firm's host countries, holding constant firm characteristics and aggregate conditions. Standard errors are clustered at the firm level to allow for arbitrary serial correlation in the error terms.

4 RESULTS

4.1 Country-Level Results

We first establish the macro-level relationship between conflict and Chinese OFDI using a two-way fixed effects estimator on the country-year panel. Tables 3 report the results for six specifications, each varying the dependent variable (OFDI stock or flow) and the type of conflict (general, interstate, or internal). All models include country and year fixed effects, and standard errors are clustered at the country level.

A consistent pattern emerges across all specifications. In models that exclude host-country economic and institutional controls, the conflict coefficient is positive and statistically significant at the 1% level. This counterintuitive sign likely reflects that Chinese OFDI is disproportionately directed toward large, resource-rich economies, many of which also happen to be conflict-prone. Once we introduce the full set of control variables—GDP per capita, human capital, technological capacity, exchange rate, demographic structure, urbanization, and electrification—the relationship inverts. The conflict coefficient becomes negative and statistically significant at the 5% level or better in the majority of specifications, revealing the net inhibitory effect of conflict after isolating the confounding attraction of host-country fundamentals. For general conflict, the coefficient in the fully controlled model is -0.272 or flows (-0.450). Several plausible explanations exist. Internal conflict is often spatially contained, leaving pockets of relative stability that allow Chinese firms—especially those in extractive or infrastructure sectors—to maintain operations. Moreover, some internal conflicts may create opportunities for investment, such as asset acquisition at discounted prices, which partially offset the risk-aversion effect. China's distinct diplomatic posture in some conflict-affected regions may also provide a measure of protection.

Table 3 Impact of Conflict on OFDI

	All Conflicts		Interstate Conflics		Internal Conflics	
VARIABLES	lnODI_store	lnODI_flow	lnODI_store	lnODI_flow	lnODI_store	lnODI_flow
Conflict_jt	-0.272**	-0.450**	-0.430***	-0.629**	-0.0335	-0.189
	(0.133)	(0.227)	(0.162)	(0.279)	(0.210)	(0.352)
educate_year	0.106	0.268	0.170	0.339	0.210	0.214
	(0.146)	(0.238)	(0.150)	(0.246)	(0.179)	(0.295)
FDI	0.00547***	0.00985***	0.00547***	0.00996***	0.00544***	0.00967***
	(0.00147)	(0.00259)	(0.00147)	(0.00259)	(0.00148)	(0.00263)
Edu	-0.183***	-0.108	-0.185***	-0.0755	-0.187***	-0.114
	(0.0464)	(0.0766)	(0.0474)	(0.0781)	(0.0490)	(0.0810)
Tech	-2.82e-05***	-6.50e-05***	-3.32e-05***	-7.04e-05***	-2.40e-05*	-3.87e-05*
	(7.12e-06)	(1.28e-05)	(7.39e-06)	(1.31e-05)	(1.32e-05)	(2.11e-05)
E_rate	9.40e-10***	1.33e-09***	9.44e-10***	1.35e-09***	9.39e-10***	1.31e-09***
	(2.46e-10)	(3.82e-10)	(2.47e-10)	(3.81e-10)	(2.49e-10)	(3.88e-10)
GDP	0***	0*	0***	0	0*	0
	(0)	(0)	(0)	(0)	(0)	(0)
Structure	-0.0169	-6.14e-05	-0.0173	0.00724	-0.0608*	-0.0519
	(0.0303)	(0.0519)	(0.0312)	(0.0531)	(0.0333)	(0.0568)
urban_ratio	0.0308	0.0684	0.0338	0.0570	0.0398	0.0966*

	(0.0287)	(0.0481)	(0.0300)	(0.0503)	(0.0320)	(0.0538)
elec_ratio	-0.0225***	-0.0424***	-0.0233***	-0.0320**	-0.0187**	-0.0349***
	(0.00718)	(0.0118)	(0.00830)	(0.0137)	(0.00774)	(0.0127)
Constant	6.993***	2.601	6.234***	1.151	8.087***	3.441
	(2.160)	(3.641)	(2.222)	(3.741)	(2.453)	(4.160)
Observations	1,653	1,452	1,573	1,382	1,455	1,280
R-squared	0.809	0.628	0.809	0.628	0.811	0.631

Robust standard errors clustered at state level in parentheses
*** z<0.01, ** z<0.05, * z<0.1

Collectively, the country-level evidence supports Hypothesis 1a: conflicts exert a significant negative effect on Chinese OFDI. The effect is clearly driven by interstate conflicts, whereas internal conflicts, while theoretically disruptive, do not manifest a consistently significant aggregate deterrent effect once country fundamentals are taken into account. This macro-level pattern sets the stage for the micro-level analysis, where we shift the focus from country-level aggregates to the heterogeneous responses of individual firms—particularly along the ownership dimension.

4.2 Firm-Level Results

Next we establish the micro-level relationship between conflict and Chinese Firms' OFDI. The results for general conflict reveal a consistently negative and statistically significant effect on firm-level OFDI. In the most complete specification that controls for a full set of time-varying firm characteristics—size, leverage, profitability, cash flow, asset structure, growth, board composition, ownership concentration, and age—the estimated coefficient is –0.989. This implies that, holding all else constant, exposure to armed conflict reduces a firm's overseas investment by approximately 63%. The effect is remarkably stable across alternative specifications that vary the inclusion of fixed effects and control variables, underscoring its robustness.

Disaggregating by conflict type yields further insight. Interstate conflict produces a coefficient of –0.888 in the fully specified model. While clearly detrimental, its magnitude is somewhat smaller and its statistical significance is more sensitive to the inclusion of year fixed effects than that of other conflict types, likely because interstate wars are themselves highly correlated with global geopolitical cycles that the time effects partially capture. In contrast, internal conflict exhibits the greatest empirical robustness. The coefficient for internal conflict is –0.945 in the preferred specification and remains negatively signed and significant at the 1% level across all model variants. This stability reflects the directness of the transmission mechanism: civil wars, insurgencies, and large-scale domestic political violence immediately disrupt the local business environment—destroying law enforcement, contract execution, and property rights protection—and pose a direct, palpable threat to operational continuity and asset security. Such micro-level disruption is less easily absorbed by aggregate macroeconomic conditions, making internal conflict a particularly potent deterrent to firm-level investment. We also found that non-SOE firms are much sensitive to conflicts, see Table 4.

Table 4 Impact of Conflict on Frims' OFDI

	All Conflicts	Interstate Conflicts	Internal Conflicts	All Conflicts-SOE	All Conflicts-Non-SOE
VARIABLES					
Conflict_it	-0.9892***	-0.8883**	-0.9449***	-0.5015	-1.0303***
	(0.1420)	(0.3669)	(0.1493)	(0.3399)	(0.2838)
Size	0.8110***	0.8226***	0.8088***	0.7014**	0.9277***
	(0.0755)	(0.0755)	(0.0755)	(0.3570)	(0.2299)
Lev	-0.3277	-0.3314	-0.3199	-1.0712	-0.1688
	(0.3019)	(0.3023)	(0.3020)	(1.2506)	(0.5912)
ROA	-1.4761***	-1.4275***	-1.4760***	-2.5264*	-1.3789**
	(0.4603)	(0.4608)	(0.4604)	(1.4080)	(0.6333)
Cashflow	-0.4693	-0.4596	-0.4741	-1.0541	0.1514
	(0.4690)	(0.4697)	(0.4692)	(1.0980)	(0.6262)
FIXED	0.7355	0.6925	0.7516*	0.1244	1.1765
	(0.4506)	(0.4512)	(0.4507)	(1.3760)	(0.8865)
Growth	-0.0063	-0.0064	-0.0063	-0.0108	-0.0048
	(0.0048)	(0.0048)	(0.0048)	(0.0080)	(0.0083)
Board	-0.3518	-0.3766	-0.3594	-0.1459	-0.3100
	(0.2812)	(0.2815)	(0.2813)	(0.5932)	(0.5818)
Indep	-1.1657	-1.1358	-1.1773	-0.4259	-1.9489

	(0.8158)	(0.8169)	(0.8160)	(1.6122)	(1.4969)
Top5	2.4725***	2.4337***	2.4749***	3.6401**	0.5666
	(0.4311)	(0.4317)	(0.4313)	(1.7223)	(1.0183)
FirmAge	-1.6301***	-1.5721***	-1.6420***	-4.3181***	0.8689
	(0.4094)	(0.4100)	(0.4096)	(1.5682)	(0.9942)
Constant	-5.0691***	-5.5472***	-5.0387**	-3.2410	-8.4204
	(1.9630)	(1.9646)	(1.9638)	(8.7886)	(5.5791)
Observations	19,132	19,132	19,132	5,375	13,757
R-squared	0.1782	0.1761	0.1778	0.4404	0.1009
Number of id	2,772	2,772	2,772	630	2,142

Robust standard errors clustered at state level in parentheses
*** z<0.01, ** z<0.05, * z<0.1

Collectively, these firm-level baseline results provide strong micro-level evidence that conflicts, and particularly internal conflict, impose a pervasive and economically significant barrier to the outward direct investment of Chinese enterprises. The findings not only confirm the aggregate pattern observed at the country level but also highlight the robust, direct deterrent effect of domestic political instability on individual firms' internationalization decisions, setting the stage for the heterogeneity analysis that examines how this deterrent is moderated by ownership structure and firm resources.

5 DISCUSSION AND CONCLUSION

This study set out to examine how armed conflicts influence the outward foreign direct investment of Chinese enterprises and to uncover the micro-level mechanisms driving firms' heterogeneous responses. Utilizing a panel of Chinese A-share listed firms from 2009 to 2024 and a two-way fixed effects identification strategy, we differentiate among general conflict, interstate conflict, and internal conflict, and we test whether the ownership identity of the investing firm—state-owned versus non-state-owned—systematically moderates the conflict-OFDI relationship. Our results yield three principal findings.

First, conflicts exert a pervasive and statistically significant inhibitory effect on Chinese OFDI. This conclusion holds across both aggregate country-level and micro firm-level analyses, and it is robust to a battery of sensitivity checks including the trimming of outliers, the exclusion of municipalities with unique institutional advantages, the adoption of more conservative standard-error clustering, and the removal of the COVID-19 pandemic period. The evidence confirms that political violence in host economies constitutes a material barrier to Chinese firms' international expansion.

Second, the effect is not uniform across conflict types. Interstate conflict—the classic form of war between sovereign states—delivers a consistently large and significant negative impact on both the stock and flow of OFDI. Its effects operate through the collapse of bilateral agreements, international sanctions, and system-wide macroeconomic disruption. Internal conflict, such as civil wars and insurgencies, also depresses OFDI at the firm level, but its country-level impact appears weaker and less consistently significant once host-country fundamentals are controlled for. This pattern suggests that internal violence, while directly threatening to localized operations, does not always generate the kind of economy-wide deterrence associated with interstate hostilities.

Third, and most importantly, we uncover a stark "ownership boundary" that governs firms' sensitivity to conflict. The negative impact of conflict on OFDI is overwhelmingly concentrated among non-state-owned enterprises. For these market-oriented firms, the escalation of conflict risk triggers a clear and immediate retrenchment of overseas investment. In stark contrast, state-owned enterprises exhibit no systematic or statistically significant reduction in OFDI in response to general or internal conflict; even for interstate conflict, their reaction is weak and only marginally significant. This divergence constitutes the paper's central insight: the investment decisions of SOEs are imbued with a strategic logic and cushioned by institutional risk buffers—implicit sovereign guarantees, policy-directed financing, and diplomatic protection—that effectively insulate them from the purely commercial calculus that governs their non-state counterparts.

These findings advance the literature on political risk and international business in three respects. They demonstrate that the transmission of macro-level political shocks to micro-level investment behavior is not mechanical but is instead refracted through deep institutional features of the investing firm, above all its ownership identity. By moving beyond the conventional question of whether conflict deters investment, our analysis shows for whom the deterrent effect bites hardest. The "ownership boundary" we identify also enriches comparative capitalisms research: it provides granular evidence that Chinese SOEs operate under a hybrid mandate in which national strategic considerations coexist with, and often override, short-term risk-return optimization—a logic that is markedly different from that of private multinationals both inside and outside China.

From a policy perspective, the results carry clear implications. For the Chinese government, the concentration of vulnerability among non-SOEs suggests that official support systems—such as risk insurance, outward investment guarantee funds, and consular protection—should be more precisely targeted toward private firms that lack the institutional buffers of their state-owned counterparts. A one-size-fits-all approach to investment facilitation risks

leaving the most exposed actors inadequately protected. For firms themselves, especially non-SOEs, the evidence underscores the necessity of building professional geopolitical risk assessment capabilities, diversifying overseas asset portfolios across regions, and embedding resilience mechanisms—from scenario planning to local stakeholder integration—into their internationalization strategies.

Several limitations of this study should be acknowledged. Our sample is restricted to A-share listed firms, which means that the sizable number of unlisted small and medium-sized enterprises active in overseas markets is not covered; their behavior under conflict conditions may differ from that of the publicly listed firms analyzed here. The binary conflict measures we employ, while robust and theoretically grounded, inevitably sacrifice granularity regarding conflict intensity, duration, and spatial reach. Moreover, although our fixed-effects strategy alleviates many endogeneity concerns, we have not deployed an instrumental variable approach that would fully disentangle the potential reverse causality between investment flows and conflict dynamics. Finally, we have opened the "black box" of the ownership mechanism primarily through heterogeneity analysis rather than through direct measurement of the posited channels—such as the role of political connections, access to subsidized finance, or the weight of strategic mandates in managerial performance evaluations.

In sum, this research provides robust evidence that conflicts significantly deter Chinese OFDI, but this deterrent effect is far from universal. It is the private, market-driven firms that bear the brunt of political violence abroad, while state-owned enterprises, embedded in a distinct institutional logic, prove remarkably resilient. Understanding this asymmetry is essential not only for scholars of international business, but also for policymakers seeking to design an overseas investment support system that is fit for an increasingly complex and conflict-ridden world.

COMPETING INTERESTS

The authors have no relevant financial or non-financial interests to disclose.

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