

Following Peers and Competitors: How Business Managers Evaluate Firm Withdrawals from Russia

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Abstract

States have long used economic sanctions in response to violations of international law as a strategy to restore order. Increasingly, we also observe firms that reject doing business with violators. In response to the war in Ukraine, hundreds of multinational corporations (MNCs) voluntarily withdrew from Russia, even when policymakers were still debating the extent of sanctions. Why did private firms halt their business? We argue that peer pressure and competition generate a strategic interaction in the response of firms to international crises. We test our hypotheses with a survey experiment on Japanese firm managers conducted within the first few months of the Russian invasion of Ukraine. First, we find that news about withdrawal by other firms creates peer pressure and increases support for firm withdrawal. Withdrawal by firms from a diverse range of countries has a larger impact. Second, we find that news about some firms continuing business with the sanction target generates competition concerns and lowers support for firm withdrawal. Our research provides insight into why business actors take political stances during international conflicts.

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1 Introduction

How do firms navigate international politics? As government leaders debate how to punish the violation of international law, business leaders also must decide whether their firm should continue with business as usual. A misstep can result in consequences that range from employees harmed by the outbreak of conflict to lost sales. Firm managers who normally maximize profits by efficient choice of sourcing and marketing are thrown into a position to assess the appropriateness of dealing with businesses located in a state that is engaging in acts of brutality. Increasingly firms act on their own to pursue sustainable development, human rights, and other societal goals. Their decisions can either complement or undermine the ability of governments to achieve these goals (Vogel, 2008; Malhotra et al., 2018; Johns et al., 2019).

In order to better understand preferences in the business community toward international political events, this paper examines their response to the Russian invasion of Ukraine as a critical event. The first act of aggression in 2014 demonstrated Russia's willingness to forcefully seize territory and triggered a range of government sanctions. The escalation in 2022 to launch a full-scale attack on Ukraine and the wholesale bombing of cities shocked the world. Yet government responses were quite divergent. Unity among the governments of the Group of Seven nations to condemn the Russian invasion and call for sanctions stood alongside silence by many governments and support for Russia by China and several other governments. Such divisions meant there would not be any UN-authorized sanctions against Russia, which holds a veto in the Security Council. Even government sanctions by G7 countries revealed some gaps given the ongoing energy trade with Russia. This context presents an important case to examine how business responds in the face of disagreement between the major powers on a fundamental issue of peace in Europe.

A vocal campaign urged companies to withdraw from Russia. Speaking to the U.S.

Congress in March 2022, Ukrainian President Volodymyr Zelensky called on foreign business to leave Russia.¹ The message has found support from others. Former U.S. Ambassador to Russia, Michael McFaul, wrote in an editorial in the *Washington Post* that "Democratic governments must put more pressure on their companies that have not left Russia yet. Foreign enterprises helping Putin's war machine, even through the simple act of paying taxes, should face sanctions, too."²

A large number of leading multinational firms indeed chose to withdraw from doing business in Russia and ended contracts with Russian firms. The Yale School of Management lists over 1000 companies that withdrew, from Mastercard to Nokia.³ But for all the firms that withdrew, many others stayed. The debate on the decision was sometimes public such as when Uniqlo chairman Tadashi Yanai first defended their ongoing business by declaring that "Clothing is a necessity of life ... The people of Russia have the same right to live as we do," before reversing course to announce withdrawal from Russia after a social media backlash called for a consumer boycott.⁴ But often these were boardroom decisions without any public explanation for why a firm would stay or go.

Amidst high uncertainty, the beliefs of firm managers shape these critical decisions (Dolan et al., 2021). International politics lies outside the core mission of the firm and there will be less information about the business risk associated with developing situations in international conflict than those on decisions that fall within the normal business (Kenyon and Naoi, 2010). How do firm managers evaluate the appropriate response? What are the factors that business leaders take into consideration? In addition to individual and firm characteristics, we argue that strategic interaction among firms also matters. As members of society and participants in markets, looking at how other firms respond

¹ "Ukraine's Zelensky Urges Global Businesses to Exit Russia in Speech to Congress," *The Wall Street Journal* 16 March 2022.

² Kasparov, Garry and McFaul, Michael, "The sanctions against Russia still have holes. Here's how to plug them." *Washington Post* 8 September 2022.

³ See list from project website available at <https://som.yale.edu/story/2022/over-1000-companies-have-curtailed-operations-russia-some-remain>.

⁴ Akane Okutsu, "Uniqlo suspends Russia business, reversing earlier decision," *Nikkei Asia*, 10 March 2022.

shapes incentives for firm managers through peer pressure and competition. These conditions may be mediated by firm stakes in markets and risk perceptions.

This paper examines these questions with an online survey of 2,100 business managers in Japan conducted during May 2022 as the war had reached a peak of violence. Japan offers an important perspective because of its deep engagement in global supply chains reliant on trade and investment ties with a range of partner countries. As a member of the G7, the government lined up quickly to condemn the Russian actions. But the distance from the conflict zone and a general reluctance to connect aid and trade to political relations allowed room for doubt about how broadly the government would use economic tools to punish Russia. The business community in Japan confronted a highly salient choice of whether they should take actions to sever business relations with Russia. The experience and interests of business managers could shape their views, which makes them the relevant group for our research question.

Treating respondents with news about the actual set of firms that withdrew from Russia, we first find that news about withdrawal by other firms creates peer pressure and increases a firm manager's support for firm withdrawal. In particular, providing them with the news that firms from a diverse range of country origins are withdrawing from Russia triggers larger support for withdrawal. Actions by U.S. firms alone are insufficient to move opinion. On the other hand, news about firms continuing business with the sanction target generates competition concerns and lowers support for firm withdrawal. When provided with the news about how Chinese firms are still making profits by remaining in the Russian market, firms become less likely to follow suit.

We also probe the mechanism by randomly providing an explanation of why other firms are withdrawing. Contrary to our expectation, we find that attributing reputation concerns as the motive for other firms to withdraw reduces support for firm withdrawal. Instead of reputation concerns, a larger number of firm managers raised sanction effectiveness, secondary sanctions, and business risks in the Russian market as major factors

that affected their assessment of whether Japanese firms should withdraw. For those who support sanctions for non-reputation reasons, the actions of other firms may appear less compelling when explained in terms of reputational motives. Our findings suggest that peer pressure matters, but it operates through setting norms or signaling policy coordination more than raising reputation stakes.

2 The Strategic Context of Peer and Competitor Decisions

The conventional view of firms as profit-maximizing actors that operate within markets examines how assets, information, and underlying market dynamics constrain their strategies. But when considering political outcomes that lie outside of supply and demand constraints of commerce, what are the relevant factors? We argue that decisions by peers and competitors convey information to firm managers that inform their perception of appropriate behavior and risk.

Peer pressure describes when information about actions of other firms induces similar behavior. Following a trend is norm-conforming behavior and reduces the risk of harm to reputation. While norm entrepreneurs move first to shape opinion, and early movers gain branding opportunities by attracting headlines, there is a risk to such solo actions. We expect that on average, business managers confronted with complicated political issues may rely on cues from other industry leaders about the right response.

Who to follow? When evaluating international politics, business managers may look to the United States as the hegemon and let U.S. firm actions serve as the bellwether of change. The US government is often the primary sender of sanctions trying to rally other governments to cooperate with various inducements to broaden the number of participants in the sanction regime (Drezner 2000). The long history of the United States asserting moral claims in its foreign policy and using economic statecraft in support of those goals confronts American firms with frequent demands to steer business to follow

the flag. Active U.S. government enforcement of its own sanction regime raises the spectre that failure to follow American firms may place a business at risk of targeting. Even when there is not a government order, over-compliance occurs out of fear that regulations will change.

The role of co-national firms and a wide range of firm nationalities could broaden the signal of a norm shift. Because the US and its firms are so often engaged in economic statecraft, their action alone may not signify a trend for international society. But when co-nationals and firms in peer states with similar foreign policy take positions it is harder to ignore. The fate of firms is linked through information channels, and even expropriation actions that break norms differentiate among firms by their nationality (Wellhausen, 2015). When taking political stances, acting alongside peer firms from multiple countries demonstrates solidarity for a stronger moral statement.

Yet peers are also competitors. This can offset the business cost of taking moral action. When many firms act together, the cost will not represent a competitive disadvantage. From environmental regulations to labor standards, firms pressured to upgrade at home become advocates for international standards that will level the playing field (DeSombre, 2000; Prakash and Potoski, 2007; Potoski and Prakash, 2005). But risks grow when competitors adopt different positions. The inefficiency of non-commercial decisions is stark when everyone else remains focused on maximizing commercial returns. This underlies the fears that globalization will pressure a race to the bottom on any policies that lower expected profits. The power of competitors to undercut a firm that takes non-commercial factors into account induces a different form of strategic interaction. Learning about divergent actions by other firms can imply the norms are contested and raise the spectre of competitive loss from taking a moral position.

Opportunities for morality occur in every aspect of business from labor relations, sourcing, and sales. Since 2000, the UN Global Compact has become a voluntary pro-

cess to urge corporate social responsibility⁵. The scope of corporate activity and limits of international consensus have favored a bottom-up approach that relies on reporting and learning to encourage better behavior by transnational corporations (Ruggie, 2014; Bartley, 2007; Thrall, 2021). Increasingly firms debate their role to support climate change policies and human rights. Actions may include corporate philanthropy activities, adjustment of investment portfolio, and development of new product lines. As the largest corporations hold greater influence than many states, their actions can hold significance for world affairs.

Under economic sanctions, governments adopt policies that mandate cutting commercial exchange through investment and trade to both shun and harm a foreign state or specific entity (firm or individual). A large literature debates the effectiveness and evolution of government sanctions (e.g. Hufbauer et al., 2009; McLean and Whang, 2010; Drezner, 2022). These policies require firm compliance to change practices. Yet outside of following government policies, firms may also act on their own without a mandate by the government. Withdrawal – the decision to cease commercial exchange with a country – forms the counterpart to a consumer boycott. Broad responses by firms could significantly widen sanctions.

The actions to shun or favor countries based on their political conditions or behavior fall within the broader framework of politicization of trade. Both liberal and realist perspectives on international political economy suggest that economic flows may be conditional on political relations of states. In a broad literature, scholars examine how conflict, territorial disputes, and political tensions influence economic exchange. Some have argued that political tensions have little impact on commercial relations and international institutions protect trade among rivals (Davis and Meunier, 2011; Carnegie, 2014). Firms can adopt strategies to avoid association with controversial policies of their home gov-

⁵ The Global Compact now has over 17,000 corporations from 177 countries that share reports on issues from climate change to the Ukraine crisis with commentary on how business can contribute to collective goals.

ernment (Vekasi, 2020). But others show evidence that trade follows the flag and firms respond to non-commercial incentives (Pollins, 1989; Farrell and Newman, 2019; Pelozo and Shang, 2011). The importance of relational contracting means that social networks shape how firms view political risks in different locations (Pandya and Leblang, 2017).

We examine the preferences of business participants over the choices that arise at the intersection of commerce and politics. Looking from the perspective of Japanese business managers toward the issue of Russia's invasion of Ukraine offers a test of the channels that influence their opinion.

We evaluate the two sides of strategic interaction. The first hypothesis posits a positive relationship between the participation of other firms and support for sanctions while the second hypothesis posits that non-participation will reduce support for sanctions.

H1. Peer Pressure: *Respondents are more likely to support Japanese firms withdrawing from Russia when they learn that other firms have withdrawn. Their support will be higher when told that firms from multiple nationalities withdraw, relative to only being told about U.S. firm withdrawals.*

H2. Competition Incentive: *Respondents are less likely to support Japanese firms withdrawing from Russia upon learning that Chinese firms continue to operate in Russia.*

In order to probe which factors motivate support for sanctions, we examine whether information about market analyst's perceptions condition the response to information about behavior by other firms. The market basis for concerns about reputation arises from negative reactions by investors and consumers to firms that are seen to be on the wrong side of political opinion (Fisman et al., 2014; Pandya and Venkatesan, 2016). Vekasi (2020) shows that Japanese firms with greater exposure to these risks go further to counteract with mitigation activities such as corporate philanthropy or strategic withdrawal. As a cue about costs that motivate firms to withdraw business, an information prompt

about concern with reputation in markets will be relevant to firm managers who hold reputation concerns. This helps to differentiate *why* respondents care about how other firms behave. A positive effect would be consistent with the reputation hypothesis that a market-based reputation incentive underlies the impact of peer and competitor behavior on support for sanctions. In contrast, analyst opinions about markets should not matter if preferences reflect other considerations such as moral decisions of individuals or worries about government policies.

H3. Reputation: *Respondents reaction to firm behavior will be stronger when informed that the reason for withdrawal reflects concern about reputation with domestic and international consumers, investors, and client firms.*

Finally, we consider how risk exposure of the individual's company could moderate their response to the information about firm behavior. The literature on FDI documents how political risk influences investment because firms evaluate the probability of expropriation or local conflict causing direct negative impact on business (Jensen, 2008; Pandya, 2016). In the case of withdrawal, firms must evaluate the harm to their business from remaining in an environment that has become more risky due to sanctions. Integration in global value chains through overseas production also transforms consumers, workers, and investors abroad into stakeholders that can impact firm decisions (Johns and Wellhausen, 2016; Mosley and Malesky, 2018; Cory et al., 2021). The peer pressure and competition incentives will weigh strongest for those who have firms invested in the respective markets – working for a firm engaged in global markets will encourage positive reaction to peer pressure and working for a firm engaged in China will strengthen the competition incentive that lowers support for withdrawal.

H4. Market Pressure: *a. Respondents who work for firms that conduct business in the United States are more likely to support Japanese firms withdrawing from Russia upon learning about the*

cases of US withdrawals.

b. Respondents who work for firms that conduct business in multiple foreign markets are more likely to support Japanese firms withdrawing from Russia when told that firms from multiple nationalities withdraw.

c. Respondents who work for firms that conduct business in China are less likely to support Japanese firms withdrawing from Russia upon learning that Chinese firms continue to operate in Russia.

3 Experimental Design

We conducted an original survey experiment on business managers in Japan in May 2022 to evaluate how peer effects and competition incentives shape firm preferences for participation in boycotting Russia. Specifically, we targeted individuals who satisfy the following conditions for industry, firm size, and position: (1) the respondent currently works in a company in the manufacturing, construction, mining, or utility (gas, electricity, water) industry; (2) their company has at least 100 employees (medium and large enterprises); (3) the respondent is currently employed at the manager level or above. We recruited the respondents online through Nikkei Research, a survey company in Japan, and collected 2,100 responses from their registered sample.⁶

We first measured baseline attitudes toward the Russian invasion of Ukraine. Respondents were asked a series of questions regarding their support for imposing economic sanctions against Russia or secondary sanctions against China. We also asked how their business has been affected by the Ukraine Crisis. We include these pre-treatment covariates in our regression analysis along with controls for the characteristics of the individual (income, age, education, seniority) and their firm (size, industry, overseas business).

After finishing the baseline attitudinal questions, respondents were randomly assigned

⁶ The recruitment email was sent to 11,001 registrants randomly selected from the pool that satisfies our target conditions. Overall, the response rates for our survey is 19.1%.

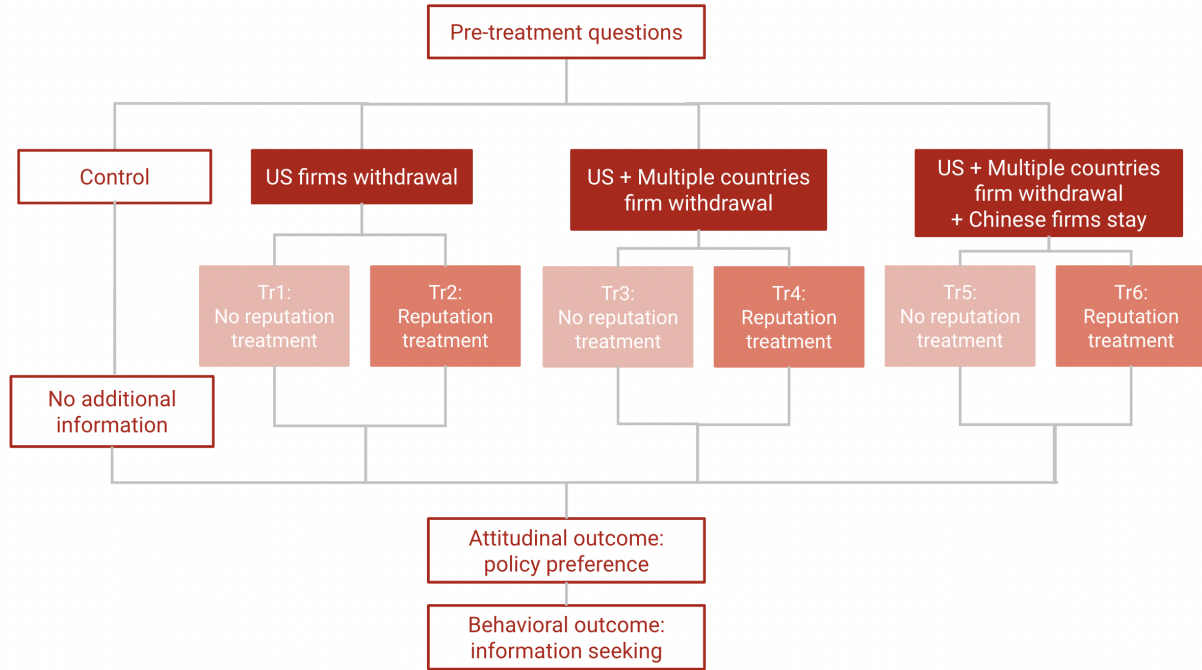


Figure 1: Experimental Design

to one of the three treatment branches or the control branch. Our intervention varies the level of information about which firms are participating in the firm boycott (1. U.S. firms withdraw, 2. U.S. firms and MNCs from other countries withdraw, 3. U.S. firms and MNCs from other countries withdraw, while Chinese firms stay). No additional information was provided to the control branch. For those that were assigned with the treatment, we further separated them into two groups where one group was informed that analysts cite reputation costs as the main withdrawal motivation, and the other group was not given such information. Figure 1 summarizes our experimental design. We checked covariate balance before estimating treatment effects to confirm that we have achieved a balanced sample through proper implementation of randomization. We present summary statistics of pre-treatment variables in Appendix A.2.

The experiment offers the following opening background about the Ukraine Crisis:

Russia's invasion of Ukraine violates international law and has led to thousands of civilian deaths and millions of refugees fleeing the country. The governments of Japan, the United States, and the EU are imposing sanctions such as restrictions on trade and

financial transactions.

Then we provided different vignettes to respondents informing them how firms of different nationalities have reacted to Russia's invasion. Respondents in the **US Firms Withdraw** branch were informed that some US firms have stopped doing business in Russia. Among them, half of the respondents were given an additional vignette highlighting reputation costs associated with continuing to operate in Russia. Similarly, respondents in **U.S. Firms and MNCs from Other Countries Withdraw** branch were told an additional piece of information about other firms' reactions (highlighted in blue) and respondents from the **U.S. Firms and MNCs from Other Countries Withdraw, while Chinese Firms Stay** branch have more information about Chinese firm behavior (highlighted in red). Within these branches, half of the respondents were randomly selected into an additional treatment group where they were prompted with information about reputation cost.

US Firms Withdraw

In addition, some US firms like General Motors, Microsoft, Nike, and Starbucks have stopped selling their products in Russia.

[none / Some analysts say that firms in global markets were concerned that continuing their business with Russia would harm their reputations among both domestic and international consumers, investors, and client firms.]

US Firms and MNCs from Other Countries Withdraw

In addition, some US firms like General Motors, Microsoft, Nike, and Starbucks have stopped selling their products in Russia. Furthermore, firms from other countries like Samsung (South Korea), BP (UK), H&M Hennes & Mauritz (Sweden), Toyota (Japan), and BMW (Germany) are also withdrawing their business from Russia.

[none / Some analysts say that firms in global markets were concerned that continuing their business with Russia would harm their reputations among both domestic and international consumers, investors, and client firms.]

US Firms and MNCs from Other Countries Withdraw, while Chinese Firms Stay

In addition, some US firms like General Motors, Microsoft, Nike, and Starbucks have stopped selling their products in Russia. Furthermore, firms from other countries like Samsung (South Korea), BP (UK), H&M Hennes & Mauritz (Sweden), Toyota (Japan), and BMW (Germany) are also withdrawing their business from Russia.

[none / Some analysts say that firms in global markets were concerned that continuing their business with Russia would harm their reputations among both domestic and international consumers, investors, and client firms.]

Yet, many Chinese firms like Alibaba, China Mobile, Shanghai Fosun Pharmaceutical, and Great Wall Motor are still keeping their sales and production activities in Russia.

After presenting the vignettes, we measured preferences for withdrawing business from Russia and the rationale. We began by asking respondents to what extent they support Japanese firms withdrawing business from Russia on a six-point scale from 1 ("strongly disagree") to 6 ("strongly agree"). We also asked about their willingness to coordinate with other firms or issue statements in support of Ukraine. For our primary analysis, we collapse the six categories into three broad categories ("disagree", "neutral", and "agree"). We use ordered logistic regressions to estimate the effect of treatment on the categorical outcome. We also confirm the robustness of our findings with analysis of the full six-level outcome.⁷

In addition to attitudinal outcomes, we designed behavioral questions to measure whether a respondent would seek additional information. Respondents were asked whether they were interested in getting more information about how the governments, the general public, and the business community responded to the situation in Ukraine. They were subsequently provided with links to external websites that provided such information. We measured whether respondents clicked on the links and constructed measures

⁷ We follow our OSF pre-registered analysis plan. Appendix [5](#) summarizes our pre-registered hypotheses and model specifications.

for their behavioral changes.

To improve the efficiency of our causal effect estimation, we implemented block (stratified) randomization based on industry. In our pilot survey, we found that some industries have limited respondents and conducting complete randomization across industries would increase the chance that most respondents in these industries being assigned to one treatment arm. To overcome this problem, we created seven major industry groups (construction and mining, food and beverage, textile and wood related, chemical and metal, machinery, transportation, and others) and conducted complete randomization within each group. This block randomization approach allows us to compare firm managers from the same industry group and achieve balance in the allocation of respondents to treatment arms.

We include two sets of covariates to increase the precision of our estimates. Individual-characteristic controls include background information like respondents' age, education, household income, seniority in the firm, and respondents' baseline attitudes towards Russia's invasion of Ukraine. Firm-characteristic controls include firm size, established year, industry, and engagement in overseas business (import, export, foreign subsidiaries). In the following sections, we present the results for baseline models without pre-treatment covariates as well as models that include these control variables.

4 Empirical Results

In general, our survey respondents expressed strong support for stopping business in Russia prior to any treatment assignment. Within our control group, 61.89% of respondents believed Japanese firms should stop doing business in Russia, 36.36% of respondents expressed neutrality, whereas only 1.75% of respondents opposed to withdrawal. This closely matches levels of support reported in other public opinion surveys conducted

in Japan during the months following the invasion using a general population sample.⁸ The high baseline support for withdrawal sets up a hard test for our experiment. Providing additional vignettes would primarily influence those who are neutral or oppose withdrawal rather than those who already favor withdrawal.

Instead of providing hypothetical scenarios to respondents, we give them actual information concerning business decisions (such as Samsung's decision to leave Russia and China Mobile's decision to keep operating in Russia). Using factual information allows us to better simulate how firm managers behave in real-world situations. However, using factual information also has drawbacks. It might weaken our treatment if respondents are exposed to the news a second time. Our treatment would serve as a reminder but not as new information for individuals who follow daily news and are previously aware of the firm decisions displayed in the vignette. In addition, at the time of the survey, respondents may have also been overloaded with news about the invasion, which would reduce the impact of any additional information. Against this backdrop, any findings in our experimental setting represent a strong validation of our hypotheses.

4.1 Peer Pressure and Competition Incentive

To test whether peer pressure and competition incentives affect preferences for withdrawal, we first compare the groups randomly assigned to the **US firms withdraw branch** (Treatment 1) with the **control branch** to estimate the effects of US firms withdrawal. Then we compare those assigned to **US firms and MNCs from other countries withdraw branch** (Treatment 2) with the **US firms withdraw branch** (Treatment 1) to estimate the effects of broader peer pressure. If the US as a hegemon and its firms as bellwethers of international movement serve as the catalyst for peer pressure, the first treatment informing respondents about US firm withdrawal would increase support for sanctions. If a

⁸ Kafura (2022) <https://thediplomat.com/2022/05/does-the-russia-ukraine-war-herald-a-new-era-for-japans-security-policy/>.

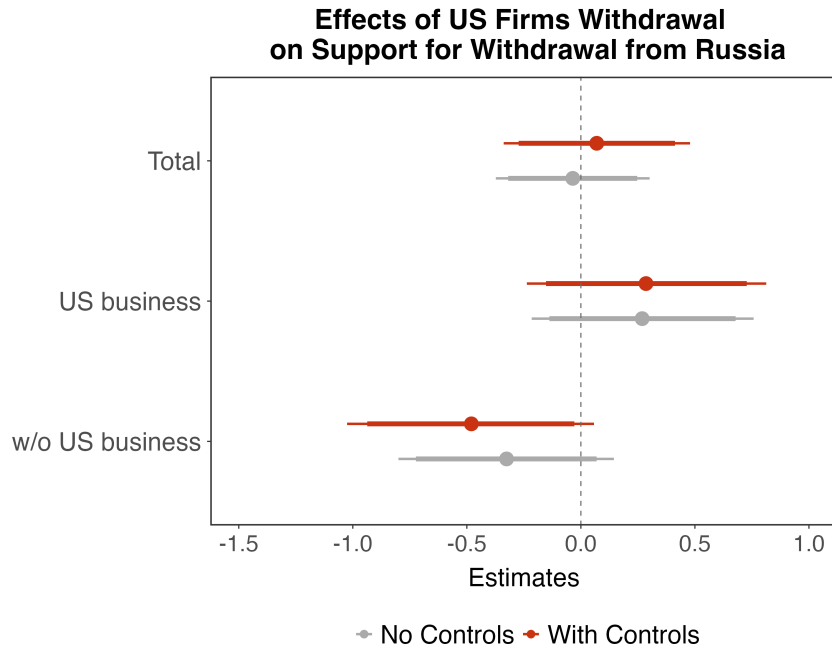


Figure 2: The figure shows the estimated effects of the US withdrawal treatment (compared to the baseline of the control branch). The top two rows show the estimates for the full sample. The middle (rows 3, 4) and bottom rows (rows 5, 6) show the estimates for each subgroup: firms with and without business in the US. The support for withdrawal is measured on a scale of 1 (not support) to 3 (support). The results are estimated using ordered logistic regressions, accounting for block randomization by industry. The bars represent both the 95% and 90% confidence intervals.

broader peer pressure is necessary to move opinion, we would expect that the multiple withdrawal vignette further increases support among managers to leave Russia when compared to the vignette that only refers to the US firms withdrawal.

We present the estimated effects of US firms withdrawal and multiple countries firms withdrawal in Figure 2 and Figure 3 respectively. We find positive but insignificant effects for the US firms withdrawal treatment. Compared to the control branch, learning many US firms are withdrawing from Russia increases support for Japanese firms' withdrawal by 0.07 on the three-point scale ($n = 454$). The effects are larger for respondents whose firms have business in the US (0.286), compared to those without US business (-0.48). It appears that US firms have little ability to sway others.⁹

Then, we examine whether increased peer pressure from a wider range of countries would encourage support for businesses to leave Russia. As Figure 3 shows, the treatment for withdrawal by firms of multiple nationalities has a significant impact relative to the

⁹ These results could also reflect the widespread information about U.S. firms taking actions to withdraw, which would weaken the effect of our treatment on opinion.

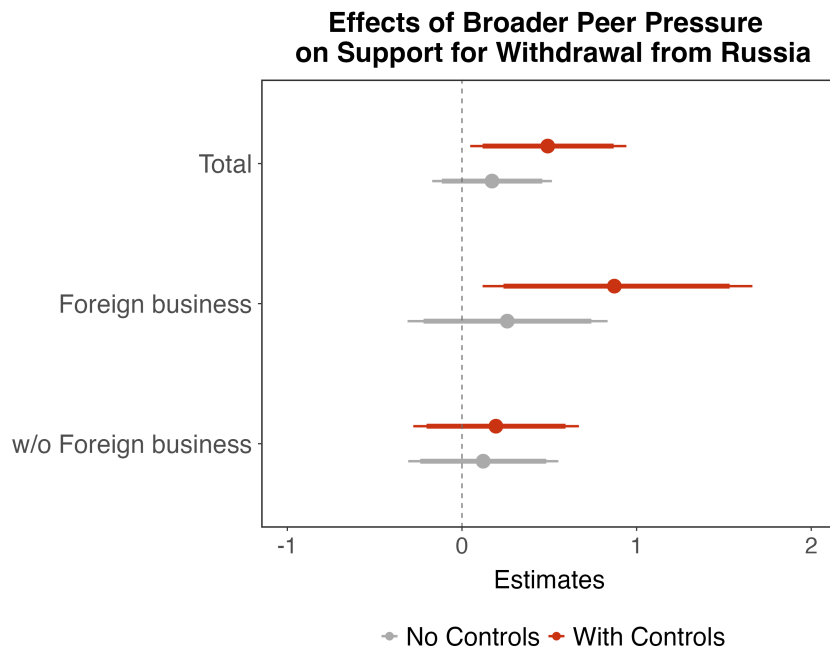


Figure 3: The figure shows the estimated effects of the multiple countries' withdrawal treatment (compared to the baseline of the only US withdrawal branch). The top two rows show the estimates for the full sample. The middle rows (3, 4) and bottom rows (5, 6) show the estimates for each subgroup: firms with and without business abroad. The support for withdrawal is measured on a scale of 1 (not support) to 3 (support). The results are estimated using ordered logistic regressions, accounting for block randomization by industry. The bars represent both the 95% and 90% confidence intervals.

information about US firm behavior. Respondents increase their support for withdrawal by 0.49 on the three-point scale when they learned that firms from multiple countries are leaving Russia ($n = 427$) in comparison with the group who were only informed about the withdrawal by US firms. We further test the moderating effect of market pressure by examining whether it matters if the respondent works for a firm with commercial interests in the markets. We find that the peer effects are particularly salient when firms have local businesses in related countries. The business activities include importing, exporting, outsourcing, or having local subsidiaries. The support for withdrawal increases by 0.873 if respondents' firms have business operations in multiple countries besides the US. The information about broader peer pressure has a smaller impact on support for withdrawal for those who work for companies that only conduct business within Japan.

To the extent that managers fear losing market share to competitors, we expect that the China stays vignette would decrease their support for withdrawal. As Figure 4 shows,

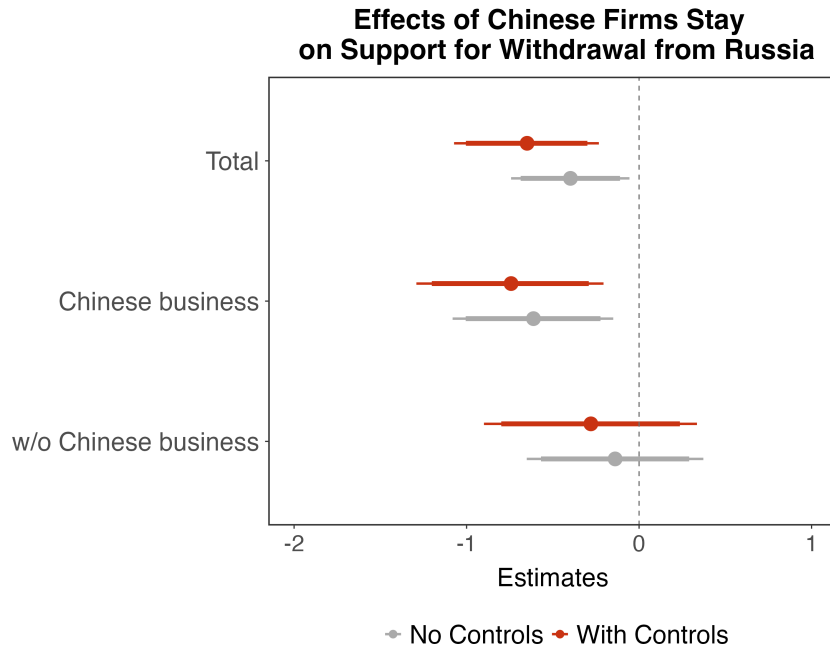


Figure 4: The figure shows the estimated effects of the treatment of Chinese firms staying (compared to the baseline of only notifying about the US and other countries' firms withdrawing). The top two rows show the estimates for the full sample. The middle (rows 3, 4) and bottom rows (rows 5, 6) show the estimates for each subgroup: firms with and without business in China. The support for withdrawal is measured on a scale of 1 (not support) to 3 (support). The results are estimated using ordered logistic regressions, accounting for block randomization by industry. The bars represent both the 95% and 90% confidence intervals.

support for withdrawal decreased by 0.649 when respondents learned that Chinese firms are staying in Russia ($n = 443$). Respondents who report that their own firm has local business in China were more cautious about leaving Russia when told that their Chinese competitors were choosing to continue business in Russia (support decreases by 0.742). This is an important consideration since 55.2% of respondents in our sample have ongoing business relationships with China. Our results support our hypotheses that opinion about withdrawal decisions are highly influenced by the actions of peers and competitors. When a diverse range of firms voluntarily leaves Russia, firm managers may feel compelled to leave as well, but learning that some firms remain operating in Russia induces more caution.

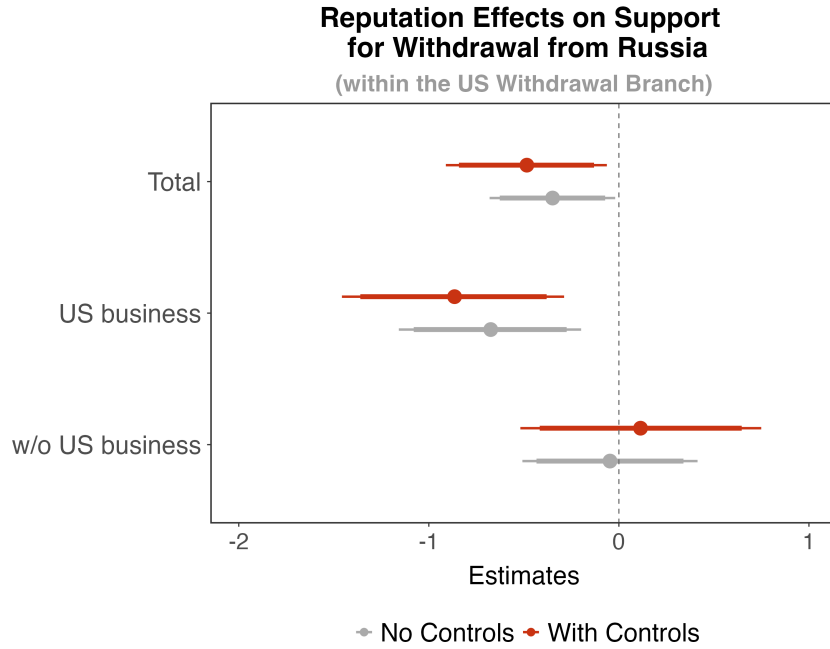


Figure 5: The figure shows the estimated effects of reputation costs for the US withdrawal branch. The top of the plot shows the estimates for the full sample. The middle and bottom of the plot show the estimates for different subgroups (with and without business in the US). All the results are estimated using ordered logistic regressions while accounting for block randomization by industry. The support for withdrawal is measured on a scale from 1 (not support) to 3 (support). The bars represent both the 95% and 90% confidence intervals.

4.2 Reputation Costs and Sanction Risks

Next, we evaluate whether concern about business reputation shapes preferences for withdrawal. This helps to distinguish between normative beliefs and support based on a material concern about the impact that participation in sanctions could have on profits through the reaction of others. We compare the groups within the same branch – one with the additional reputation vignette and the other without – and examine the effects of reputation costs. If a concern about reputation is important, then support for withdrawal should increase when respondents are presented with the additional vignette that primes them about reputation costs. However, if other non-material incentives are the primary rationale, then learning that other firms left Russia due to worries about reputation costs would have little or even a negative impact on their support for withdrawal.

We find that when respondents were informed of the reputation costs, their support for withdrawal *decreases* by 0.484 on the three-point scale for the **US firms withdraw**

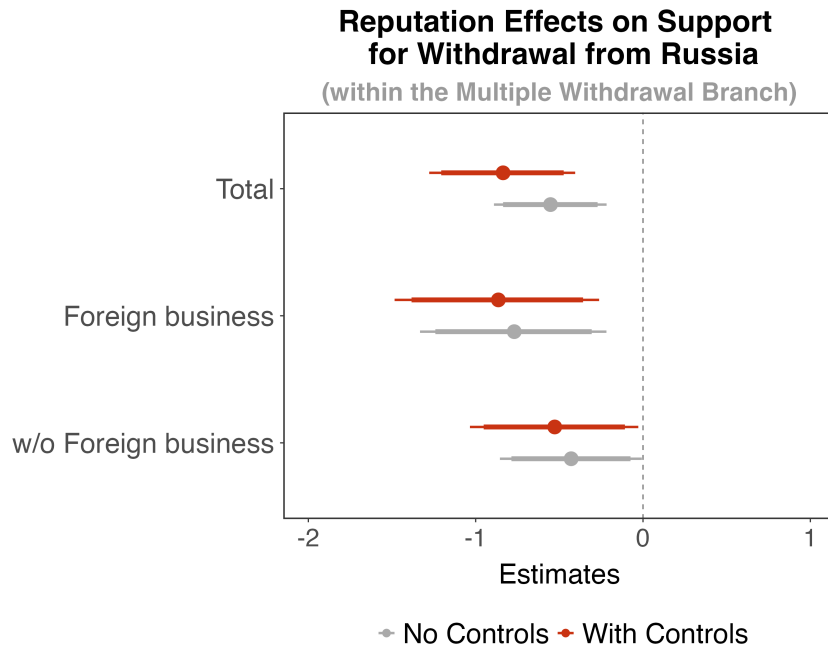


Figure 6: The figure shows the estimated effects of reputation costs for the multiple countries withdrawal branch. The top of the plot shows the estimates for the full sample. The middle and bottom of the plot show the estimates for different subgroups (with and without business in other countries). All the results are estimated using ordered logistic regressions while accounting for block randomization by industry. The support for withdrawal is measured on a scale from 1 (not support) to 3 (support). The bars represent both the 95% and 90% confidence intervals.

branch ($n = 425$), and 0.836 for the **Multiple countries firms withdraw** branch ($n = 437$). However, the effect is close to 0 for the **Chinese firms stay** branch with a negative effect of 0.006 ($n = 408$). We further examine whether market pressure moderates the effect of reputation costs by conducting subgroup analyses. Among respondents that are given the US firms withdrawal vignette, having commercial interests in the US would further decrease support to withdraw business from Russia (decreases by 0.865, see Figure 5). Similarly, we also find that having business in foreign markets besides the US would also decrease support for withdrawals among respondents that are given the multiple withdrawals vignette (see Figure 6). However, the same pattern does not appear for respondents that are given the China stays vignette. As Figure 7 shows, the reputation treatment has a positive but insignificant effect (0.186) for respondents that have business operations in China.

To further explore the dynamics of how strategic context and reputation concerns impact withdrawal decisions, we examine the follow-up questions where respondents are

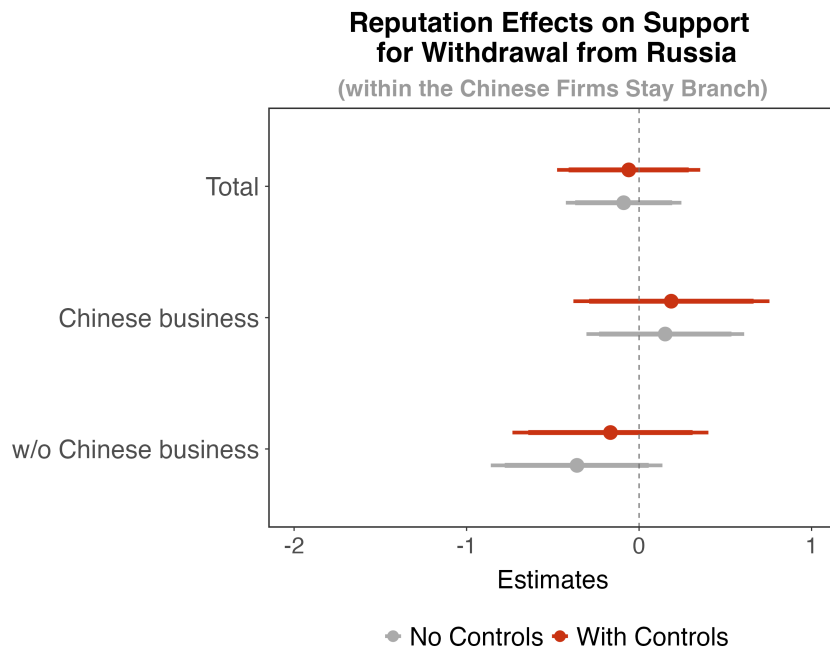


Figure 7: The figure shows the estimated effects of reputation costs for the Chinese firms stay branch. The top of the plot shows the estimates for the full sample. The middle and bottom of the plot show the estimates for different subgroups (with and without business in China). All the results are estimated using ordered logistic regressions while accounting for block randomization by industry. The support for withdrawal is measured on a scale from 1 (not support) to 3 (support). The bars represent both the 95% and 90% confidence intervals.

asked to select all the factors that affected their decisions about doing business with Russia. Figure 8 shows the percentage of respondents who cite the following factors as their main concerns in shaping their stance: sanction effectiveness, business risks in Russia, secondary sanction risks, Japan's international reputation, as well as reputations among consumers and investors in different markets. We find that reputation costs are not the top concern for Japanese firm managers. Instead, firm managers worry about potential business risks in Russia and secondary sanctions imposed by either the US or Chinese government. In the rapidly changing policy environment of sanctions policies, firms must anticipate the next steps of policy-makers. Evidence that Chinese firms are not withdrawing their business sparks the prospect that governments will be forced to expand the scope of sanctions with secondary sanctions on Chinese companies doing business with Russia. Such expansion of the economic sanctions would deeply complicate investment strategies for Japanese firms embedded in supply chains with firms in China. More gen-

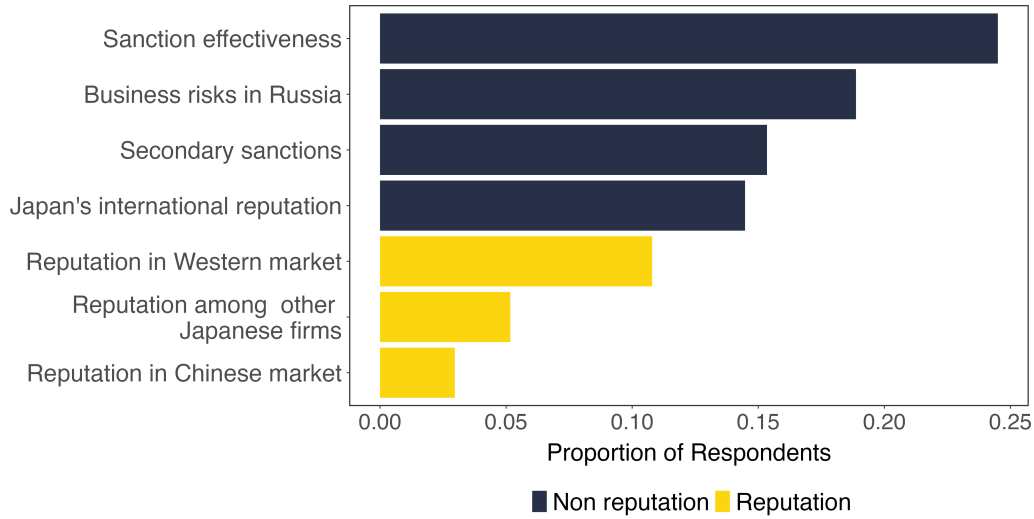


Figure 8: The figure shows the distribution of reasons that respondents selected as major factors that affected their stances on whether Japanese firms should withdraw in light of the Ukraine crisis. It includes all the respondents that are not given the reputation treatment. The total proportion does not sum up to one since respondents can select multiple reasons when answering the question.

erally, all companies may have reason to worry that a move to fully decouple the US and Chinese economies would harm Japanese economic prospects.

We also categorize reputation costs in order to assess the relative importance of various markets. As Figure 8 shows, when respondents consider the Ukraine crisis, they are more concerned with Western markets than the Japanese market, and appear to be least concerned with the Chinese market. The Chinese market is important for companies, but reputation is not the channel that raises risks. Respondents appear not to worry that Chinese customers will punish them regarding decisions related to Russia. Furthermore, we find that as respondents learn more about the behavior of other firms, they become more concerned about future sanctions imposed by the US government. They see rising risks in the Russian market as more multinational corporations withdraw and Chinese corporations take the opposite stance. This points to a possible explanation for the surprising negative impact of the reputation treatment. When respondents learned that their peers were concerned about reputation rather than secondary sanctions and business risks, they were reassured about the risks of continuing business with Russia.

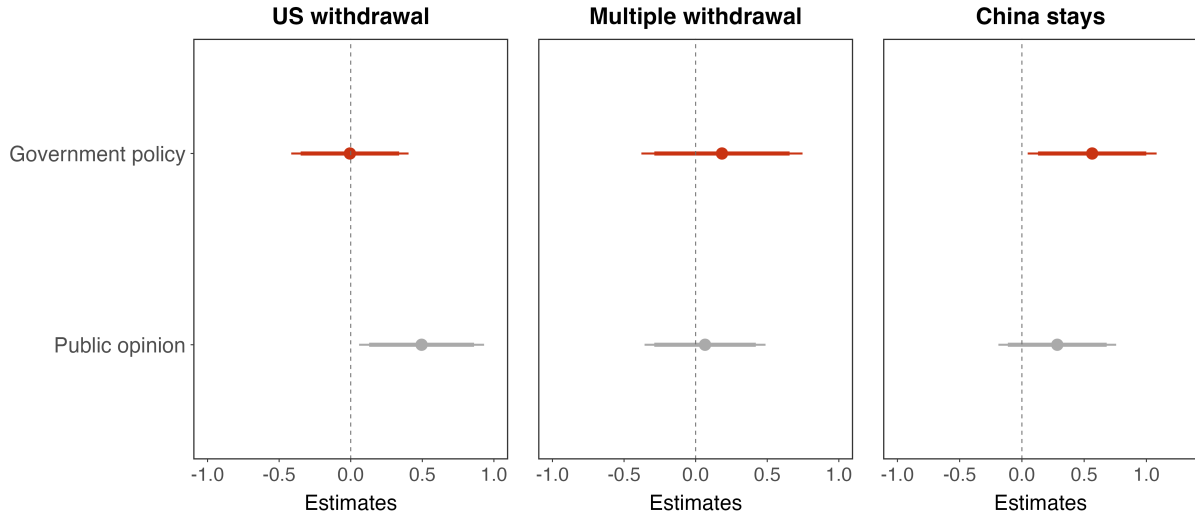


Figure 9: The figure shows the estimated effects of peer pressure and competition concerns on information seeking behaviors. The left panel shows the estimated effects of US firms withdrawal on respondents' willingness to seek more information about US policy and US public opinion. The middle panel shows the estimated effects of multiple countries withdrawal on respondents' willingness to seek more information about Japanese policy and public opinion. The right panel shows the estimated effects of Chinese firms stay on respondents' willingness to seek more information about China's policy and public opinion. All the results are estimated using logistic regressions while accounting for block randomization by industry. The outcome is measured on a scale from 0 (not seeking more information) to 1 (seeking more information). Both 95% and 90% confidence intervals are presented in the plot.

4.3 Behavioral Outcomes

In addition to attitudinal outcomes, we examine whether peer pressure and competition concerns induce a behavioral response. We test whether the vignettes lead respondents to seek more information about market reactions and government policies. We found that respondents showed particular interest in public opinion when treated with the US withdrawal vignette but they became interested in learning about the government's official policy when receiving the China stays vignette. This comports with prior beliefs about the United States as a market-led economy and China as a state-led economy, which shapes the type of uncertainty for business managers and information they seek. Figure 9 shows that upon learning about withdrawal by US firms, respondents are 49.3% more interested in receiving updates on survey results about US public opinion. In contrast,

when they learn that Chinese firms continue to operate in Russia, they are 50.1% more willing to learn about China's current policy details regarding the Ukraine crisis.

5 Conclusion

The role of economic statecraft has moved to the forefront of the global economy amidst trade wars and economic sanctions. But alongside the weaponized interdependence of state-led policies occurs private sector action to politicize markets. We ask how business managers evaluate the decisions over when and how to react to international crises. Our findings show remarkable support for looking beyond profits. Managers are willing to favor non-commercial decisions for reasons unrelated to their reputation with consumers and investors. But they don't make these decisions in isolation. Our central conclusion is that peers and competitors influence preferences for business decisions regarding international political events.

In a randomized experiment on 2,100 Japanese business managers three months after the onset of the Russian invasion of Ukraine, we find that information about how other firms behave conditions the support for withdrawal of business from Russia. Evidence for peer and competitor effects highlights the strategic context in which business engages in decisions about political events. Yet the mixed findings about reputation as the mechanism for this response calls for further research. It appears that managers are not simply anticipating harm to profits through reputation. Instead, they are more concerned about sanction effectiveness and business risks. At the same time, market exposure amplifies how the information about other firms shapes opinion. This implies the managers are attuned to the markets in which they operate.

The behavior of other firms also shapes risk perception. When focused on US firms withdrawal, Japanese managers sought information about public opinion in the United States. In contrast, when prompted with information about Chinese firms they looked

up information on government policy in China. In the midst of uncertainty about future conditions, the behavior of other firms puts a spotlight on particular kinds of risk.

Managers look to other firms for guidance on the hard decisions about whether withdrawal is the best response to a crisis. Being the first to leave would take unusual moral courage and business risk. At the same time, being the last to leave could be morally reprehensible and draw criticism. Therefore, information about what other firms are doing makes a significant difference. The herd mentality of markets may also extend to evaluations of moral choices. The offsetting forces of peer pressure and competitive incentives encourage managers to pay attention to the supply and demand of political positions by other firms.

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A Appendix: Balance Table

Table A.1: Treatment Assignment by Industry Groups

	Textile & Furniture (N=89)		Food & Beverage (N=155)		Chemical & Metal (N=420)		Machinery (N=374)		Construction & Mining (N=562)		Transportation (N=142)		Others (N=213)	
	N	Pct.	N	Pct.	N	Pct.	N	Pct.	N	Pct.	N	Pct.	N	Pct.
Control	12	13.5	23	14.8	61	14.5	54	14.4	84	14.9	21	14.8	31	14.6
US firms withdrawal	14	15.7	23	14.8	60	14.3	53	14.2	79	14.1	19	13.4	31	14.6
US firms withdrawal + reputation	13	14.6	22	14.2	63	15.0	54	14.4	83	14.8	21	14.8	31	14.6
Multiple countries firms withdrawal	12	13.5	21	13.5	61	14.5	54	14.4	81	14.4	19	13.4	31	14.6
Multiple countries firms withdrawal + reputation	13	14.6	23	14.8	60	14.3	54	14.4	83	14.8	21	14.8	29	13.6
Chinese firms stay	13	14.6	22	14.2	55	13.1	51	13.6	74	13.2	21	14.8	30	14.1
Chinese firms stay + reputation	12	13.5	21	13.5	60	14.3	54	14.4	78	13.9	20	14.1	30	14.1

B Preregistered Hypotheses

Table B.1: Hypotheses on Main Effects

Hypothesis 1	Peer Pressure	Respondents are more likely to support Japanese firms withdrawing from Russia when they learn that other firms have withdrawn. Their support will be higher when told that firms from multiple nationalities withdraw, relative to only being told about U.S. firm withdrawals.
Hypothesis 2	Competition Incentive	Respondents are less likely to support Japanese firms withdrawing from Russia upon learning that Chinese firms continue to operate in Russia.
Hypothesis 3	Issue Salience	Respondents who work for firms that conduct business with Russia (importing, exporting, outsourcing, or having local subsidiaries) are more likely to be influenced by other firms' withdrawals, compared to respondents that do not have any business relationship with Russia.

Table B.2: Hypotheses on Mechanisms

Hypothesis 1a	Market Pressures	Respondents who work for firms that conduct business in the United States are more likely to support Japanese firms withdrawing from Russia upon learning about the cases of US withdrawals.
Hypothesis 1b		Respondents who work for firms that conduct business in multiple foreign markets are more likely to support Japanese firms withdrawing from Russia when told that firms from multiple nationalities withdraw.
Hypothesis 2a		Respondents who work for firms that conduct business in China are less likely to support Japanese firms withdrawing from Russia upon learning that Chinese firms continue to operate in Russia.
Hypothesis 4	Reputation Concerns	Respondents are more likely to support Japanese firms withdrawing from Russia when informed that MNCs are withdrawing due to concerns over their business reputations.
Hypothesis 5		Respondents are less likely to support Japanese firms withdrawing from Russia when they learn that Chinese firms still operate in Russia even when other MNCs are withdrawing due to concerns over their business reputations.
Hypothesis 4a		Respondents who work for firms that conduct business overseas are more likely to support Japanese firms withdrawing from Russia when informed that MNCs are withdrawing due to concerns over their business reputations.
Hypothesis 5a		Respondents who work for firms that conduct business in the Chinese market are less likely to support Japanese firms withdrawing from Russia when they learn that Chinese firms still operate in Russia even when other MNCs are withdrawing due to concerns over their business reputations.
Hypothesis 6	Other Mechanisms	Concerns for business risk, secondary sanctions, and reputation costs will mediate respondents' sensitivity to the information about which firms are withdrawing. However, respondents are less likely to support withdrawals after learning that Chinese firms continue to operate in Russia because respondents are less concerned with business risks.

Table B.3: Information Seeking Behaviors

Hypothesis 7	Consumer incentives	Respondents told about US/Japanese/Chinese firms will be more likely to seek information on US/Japanese/Chinese public opinion.
Hypothesis 8	Compliance	Respondents told about US/Japanese/Chinese firms will be more likely to seek information on US/Japanese/Chinese government policies.
Hypothesis 9	Peer pressure	Respondents told about US/Japanese/Chinese firms will be more likely to seek additional detailed information on the behavior of other firms.

C Regression Results

Table C.1: Effects of US Firms Withdrawal on Support for Withdrawal from Russia

	Total		US business		w/o US business	
	Model1	Model2	Model3	Model4	Model5	Model6
Treatment	0.070 (0.208)	-0.036 (0.172)	0.286 (0.267)	0.269 (0.248)	-0.480+ (0.276)	-0.326 (0.241)
Firm-level controls	Yes	No	Yes	No	Yes	No
Individual-level controls	Yes	No	Yes	No	Yes	No
Num.Obs.	454	565	258	276	244	289
RMSE	2.36	2.33	2.32	2.34	2.34	2.33

The table shows the estimated effects of the US withdrawal treatment (compared to the base-line control branch). The left two columns show the estimates for the full sample. The middle (columns 3, 4) and right columns (columns 5, 6) show the estimates for each subgroup: firms with and without business in the US. The support for withdrawal is measured on a scale of 1 (not support) to 3 (support). The results are estimated using ordered logistic regressions, accounting for block randomization by industry.

Table C.2: Effects of Broader Peer Pressure on Support for Withdrawal from Russia

	Total		Foreign business		w/o Foreign business	
	Model1	Model2	Model3	Model4	Model5	Model6
Treatment	0.491* (0.228)	0.172 (0.175)	0.873* (0.392)	0.259 (0.292)	0.194 (0.242)	0.121 (0.219)
Firm-level controls	Yes	No	Yes	No	Yes	No
Individual-level controls	Yes	No	Yes	No	Yes	No
Num.Obs.	427	558	174	212	306	346
RMSE	2.39	2.35	2.42	2.38	2.33	2.33

The table shows the estimated effects of the multiple withdrawal treatment (compared to the US withdrawal branch). The left two columns show the estimates for the full sample. The middle (columns 3, 4) and right columns (columns 5, 6) show the estimates for each subgroup: firms with and without business in foreign countries besides the US. The support for withdrawal is measured on a scale of 1 (not support) to 3 (support). The results are estimated using ordered logistic regressions, accounting for block randomization by industry.

Table C.3: Effects of Chinese Firms Stay on Support for Withdrawal from Russia

	Total		China business		w/o China business	
	Model1	Model2	Model3	Model4	Model5	Model6
Treatment	-0.649** (0.214)	-0.398* (0.175)	-0.742** (0.276)	-0.612* (0.237)	-0.279 (0.314)	-0.139 (0.261)
Firm-level controls	Yes	No	Yes	No	Yes	No
Individual-level controls	Yes	No	Yes	No	Yes	No
Num.Obs.	443	545	264	305	195	240
RMSE	2.36	2.33	2.36	2.34	2.32	2.31

The table shows the estimated effects of the China stays treatment (compared to the multiple withdrawal branch). The left two columns show the estimates for the full sample. The middle (columns 3, 4) and right columns (columns 5, 6) show the estimates for each subgroup: firms with and without business in China. The support for withdrawal is measured on a scale of 1 (not support) to 3 (support). The results are estimated using ordered logistic regressions, accounting for block randomization by industry.

Table C.4: Reputation Effects on Support for Withdrawal from Russia

	Total		US business		w/o us business	
	Model1	Model2	Model3	Model4	Model5	Model6
Reputation treatment	-0.484* (0.216)	-0.349* (0.168)	-0.865** (0.298)	-0.674** (0.244)	0.114 (0.322)	-0.047 (0.235)
Firm-level controls	Yes	No	Yes	No	Yes	No
Individual-level controls	Yes	No	Yes	No	Yes	No
Num.Obs.	425	566	230	278	204	288
RMSE	2.32	2.28	2.30	2.28	2.34	2.28

The table shows the estimated effects of reputation costs for the US withdrawal branch. The left two columns show the estimates for the full sample. The middle and right columns show the estimates for different subgroups (with and without business in the US). All the results are estimated using ordered logistic regressions while accounting for block randomization by industry. The support for withdrawal is measured on a scale from 1 (not support) to 3 (support).

Table C.5: Reputation Effects on Support for Withdrawal from Russia

	Total		Foreign business		w/o Foreign business	
	Model1	Model2	Model3	Model4	Model5	Model6
Reputation treatment	-0.836*** (0.222)	-0.553** (0.172)	-0.864** (0.311)	-0.770** (0.284)	-0.528* (0.256)	-0.429* (0.216)
Firm-level controls	Yes	No	Yes	No	Yes	No
Individual-level controls	Yes	No	Yes	No	Yes	No
Num.Obs.	437	562	201	215	289	347
RMSE	2.35	2.30	2.33	2.33	2.31	2.29

The table shows the estimated effects of reputation costs for the multiple countries withdrawal branch. The left two columns show the estimates for the full sample. The middle and right columns show the estimates for different subgroups (with and without business in other countries). All the results are estimated using ordered logistic regressions while accounting for block randomization by industry. The support for withdrawal is measured on a scale from 1 (not support) to 3 (support).

Table C.6: Reputation Effects on Support for Withdrawal from Russia

	Total		China business		w/o China business	
	Model1	Model2	Model3	Model4	Model5	Model6
Reputation treatment	-0.060 (0.211)	-0.089 (0.171)	0.186 (0.289)	0.151 (0.233)	-0.166 (0.289)	-0.360 (0.254)
Firm-level controls	Yes	No	Yes	No	Yes	No
Individual-level controls	Yes	No	Yes	No	Yes	No
Num.Obs.	445	541	256	294	218	247
RMSE	2.32	2.26	2.32	2.28	2.26	2.24

The table shows the estimated effects of reputation costs for the China stays branch. The left two columns show the estimates for the full sample. The middle and right columns show the estimates for different subgroups (with and without business in China). All the results are estimated using ordered logistic regressions while accounting for block randomization by industry. The support for withdrawal is measured on a scale from 1 (not support) to 3 (support).

Table C.7: Peer Pressure and Competition Concerns on Information Seeking Behaviors.

	Public Opinion			Government Policy		
	US public	China public	Japan public	US policy	China policy	Japan policy
US withdrawal treatment	0.495* (0.223)			-0.006 (0.209)		
China stays treatment		0.284 (0.241)			0.564* (0.264)	
Multiple withdrawal treatment			0.066 (0.216)			0.184 (0.287)
Firm-level controls	Yes	Yes	Yes	Yes	Yes	Yes
Individual-level controls	Yes	Yes	Yes	Yes	Yes	Yes
Num.Obs.	466	437	457	427	405	419
RMSE	0.43	0.41	0.45	0.47	0.40	0.35

The table shows the estimated effects of peer pressure and competition concerns on information seeking behaviors. Column 1 and 4 show the estimated effects of US firms withdrawal on respondents' willingness to seek more information about US policy and US public opinion. Column 2 and 5 the estimated effects of multiple countries withdrawal on respondents' willingness to seek more information about Japanese policy and public opinion. Column 3 and 6 the estimated effects of Chinese firms stay on respondents' willingness to seek more information about China's policy and public opinion. The outcome is measured on a scale from 0 (not seeking more information) to 1 (seeking more information).