

Foreign Direct Investment, Rents, and Politics

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Global Markets & Politics

- Under general conditions economic integration through FDI is supposed to be good:
 - ▶ Access to resources, technology, suppliers, and customers
 - ▶ Efficient allocation of resources
 - ▶ Diffusion of ideas of good governance
- But, it can also result in local and global 'bads':
 - ▶ Uneven distribution of benefits and costs
 - Integration creates winners and losers
 - ▶ Constraints on policy choices
 - Deterioration of standards and practices ("race to the bottom")

Foreign Investment & Politics

- A growing literature on the political consequences of FDI in host countries
 - ▶ **Democracy** (e.g., Bayulgen 2005; Li & Reuveny 2003; Rudra 2005), **Corruption** (e.g., Gerring & Thacker 2005; Malesky et al. 2015; Sandholtz & Gray 2003; Kwok & Tadesse 2006; Larraín & Tavares 2004), **Human rights and labor standards** (e.g., Gallagher, 2005; Mosley 2011; Mosley & Uno 2007), **Inter- and intra-state conflict** (e.g., Blanton & Apodaca 2007; Barbieri & Reuveny 2005; Gartzke et al. 2001; Li 2008), etc.
- Findings are mixed
- **Our project:** Develop a general framework focusing on the impact of inward FDI on rent creation/dissipation, and consequently political outcomes

Theoretical Framework

- FDI inflows have the potential to affect market dynamics and rent extraction, which in turn shape political outcomes
 - ▶ Positive spillovers from FDI are not guaranteed
 - E.g., spillovers depend on local absorptive capacities (Kokko and Blömostrom 1995; 1999, 2003; Caves 1996; Borensztein et al. 1998; Agosin and Mayer 2000; Kobrin 2005)
 - ▶ FDI could also have negative effects in host countries (Evans 1979; Kobrin 1987; Moran 1978, 1998; Spencer 2008)

FDI & Economic Rents

- Intuition from a simple formal framework
- Differences in productivity between foreign investors and local firms affect market structure and economic rents
 - ▶ When the difference in productivity is low,
Competitive effect of entry dominates \Rightarrow Rent dissipation
 - ▶ When the difference in productivity is high,
Crowding out effect dominates \Rightarrow Higher rents
- Rent creation or dissipation affects political outcomes, including corruption, civil war, political stability.

FDI and Corruption: Fortune or Evil?

- FDI leads to concentration in developing countries, and to competition in developed countries
- Higher rents increase opportunities for corruption
- This mechanism has been overlooked in the literature, which focuses on institutions and the costs of getting caught (Malesky et al. 2015 is an exception)

Hypothesis: *When differences in productivity between entrants and incumbent firms are large (small) FDI will result in higher (lower) corruption*

Empirical Strategy:

- Cross-national study
- Both perception- and experience-based measures of corruption
- Endogeneity: instrument FDI with the inverse of *remoteness* (i.e. geographic closeness)
- We find robust evidence:
 - ▶ FDI is associated with higher corruption levels (perceived and experienced) in less developed countries
 - ▶ No association between FDI and corruption in developed countries

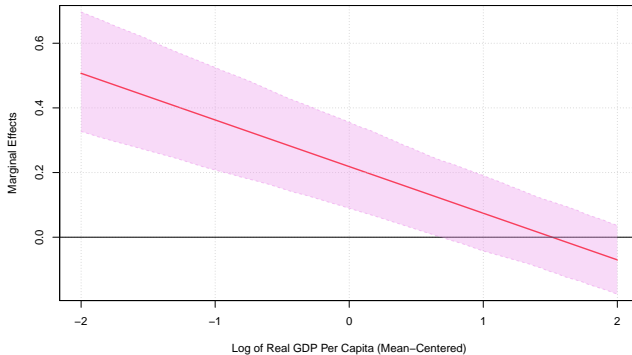
Empirical Model:

$$\text{Corruption}_i = \beta_0 + \beta_1 * \text{FDI}_i + \beta_2 * \text{Ln}(\text{GDPcap}_i) + \beta_3 * \text{FDI}_i \times \text{Ln}(\text{GDPcap}_i) + X_i\xi + \varepsilon_i \quad (1)$$

- **DVs:** Perceived Corruption (CPI – TI) & Experienced Corruption (Bribery Indices – WBES)
- **IVs:** ln(Real FDI per capita); ln(Real GDP per capita)
- **Covariates:** Polity IV Scores, Resource Endowments, Ethnic. Frac., Religion and Legal Origins.

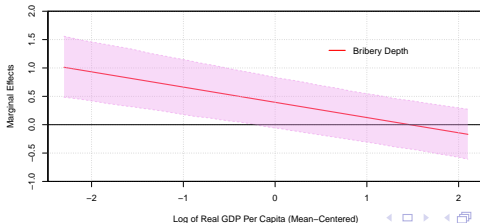
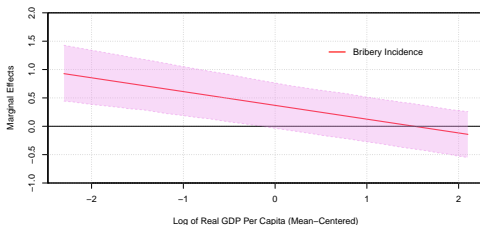
FDI, Rents, & Corruption: Findings

DV: Corruption Perception Index (TI)



FDI, Rents, & Corruption: Findings

DVs: Bribery Incidence & Bribery Depth (WBES)



FDI, Rents, & Civil Conflict

- In developing countries, technology gap b/w MNCs and domestic firms is large
 - ⇒ FDI inflows contribute to higher rent extraction.
 - ⇒ Higher rents increase the incentives of rebel groups to fight against the government.
- State capacity mitigates the positive relationship b/w FDI and conflict.
 - ▶ Strong states more able to collect rents and convert them into public goods, therefore decreasing grievances.

Hypothesis: *Inward FDI will increase the likelihood of civil conflict in weak states but have no effect in strong states.*

Empirical Strategy:

$$\Pr(\text{Conflict}_{i,t} = 1) = \beta_0 + \beta_1 * \text{FDI}_{i,t} + \beta_2 * \text{Capacity}_{i,t} + (2) \\ \beta_3 * \text{FDI}_{i,t} \times \text{Capacity}_{i,t} + X_{i,t}\xi + \varepsilon_{i,t}$$

- **DV:** Onset of civil conflict (UCDP/PRIO) (Gleditsch et al. 2002; Themnér & Wallensteen 2014)
- **IVs:** $\ln(\text{Real FDI per capita})$; Relative Political Extraction (RPE) (Kugler & Arbetman 1997; Kugler & Tanmen, 2012)
- **Covariates:** $\ln(\text{Real GDP per capita})$, $\ln(\text{Population})$, Growth Rate, Polity Scores, Resource Endowments, Ethnic. Frac., Eligous Frac., $\ln(\text{Mountains})$, Noncontiguous, Cold War, and time (cubic polynomial)

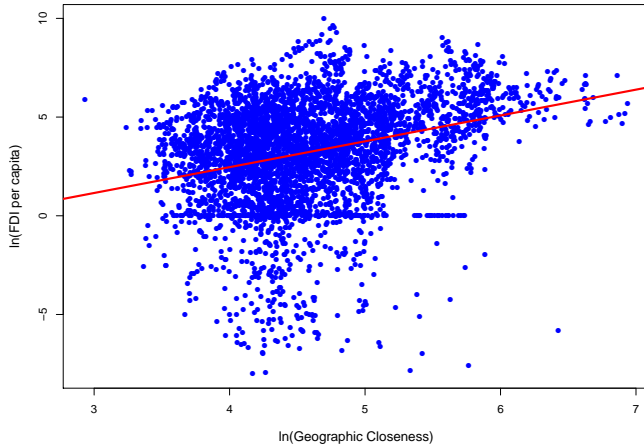
Endogeneity & IV Estimator

- Inverse of *remoteness* – sum of weighted bilateral geographic distances b/w the host country and the 20 wealthiest economies.
- Grounded in the gravity model of foreign investment (e.g., Carr et al. 2001; Loungani et al. 2002; Markusen 1995)
 - ▶ All else being equal, investors prefer closer destinations
 - ▶ Wealthier countries endowed with and export more capital

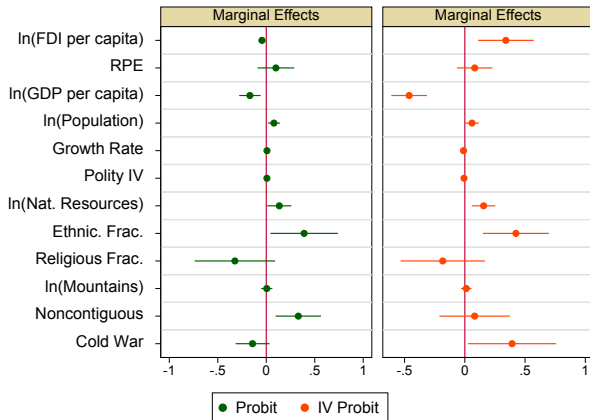
$$Z_{i,t} = \sum_{j=1}^{20} \frac{1}{dist_{i,t,j}} \times GDP \text{ per capita}_{j,t} \quad (3)$$

where $i = 1, 2, 3, \dots, N$, $j = 1, 2, 3, \dots, 20$, and $t = 1, 2, 3, \dots, T$.

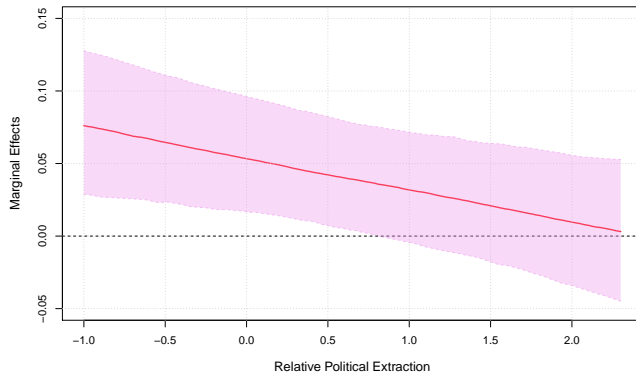
Geographic Closeness & Inward FDI



Inward FDI & Civil Conflict



Inward FDI, State Capacity, & Civil Conflict



Conclusion

- Foreign direct investment is not always a boon
 - ▶ FDI affects economic and political conditions in host countries
 - ▶ Desirability of these effects is source of controversy
- Our study highlights the impact of global forces on domestic market structures and consequently political outcomes
- Important implications for governance, conflict, and political stability
 - ▶ Whether the positive or negative effect dominates depends on conditions in the host
 - FDI associated with more corruption in developing countries
 - FDI associated with higher risk of conflict in weak states

Thank you!

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Empirical Strategy

- DV: TI's *Corruption Perceptions Index* (CPI)
- Issues estimating relationship between FDI and corruption
 - ▶ Corruption can reduce FDI inflows
 - ▶ Prior studies ignore endogeneity problems
(e.g., Alesina and Weder 1999; Smarzynska and Wei 2000; Wei 1997; Larraín and Tavarez is an exception)
- *Remoteness* as an instrument
 - ▶ Weighted distance from the centers of economic activity
 - Twenty wealthiest economies: includes countries in Europe, North America, Middle East, Asia, and the Pacific
Australia, Austria, Belgium, Canada, Denmark, France, Germany, Hong Kong, Iceland, Ireland, Luxembourg, Netherlands, Norway, Qatar, Singapore, Sweden, Switzerland, UAE, UK, US
 - ▶ Grounded in gravity model of FDI
 - Distance affects costs of investment
 - Wealthiest countries are main sources of FDI

Productivity differences and economic rents I

Consider a (duopolistic) market with domestic (d) and foreign (m) firms, facing:

- Prices: $P = a - Q$
- Output: $Q = q^d + q^m$
where: $MNC: q^m$, domestic firms: q^d
- Foreign and domestic firms differ in marginal costs (c^i):
 - ▶ $c^m < c^d$
- When active firms have profits:

$$\pi^d = [a - (q^d + q^m) - c^d]q^d$$

$$\pi^m = [a - (q^d + q^m) - c^m]q^m$$

Productivity differences and economic rents II

- Firms in Cournot competition: choose output conditional on the behavior of other market participants
- Let $\Delta = c^d - c^m$ be the differential in marginal costs
- We can show that effect m 's entry on profits depends on Δ :

$$\pi^d = \frac{(a - c^d - \Delta)^2}{9}, \pi^m = \frac{(a - c^m + \Delta)^2}{9}$$

Countries

Country	GDP/cap (\$1,000)	FDI/cap (\$100)	Democracy (Polity)	Corruption (CPI)	Country	GDP/cap (\$1,000)	FDI/cap (\$100)	Democracy (Polity)	Corruption (CPI)	
Albania	4.1	1.6	16.2	7.5	Madagascar	0.8	0.1	17.0	7.5	
Algeria	5.8	0.7	8.0	7.4	Malawi	0.8	0.0	15.0	6.8	
Argentina	10.5	2.4	18.0	7.0	Malaysia	11.6	2.6	13.0	5.0	
Australia	27.1	9.6	20.0	1.4	Mali	1.1	0.4	16.0	6.9	
Austria	27.5	6.7	20.0	2.1	Mauritius	16.2	1.5	20.0	5.6	
Bangladesh	2.0	0.1	16.0	8.9	Mexico	8.0	2.9	18.0	6.4	
Belgium	25.1	86.5	20.0	3.0	Morocco	3.9	0.6	4.0	6.3	
Benin	1.3	0.2	16.0	6.8	Mozambique	1.3	0.6	16.0	7.4	
Bolivia	3.0	1.4	18.6	7.7	Nepal	1.4	0.0	8.8	7.2	
Botswana	8.0	3.3	19.0	4.0	Netherlands	26.4	23.6	20.0	1.1	
Brazil	7.1	2.5	18.0	6.1	New Zealand	21.6	9.4	20.0	0.5	
Bulgaria	7.9	5.7	18.8	6.1	Nicaragua	3.4	1.7	18.0	7.5	
Burkina Faso	1.0	0.1	9.4	7.0	Niger	0.0	0.0	14.0	7.8	
Cameroon	2.6	0.4	6.0	8.0	Nigeria	1.1	0.3	14.0	8.6	
Canada	27.5	9.6	20.0	1.1	Norway	33.9	5.3	20.0	1.2	
Chile	11.9	5.7	19.0	2.6	Pakistan	2.5	0.2	4.6	7.6	
China	4.6	1.4	3.0	6.6	Panama	8.0	2.9	19.0	6.6	
Colombia	6.1	1.7	17.0	6.4	Papua New Guinea	4.4	0.4	20.0	7.7	
Costa Rica	8.4	2.8	20.0	5.3	Paraguay	4.9	0.4	17.4	8.3	
Cote d'Ivoire	2.1	0.3	14.0	7.6	Peru	4.2	1.2	18.2	6.1	
Cyprus	21.6	17.4	20.0	4.3	Philippines	0.5	3.7	0.5	18.0	7.3
Denmark	28.0	16.1	20.0	0.4	Poland	9.0	4.0	19.6	6.1	
Dominican Republic	6.8	3.0	18.0	6.8	Portugal	17.4	7.3	20.0	3.6	
Ecuador	4.4	1.7	16.0	7.7	Romania	5.8	2.8	18.2	7.2	
Egypt, Arab Rep.	4.6	0.3	4.0	6.7	Senegal	1.4	0.2	18.0	6.9	
El Salvador	4.7	0.9	17.0	6.2	Singapore	28.1	32.7	8.0	0.7	
Ethiopia	0.7	0.4	11.0	7.1	South Africa	8.7	1.5	19.0	5.3	
Finland	23.5	11.0	20.0	0.2	Spain	20.3	10.1	20.0	3.0	
France	25.6	8.1	19.0	3.3	Sri Lanka	4.1	0.4	15.4	6.5	
Gabon	9.8	0.6	6.0	6.7	Sudan	1.1	0.9	3.6	7.8	
Gambia, The	0.9	1.7	5.0	7.4	Sweden	25.9	11.1	20.0	0.8	
Germany	25.3	8.1	20.0	2.4	Switzerland	29.0	12.8	20.0	1.3	
Ghana	1.4	0.4	15.6	6.5	Syrian Arab Republic	2.0	0.3	3.0	6.6	
Greece	15.2	1.5	20.0	5.6	Tanzania	0.9	0.3	12.0	7.5	
Guatemala	3.8	0.4	18.0	6.8	Thailand	6.8	1.2	19.0	6.7	
Honduras	2.3	1.1	17.0	7.5	Trinidad & Tobago	15.4	9.0	20.0	5.3	
Hungary	12.5	7.0	20.0	5.0	Tunisia	7.4	1.9	6.4	5.0	
India	2.8	0.2	19.0	7.2	Turkey	5.6	0.6	17.0	6.6	
Indonesia	4.0	-0.2	16.4	8.1	Uganda	1.1	0.4	6.0	7.8	
Ireland	27.1	41.6	20.0	2.7	United Kingdom	25.6	10.4	20.0	1.4	
Israel	13.3	6.4	20.0	3.0	United States	34.8	5.2	20.0	2.4	
Italy	22.9	3.0	20.0	4.9	Uruguay	9.7	1.7	20.0	4.5	
Jamaica	4.6	2.5	19.0	6.3	Venezuela, RB	7.0	1.4	16.2	7.5	
Japan	24.1	0.5	20.0	3.1	Vietnam	2.4	0.9	3.0	7.5	
Jordan	3.9	1.9	8.0	5.2	Yemen, Rep.	1.1	0.1	8.0	7.5	
Kenya	1.2	0.0	14.0	8.0	Zambia	0.9	0.3	14.2	7.3	
Korea, Rep.	17.0	1.7	18.0	5.7	Zimbabwe	2.9	0.0	3.6	7.4	

List of Countries' Remoteness

Country	Remoteness	Country	Remoteness
Australia	51.5	Mali	124.3
Chile	57.3	Sri Lanka	124.6
Argentina	58.3	Senegal	124.9
Uruguay	58.4	Burkina Faso	126.4
New Zealand	62.2	Niger	130.6
Paraguay	64.0	Thailand	131.0
Bolivia	68.1	United States	131.1
Peru	69.4	Ethiopia	132.1
Brazil	72.7	Bangladesh	139.4
South Africa	73.7	Nepal	143.6
Mozambique	73.7	Canada	145.4
Botswana	74.5	Sudan	153.4
Papua NG	77.3	India	157.0
Ecuador	78.8	Vietnam	159.2
Mauritius	80.7	Pakistan	160.1
Madagascar	81.6	Yemen	163.6
Zimbabwe	81.8	Egypt	204.8
Zambia	84.3	Malaysia	207.4
Colombia	85.3	Israel	210.4
Malawi	86.5	Jordan	210.9
Costa Rica	87.4	Syria	212.7
Singapore	87.4	Morocco	216.0
Panama	88.2	Cyprus	218.8
Nicaragua	89.0	Turkey	240.8
El Salvador	89.5	Greece	254.5
Guatemala	90.0	Portugal	256.8
Japan	90.6	Algeria	261.4
Honduras	91.1	Tunisia	264.5
Mexico	91.1	Spain	304.7
Venezuela	95.5	Albania	314.9
Tanzania	96.9	Bulgaria	315.9
Trinidad Tob.	98.0	Romania	317.9
Korea	99.7	Finland	355.2
Jamaica	102.6	Italy	367.5
Gabon	104.6	Sweden	398.0
China	105.9	Norway	401.0
Kenya	106.2	Ireland	441.6
Dominican Rep.	107.2	Austria	466.9
Uganda	108.8	Poland	478.0
Cameroun	111.6	Denmark	531.2
Ghana	111.7	Hungary	554.2
Indonesia	112.0	Germany	589.1
Cote d'Ivoire	112.6	Switzerland	605.1
Benin	114.7	United Kingdom	602.4
Philippines	121.4	France	786.5
Nigeria	121.5	Netherlands	790.7
Gambia	122.5	Belgium	980.6

Table 1: OLS Regression

Models	(1)	(2)	(3)
FDI stock/cap	-0.16*** (0.02)	-0.16*** (0.02)	0.01 (0.14)
Ln(GDP/cap)			-1.17*** (0.16)
Interactions			
(FDI/cap) × Ln(GDP/cap)			-0.06 (0.08)
Controls			
Democracy (Polity IV)	-0.07** (0.03)	-0.07** (0.03)	-0.00 (0.03)
Fuel, metal and minerals exports	0.97 (0.58)	0.97 (0.59)	1.04** (0.46)
Ln(Openness)	0.32 (0.32)	0.34 (0.33)	0.25 (0.28)
Ethno-ling. fractionalization	1.91*** (0.49)	1.79*** (0.56)	0.34 (0.49)
<i>Religion</i>			
Catholic	0.74 (0.49)	0.81 (0.59)	0.61 (0.48)
Muslim	0.07 (0.59)	0.11 (0.67)	-0.37 (0.53)
Protestant	-3.61*** (0.76)	-3.58*** (0.79)	-3.10*** (0.62)
Legal Origin			
British		0.20 (0.49)	-0.17 (0.39)
French		0.04 (0.53)	-0.26 (0.41)
Constant	4.66*** (1.38)	4.51*** (1.45)	5.10*** (1.19)
<i>N</i>	95	95	95
<i>R</i> ²	0.70	0.71	0.82
Adj. <i>R</i> ²	0.68	0.67	0.80

Notes: Standard errors in parentheses

* significant at 10%, ** significant at 5%; *** significant at 1%

Table 2: Second Stage (2SLS)

Model	(4)	(5)	(6)	(7)	(8)
FDI stock/cap	-0.13** (0.05)	-0.13*** (0.05)	0.35*** (0.11)	0.20** (0.10)	0.22** (0.10)
Ln(GDP/cap)	-1.09*** (0.19)	-1.07*** (0.19)	-1.23*** (0.21)	-1.92*** (0.53)	-2.05*** (0.58)
Interactions					
(FDI/cap) × Ln(GDP/cap)			-0.25*** (0.05)	-0.13*** (0.03)	-0.14*** (0.03)
Controls					
Democracy (Polity IV)	-0.01 (0.03)	-0.00 (0.03)	0.00 (0.03)	0.03 (0.04)	0.05 (0.04)
Fuel, metal, and minerals exports	1.04** (0.45)	1.04** (0.45)	0.79 (0.48)	1.07** (0.53)	1.11* (0.56)
Ln(Openness)	0.33 (0.26)	0.33 (0.26)	-0.43 (0.32)	0.08 (0.32)	0.07 (0.33)
Ethno-ling. fractionalization	0.25 (0.43)	0.33 (0.47)	-0.04 (0.47)	-0.71 (0.81)	-0.66 (0.86)
Religion					
Catholic	0.49 (0.38)	0.54 (0.46)	0.03 (0.42)	0.17 (0.47)	0.31 (0.57)
Muslim	-0.47 (0.47)	-0.41 (0.52)	-0.61 (0.51)	-0.91 (0.61)	-0.79 (0.67)
Protestant	-2.84*** (0.64)	-2.85*** (0.66)	-2.76*** (0.69)	-2.72*** (0.77)	-2.73*** (0.81)
Legal Origin					
British		-0.14 (0.38)			-0.52 (0.48)
French		-0.12 (0.41)			-0.48 (0.53)
Constant	4.83*** (1.10)	4.89*** (1.14)	7.77*** (1.31)	5.65*** (1.32)	5.95*** (1.44)
N	93	93	93	93	93
R ²	0.82	0.83	0.80	0.77	0.76
Adj. R ²	0.81	0.80	0.77	0.74	0.73
	2SLS	2SLS	2SLS	2SLS	2SLS

Notes: Standard errors in parentheses

* significant at 10%, ** significant at 5%, *** significant at 1%

Table 3 – FDI and Bribery

Model	(9)	(10)	(11)	(12)
DV	Bribery Incidence		Bribery Depth	
FDI stock/capita	0.43** (0.19)	0.37* (0.22)	0.46** (0.21)	0.38 (0.24)
Ln(GDP/cap)	-1.44* (0.82)	-1.20 (0.75)	-1.49* (0.89)	-1.29 (0.82)
Interactions				
(FDI/cap) × Ln(GDP/cap)	-0.23*** (0.05)	-0.24*** (0.04)	-0.24*** (0.06)	-0.27*** (0.05)
Controls				
Democracy (Polity IV)	0.00 (0.04)	0.01 (0.03)	0.00 (0.04)	0.01 (0.04)
Fuel, metal, and minerals exports	0.01* (0.01)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)
Ln(Openness)	0.13 (0.42)	0.15 (0.38)	0.19 (0.46)	0.20 (0.42)
Ethno-ling. fractionaliz.	-0.61 (0.87)	-0.42 (0.81)	-0.52 (0.94)	-0.36 (0.89)
<i>Religion</i>				
Catholic	-0.08 (0.48)	0.29 (0.63)	-0.09 (0.52)	0.38 (0.69)
Muslim	-0.14 (0.52)	0.19 (0.66)	0.02 (0.57)	0.47 (0.72)
Protestant	-2.60* (1.36)	-2.17 (1.82)	-2.41 (1.48)	-1.55 (2.00)
<i>Legal Origin</i>				
British		-0.06 (0.62)		-0.42 (0.68)
French		-0.41 (0.58)		-0.65 (0.64)
Constant	1.42 (1.91)	1.48 (1.80)	0.69 (2.08)	0.94 (1.98)
N	97	91	97	91
R ²	0.31	0.36	0.31	0.36
Adj. R ²	0.23	0.26	0.23	0.26
	2SLS	2SLS	2SLS	2SLS

Notes: Standard errors in parentheses

* significant at 10%, ** significant at 5%; *** significant at 1%

IV Reg. – Second Stage (with outliers)

Model	(1)	(2)	(3)	(4)	(5)	(6)
DV	CPI	CPI	Bribery Incidence	Bribery Incidence	Bribery Depth	Bribery Depth
FDI/cap	0.25*** (0.06)	2.03*** (0.66)	0.27*** (0.10)	0.30*** (0.10)	0.27** (0.11)	0.33*** (0.11)
Ln(GDP/cap)	-2.05*** (0.47)	-1.98*** (0.49)	-1.63*** (0.55)	-1.69*** (0.56)	-1.63*** (0.59)	-1.87*** (0.62)
Interactions (FDI/cap) × Ln(GDP/cap)	-0.16*** (0.03)	-1.35*** (0.30)	-0.09*** (0.03)	-0.11*** (0.03)	-0.09** (0.03)	-0.12*** (0.04)
Controls						
Democracy (Polity IV)	0.05 (0.04)	0.04 (0.04)	0.01 (0.04)	0.01 (0.04)	0.00 (0.04)	0.01 (0.04)
Fuel, metal, and minerals exports Ln(Openness)	1.11** (0.55)	1.10* (0.55)	0.02** (0.01)	0.02** (0.01)	0.02** (0.01)	0.02** (0.01)
Ethno-ling. fractionaliz.	0.01 (0.32)	0.05 (0.32)	0.30 (0.40)	0.28 (0.42)	0.36 (0.40)	0.34 (0.47)
Religion						
Catholic	-0.61 (0.82)	-0.50 (0.84)	-0.72 (0.79)	-0.70 (0.87)	-0.62 (0.84)	-0.67 (0.96)
Muslim	0.32 (0.55)	0.41 (0.55)	-0.08 (0.48)	0.42 (0.75)	-0.09 (0.52)	0.52 (0.83)
Protestant	-0.75 (0.64)	-0.67 (0.65)	-0.12 (0.53)	0.17 (0.69)	0.06 (0.57)	0.42 (0.77)
Legal Origin						
British	-2.76*** (0.76)	-2.59*** (0.77)	-2.40* (1.21)	-2.44* (1.40)	-2.14 (1.29)	-2.00 (1.55)
French	-0.55 (0.47)	-0.44 (0.45)		-0.05 (0.55)		-0.37 (0.61)
Constant	-0.51 (0.50)	-0.39 (0.50)	0.75 (1.87)	0.84 (1.97)	0.03 (1.99)	0.19 (2.19)
N	6.12*** (1.38)	5.82*** (1.37)	0.75 (1.87)	0.84 (1.97)	0.03 (1.99)	0.19 (2.19)
R ²	95	95	102	96	102	96
Adj. R ²	0.77	0.77	0.26	0.22	0.27	0.22
IV	0.74	0.74	0.18	0.11	0.19	0.10
	FDI Stocks	FDI Inflows	FDI Stocks	FDI Stocks	FDI Stocks	FDI Stocks
	2SLS	2SLS	2SLS	2SLS	2SLS	2SLS

Notes: Standard errors in parentheses

* significant at 10%, ** significant at 5%; *** significant at 1%

Table B: Robustness Checks – Corruption

Model	(1)	(2)	(3)	(4)
DV	ICRG	ICRG	WB	WB
FDI stock/capita	0.20* (0.12)	0.33** (0.14)	0.05 (0.04)	0.10** (0.05)
Ln(GDP/cap)	-1.18* (0.69)	-0.55** (0.26)	-0.67*** (0.16)	-0.46*** (0.08)
Democracy (Polity IV)	-0.03 (0.05)	-0.01 (0.04)	-0.01 (0.01)	0.00 (0.01)
Interactions				
(FDI/cap) × Ln(GDP/cap)	-0.12*** (0.03)		-0.06*** (0.01)	
(FDI/cap) × Democracy		-0.04*** (0.01)		-0.02*** (0.00)
(FDI/cap) ×				
Controls				
Fuel, metal, and minerals exports	1.51** (0.62)	1.39** (0.57)	0.63*** (0.22)	0.61*** (0.22)
Ln(Openness)	-0.21 (0.37)	-0.64 (0.40)	0.11 (0.12)	-0.10 (0.14)
Ethno-ling. fractionalization	0.26 (1.01)	1.06* (0.61)	-0.05 (0.26)	0.26 (0.21)
Religion				
Catholic	-0.13 (0.64)	-0.22 (0.60)	0.25 (0.23)	0.22 (0.22)
Muslim	-1.00 (0.77)	-1.11 (0.69)	-0.28 (0.25)	-0.35 (0.24)
Protestant	-2.99*** (0.89)	-3.58*** (0.84)	-0.80** (0.31)	-1.13*** (0.31)
Legal Origin				
British	-0.31 (0.53)	-0.41 (0.49)	0.07 (0.17)	-0.07 (0.18)
French	-0.54 (0.60)	-0.75 (0.55)	-0.01 (0.20)	-0.20 (0.20)
Constant	6.96*** (1.67)	8.91*** (1.77)	-0.52 (0.52)	0.56 (0.63)
N	91	91	99	99
R ²	0.60	0.64	0.81	0.80
Adj. R ²	0.54	0.59	0.78	0.78
	2SLS	2SLS	2SLS	2SLS

Notes: Standard errors in parentheses

* significant at 10%, ** significant at 5%; *** significant at 1%