Monopoly Rents and Foreign Direct Investment in Fixed Assets

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In the past two decades, much of foreign direct investment (FDI) in the primary sector has flowed to unconventional, politically risky destinations. This presents a puzzle for theories that emphasize the ex post immobility of—and hence high potential expropriation risk for—fixed asset investment. Existing theories overlook one critical aspect of fixed assets: large capital requirements and high sunk costs act as entry barriers, resulting in market concentration and strong firm incentive for monopoly rent extraction. Personalist dictatorships, we posit, provide an attractive institutional environment for fixed asset investors. In such systems, the control of key economic sectors by the families of leaders, combined with a lack of institutional constraints, facilitate rent-seeking activities. We find that personalist dictatorships receive significantly more foreign investment in the primary sector, and fixed-asset intensive industries in general, than other regimes. This study highlights the importance of accounting for heterogeneity among investors and political regimes to understand the politics of FDI.

The past two decades have seen a resurgence of foreign direct investment (FDI) in the primary sector, mainly in the extractive industries; developing and transition economies have become increasingly important investment destinations (UNCTAD 2007). Much of this investment flows to unconventional, politically risk destinations. For instance, the boom of foreign investment into Africa in the first decade of the new century mostly involves investments in the extractive sector; top recipients include Sudan, Guinea, Chad, Tanzania, Ethiopia, Zambia, Uganda, Burundi, Madagascar, and Mali (UNCTAD 2007, 36). By contrast, investment in manufacturing industries in this region has grown slowly. In some sub-Saharan countries it has even declined (UNCTAD 2006). The large expansion of primary sector investment in the developing world represents a revival of global interest. It reverses the divestment trend during the 1960s and 1970s that followed widespread nationalization and expropriation of foreign investment after decolonization and independence in many developing countries (Robrin 1984).

Yet, the surge of primary sector FDI in the developing world in general, and low-income authoritarian countries in particular, seems puzzling. Observers generally see these countries as posing great political risk. Investments in the primary sector typically involve a large amount of fixed assets and consequent high sunk costs. Once these investments take place, they become an “obsolescing bargain” due to their ex post immobility and, therefore, stuck under the risk of government expropriation (Vernon 1971, 1980). Foreign investors in fixed assets should, in turn, favor countries with high institutional constraints and strong property rights protection (for example, Henisz 2000; Jensen 2003, 2006; Li and Resnick 2003).

Given this, what drives fixed asset investors into politically risky countries? Multinational corporations (MNCs) are rational actors. They weigh potential benefits against risks. While asset immobility and expropriation risk remain important factors when MNCs make investment decisions, the recent political economy of FDI literature overlooks investors’ incentives for monopoly rent extraction. These incentives are shaped by firm-specific assets, industry characteristics, and host countries’ institutional environments.

We emphasize the role of fixed assets as entry barriers in shaping market dynamics and MNCs’ preferences for institutional environments. Large initial capital requirements and consequent high sunk costs associated with fixed asset investments deter potential rivals. They thus limit market competition; market concentration in turn gives rise to opportunities for MNCs to extract monopoly or oligopoly rents. MNCs’ seeking of monopoly rents, however, depends on the host government’s policies and regulations that can either reinforce or weaken rent-seeking activities. Compared with democracies, authoritarian countries should provide a favorable institutional environment; they are more likely to tolerate MNCs’ monopoly or oligopoly because they lack competitive elections and are less likely to hold individual leaders accountable (Li and Resnick 2003, 182–83). Yet, not all authoritarian regimes are alike (Geddes 2003). Rulers in personalist dictatorships typically lack formal institutions that check their individual power and these leaders’ families and close political allies often control key economic sectors. Thus, we posit that personalist dictatorships facilitate monopoly rent extraction and are therefore attractive to fixed asset investors.
To test this argument, following the “obsolescing bargain” literature (Vernon 1971, 1980), we proxy fixed asset intensity by sector of investment: primary sector as high fixed-asset intensive and secondary sector as low fixed-asset intensive. Utilizing sectoral FDI inflow data from the United Nations Conference on Trade and Development (UNCTAD) for developing countries over the period of 1980–2010, we find that personalist dictatorships attract more primary sector FDI as a share of gross domestic product (GDP) than other political regimes. We also show that the correlation between personalist dictatorships and fixed asset investment goes beyond the primary sector and holds for fixed-asset intensive investment in general. In other words, personalism correlates positively with FDI in non-fixed-asset intensive industries. Furthermore, we examine the underlying mechanisms and provide evidence that personalist dictatorships have less transparency and accountability, more corruption prosecutions, and higher market concentration in the primary sector. These findings show that personalist dictatorships tolerate market concentration and facilitate monopoly rent extraction. Taken together, our results suggest that foreign investors in fixed assets, who seek to extract monopoly or oligopoly rents, favor institutional environments that restrict market competition and lack transparency and accountability.

Our findings may seem counterintuitive at first glance. Due to the ex post immobility of fixed asset investment and its high sunk costs, MNCs should be primarily concerned about host governments’ opportunistic behavior in personalist regimes. Yet, nationalization and direct expropriation following decolonization and independence of developing countries largely ended by the late 1970s (Kobrin 1984; Wilson and Wright 2017), as shown in Figure 1. In the past three decades, developing countries hold much more positive attitudes toward, and display growing confidence in, dealing with MNCs. They increasingly embrace liberalization, deregulation, and privatization (UNCTAD 2007). Their policies are heavily influenced by the prevailing neoclassical economic ideas and Washington Consensus advocated by the World Bank and International Monetary Fund.

Furthermore, MNCs are capable of protecting their assets, even in extractive industries, by leveraging a variety of strategies such as forming joint ventures, establishing vertical linkages, diversifying assets across sectors, building transnational alliances, exploiting issue linkages in negotiations, and lobbying their home governments (see Moran 1973; Jenkins 1986; Eden, Lenway, and Schuler 2005; Post 2014; Markus 2015; Johns and Wellhausen 2016; Post and Murillo 2016). These strategies help MNCs to lower de facto political risk in personalist regimes. For instance, BP is able to protect itself from the Azerbaijani government’s expropriation by cultivating an extensive relationship with local suppliers; this creates a “common roof” for protection (Johns and Wellhausen 2016, 46–47). In the past decades the risk of outright asset expropriation has been lower than during the immediate post-WWII decades. The incentive for MNCs to seek institutional environments where monopoly rent extraction is greatest should therefore increase. Even if governments engage in “creeping expropriation” (Graham, Johnston, and Kingsley 2017), the incentive to exploit monopoly rents may trump the risks associated with adverse government behavior that falls short of outright asset seizure.

It remains to be seen whether conditions alter in the future due to the recent rise of populism and nationalism throughout the world and unfavorable legislation in some countries. Yet, we believe large-scale nationalization and asset expropriation are unlikely to occur, given the fundamental changes of developing countries’ FDI policies and the diffusion of international investment and trade agreements in the past decades. These practices significantly constrain government’s policy discretion and provide credible investor...
Our study extends the literature on political institutions and FDI in two crucial ways. First, we highlight the importance of the heterogeneity of foreign investors in understanding MNCs’ preferences for institutional environments. Our research reflects scholars’ recent efforts to disaggregate FDI. For instance, Blanton and Blanton (2009) show that foreign investors with high skill levels and intention for societal integration in the host favor countries that respect human rights. This is because human rights protection encourages citizens’ investment in human capital and facilitates firms’ cultivation of “social license” (Blanton and Blanton 2009, 474). Kerner (2014) and Kerner and Lawrence (2012) suggest that institutional constraints are particularly attractive to the type of investment that is vulnerable to political risk. MNCs differ widely in their capital intensity, asset mobility, skill profiles, and so forth, which should drive their choice of investment locations—including the institutional environment—that allow them to best capitalize on their firm-specific assets.

Second, the existing literature focuses primarily on the broad distinction between democracy and autocracy in attracting foreign investment. This dichotomous conceptualization hides critical differences within each regime type. Dictatorships differ as much from each other as they do from democracies (Geddes 2003), and a large literature establishes that the political institutions autocratic leaders employ to build support coalitions and share power influence political and economic outcomes in these regimes (for example, Gandhi and Przeworski 2006; Wright 2008; Gehlbach and Keefer 2012; Svolik 2012). One central message from this article is that different political regimes offer distinct institutional settings that are attractive to different types of foreign investors.

Our findings matter for governance both in autocratic contexts and for the global economy. Foreign investors in the primary sector are not necessarily deterred by high political risk in personalist regimes (see Wilson and Wright 2017). Instead, they invest in these regimes to extract monopoly rents. This type of foreign investment likely stifles market competition and results in more corruption that undermines governance (see Malesky, Gueorguiev, and Jensen 2015; Pinto and Zhu 2016; Zhu 2017). Further, the rents accruing to the leader help sustain a personalist rule that represses political freedom and civil liberties. These foreign investments in personalist regimes can thus lead to the deterioration of citizens’ civil and political rights (for comparison, see Blanton and Blanton 2007; Mosley and Uno 2007). In these settings, strengthening regulations to improve governance from inside is likely to be difficult. Outside efforts to push for transparency and accountability of both MNCs and host governments, such as extraterritorial interventions (Kaczmarek and Newman 2011), are more likely to prove effective.

**Fixed Assets, Monopoly Rents, and Foreign Investment**

One foci in the political economy of FDI literature is whether democratic institutions attract more foreign investment. Early work suggests that authoritarian leaders, in an effort to promote industrialization, safeguard MNCs’ monopoly rents by suppressing wages, labor unions, and the populist demand for consumption (see, for example, O’Donnell 1978, 1988 on Latin America). While Onell (1994) finds no evidence that authoritarian regimes attract more US foreign investment, this study shows that returns are higher in dictatorships.

More recently, scholars adopt a Neoinstitutionalist approach to study the role of host countries’ political institutions in affecting FDI inflows. This literature starts with the premise that footprint capital becomes relatively immobile ex post, and thus a hostage to host governments (Vernon 1971, 1980). To attract foreign investment, host governments have ex ante incentives to minimize arbitrary interventions and commit to liberal economic policies. Nonetheless, a challenge remains insofar as it is difficult for host governments to credibly commit to forgo opportunistic behavior ex post, given foreign investment’s relative immobility. Scholars thus posit that democratic institutions—such as checks and balances, veto players, and audience costs—prevent the state’s predatory behavior by ensuring policy stability and providing property rights protection, thereby attracting FDI (for example, Henisz 2000; Jensen 2003, 2006; Li and Resnick 2003). However, empirical studies provide mixed evidence with regard to the relationship between democracy and aggregate FDI inflows (see, for example, Resnick 2001; Jensen 2003, 2006; Li and Resnick 2003; Jakobsen and De Soysa 2006; Busse and Hefeker 2007; Yang 2007; Li 2009; Asiedu and Lien 2011). Recent work suggests that aggregate FDI inflows may not be an appropriate measure to capture the risk-mitigating role of democratic institutions (Kerner 2014). Other firm-level studies suggest that policy environments and specific institutional features such as rule of law and property rights protection may be more important than democracy itself (for example, Biglaiser and Staats 2010).

The existing literature focuses on one aspect of fixed assets—ex post immobility—and investors’ vulnerability to host governments’ opportunistic behavior. While asset immobility, we believe, still remains important in analyzing MNCs’ investment strategies, the incidence of direct expropriation has been low since the end of the oil price shocks in the 1970s and the start of the Washington Consensus in the 1980s. Nowadays, host governments are more likely to engage in indirect or creeping expropriation such as subtle changes in taxation and regulation or contract renegotiation (see Graham et al. 2017; Post and Murillo 2016). Compared to direct asset takeover, creeping expropriation is arguably less damaging to fixed asset investors because firms’ control rights of physical assets remain uncontested. We argue that emphasizing the ex post immobility overlooks another critical aspect of fixed asset investment: high initial capital requirements and the substantial sunk costs that act as entry barriers to shape market dynamics and opportunities for monopoly rent extraction.

Fixed asset investments require the transformation of large amounts of capital into property, plant, machinery, and equipment. High capital requirements are beyond the reach of many firms and create entry barriers for potential competitors (Bain 1956; Duettsch 1984; Geroski 1995). Firm executives consider high capital requirements as one of the most important entry barriers (Karaka and Stahl 1989; Karaka 2002). Furthermore, fixed asset investments incur high sunk costs that are not recoverable. Fixed assets that become sunk costs ex post entail substantial economies of

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6 Koivumaeki (2015) studies recent nationalizations in the oil sector in Bolivia and Venezuela and shows that BITs have little binding effect on leaders’ behavior when the underlying economic conditions favor expropriation.  
7 See Figure 1 as well as Guriev, Kolotilin, and Sonin (2011) and Wilson and Wright (2017).
scale (Bain 1956). New entrants must enter on a sufficiently large scale to avoid diseconomies (Scherer 1973; Harrigan 1981). This increases the risk of entry because expected profits need to be higher than the sunk costs of entry for the firm to be profitable, and these unrecoverable costs will be lost if the entry fails (Baumol and Willig 1981, 418).

Therefore, large capital requirements and substantial economies of scale in sunk costs associated with fixed asset investments constitute barriers for potential entrants, resulting in market concentration (Bain 1956; Baumol and Willig 1981; Harrigan 1981; Shafer 1994). For instance, in the resource sector characterized by high fixed assets, the top three companies control 74 percent of world iron ore production for export, and the largest ten companies account for about 41 percent of global oil and gas production (UNCTAD 2007). Empirical studies show that capital requirements are a significant determinant of firm size (Kumar, Rajan, and Zingales 1999) and market concentration (Mitton 2008). When a few players dominate the market, it gives rise to opportunities for firms to extracting monopoly or oligopoly rents, irrespective of their motivations for investment (for example, market-seeking or export-oriented).

While high entry barriers in fixed-asset intensive industries enhance MNCs’ incentive to pursue monopoly or oligopoly rents, actual rent extraction depends on host governments that regulate market entry and competition. Due to natural entry barriers in fixed-asset intensive industries, market tends to be concentrated. Host governments can either strengthen or weaken market concentration and rent-seeking activities in these industries by enforcing regulations to limit entrants or by strengthening antitrust policy. Mitton (2008) shows that strong institutions, such as rule of law and antitrust policy, have a particularly strong effect on reducing concentration in industries with natural entry barriers. Monopoly or oligopoly is not compatible with— and often contradictory to— host governments’ policy objectives for redistribution, industrial protection, and antitrust regulation. In democracies, governments tend to limit MNCs’ exploitation of monopolistic or oligopolistic rents. Electoral competition, as well as a free press and the relatively low cost of political mobilization, empower the public and incumbents (Dahl 1971). In consequence, democratic governments have strong incentives to constrain MNCs’ monopolistic or oligopolistic market positions that harm leaders’ constituencies by hurting indigenous firms and reducing consumers’ welfare if monopolists or oligopolists charge a higher price (Li and Resnick 2003, 182–83).

In contrast, uncompetitive elections and limited political participation in autocracies mean that the political cost of MNCs’ monopoly rent extraction is lower. However, not all authoritarian regimes are alike (Geddes 2003). We distinguish personalist dictatorships from other autocracies to argue that personalist dictatorships are particularly attractive to investors in fixed assets. Political rule in personalist regimes is less likely to be based on power-sharing agreements made credible through formal institutions and more likely to depend on personal loyalties bought with immediate rewards and material benefits, often distributed via an elite patronage network run through the leader’s family (Snyder 1992; Bratton and van de Walle 1994; Chehabi and Linz 1998). The ability of autocratic institutions to constrain the leader hinges crucially on the distribution of power between the leader and the support coalition (Svolik 2012, 101). Because power is consolidated in the hands of the dictator, power-sharing through formal institutions in personalist regimes lacks credibility. Political institutions such as legislatures do not constrain the leader; rather, they are venues to distribute patronage and identify potential opponents (Wilson and Wright 2017, 4).

Political loyalty in these contexts therefore depends on the rewards accrued from clientelistic practices and not on formal institutions that enable the dictator to make credible promises about future behavior or that allow broad access to decision-making (Wright 2008). Leaders in personalist dictatorships maintain their power by extracting rents from the economy to pay supporters. These leaders thus have strong incentives to limit market competition to create business networks conducive to rent extraction.

Personalist dictators’ interest in extracting rents to sustain their rule aligns with fixed asset investors’ incentive to exploit oligopolistic or monopolistic positions. Dictators in these regimes have personal control of policy decisions and access to office (Geddes 2003). The lack of institutional constraints and the prevalence of family control of economic sectors in these regimes, on the one hand, imply high potential political risk for investors; on the other hand, they make it easier for MNCs to bribe or collude with host governments to guarantee privileged access and strike exclusive deals. Despite weak rule of law and high corruption (Chang and Golden 2010), personalist regimes provide an attractive environment that facilitates monopoly or oligopoly rent extraction. For example, O’Neill (2014, 183) notes that Chinese fixed asset investment in Cambodia occurs only with the direct approval of an unchecked leader: “Hun Sen has the final say on all such [investment] projects regardless of whether they have been approved or rejected by government ministries.”

In such cases, MNCs’ incentives for monopoly rent extraction outweigh concerns of political risk, including the risk of contract renegotiation. This is especially the case during an era in which neoliberal economic ideas prevail and the incidence of direct expropriation is relatively low (Eden et al. 2005; Wilson and Wright 2017, 9). Indeed, O’Neill (2014, 184) concludes that Chinese firms— particularly state-owned enterprises with fixed assets— invest in Cambodia despite the political risks: “[t]he political risk, weak rule of law, and high corruption resulting from Cambodia’s political institutions create a poor investment environment.”

The case of a manganese mine in Burkina Faso illustrates both why MNC investors enter markets in personalist regimes and how they succeed in securing rents despite the political risks endemic to such regimes. Under Compaoré’s personalist rule, one MNC investor ousted another to take control over the Tambao mine in 2012. Despite the fact

8 Sunk costs cannot be recovered and remain even if a plant stops production. They are distinct from fixed costs because the latter do not vary with output and go to zero as output drops.

9 Dictators could rely on national firms to extract rents. Many developing countries, however, still lack the financial resources, technology, and risk management skills to succeed in capital-intensive investments without resorting to MNCs (Shafer 1994; UNCTAD 2007, 92).

10 The regime’s durability could be a concern when MNCs make investment decisions. Compared with other dictatorships, personalist regimes are not particularly short-lived. During the sample period, the average duration of personalist regimes is fourteen years, longer than average duration for democracy (thirteen) or other regimes (ten), but shorter than that for monarchies (seventy-one) and dominant party regimes (three-hundred). 11 Hun Sen’s personalist rule is based on “family ties, constructed through arranged marriages” that form “Cambodia’s somewhat opaque ruling coalition” (O’Neill 2014, 185).

12 Private Chinese firms in the secondary sector also invest in Cambodia. However, O’Neill (2014, 191–92) argues that “investment in Cambodia’s garment sector is unique within China’s global FDI portfolio,” in part, because in markets outside Cambodia “Chinese companies do not enjoy the type of cultural and linguistic ties with large local Chinese communities that facilitate Chinese investment in Cambodia’s garment sector.”
that the Burkinabé government had reached an agreement with a Dubai-based mining consortium in 2007, the head of the privately owned Pan African Minerals, Frank Timis, lobbied the regime’s leader’s wife and allegedly paid his brother more than $8 million in bribes to secure access to the mine (Madsen 2015; Prince 2015; Werthmann 2016). The “open international tender” was cancelled, and Timis was granted the rights (Madsen 2015). The government paid an additional $15 million to compensate the ousted MNC after the latter sued the government in international court.

When Compaoré’s regime fell after the 2014 uprisings, the newly elected government struck down the agreement with Timis, forcing his mining operations to a halt. Timis initially sought $385 million in arbitration but is now asking for more than $1 billion in court (Farge 2016; West Africa Newsletter 2017). The difference in the size of the damages (between $385 million and $1.2 billion) sought by Timis and the damages ($15 million) and bribes ($8 million) paid to secure the contract provide some evidence of the expected rent extraction on the part of the MNC investor. Further, a commission established to assess resource contracts handed out during the Compaoré regime “concluded that the Burkinabé state suffered from a loss . . . of almost a billion US dollars through fraud, lack of taxation, and nonpayment of fees” (Werthmann 2016). This again suggests that the size of the extracted rents accruing to MNC’s in this case vastly outweighed the costs associated with bribes and adverse government behavior.

In nonpersonalist dictatorships, a single leader does not control decisions about policy and personnel; instead, the dominant party in party regimes, juntas in military regimes, and a royal family in monarchies play a critical role (Geddes 2003; Geddes, Wright, and Frantz 2014). Military and party regimes rely more on a productive economy to sustain authoritarian rule and on formal institutions for power sharing (Wright 2008). These political institutions facilitate the collective action of regime supporters including domestic investors (Gehlbach and Keefer 2012). The diversity of elite interests and regime supporters’ capacity to act collectively in nonpersonalist regimes limit leaders’ discretion in offering privileges to or striking exclusive deals with MNCs that seek monopoly rents.

The pattern of antitrust regulations across different regimes helps to illustrate our point. According to the World Economic Forum’s Global Competitiveness Report, in developing countries from 2007 to 2010, the average antitrust effectiveness score for personalist regimes is 3.37 in a range from 1 (least effective) to 7 (most effective). It is the lowest compared to other regimes (3.54 for military regimes, 3.83 for party regimes, 4.17 for monarchies, and 4.22 for democracies). The effectiveness of antitrust policy across regimes is consistent with our argument that personal dictatorships, because of the lack of institutional constraints and leaders’ families’ control of key economic sectors, tolerate market concentration and facilitate rent extraction. Therefore, we hypothesize the following:

**H1:** All else being equal, compared to other regimes, personalist dictatorships are more attractive to foreign investors with high fixed assets.

Conversely, this argument suggests that non-fixed-asset intensive investments involve lower sunk costs, and thus lower entry barriers. Given low entry barriers, there are more incumbent firms and potential entrants, contributing to greater market competition. In this sense, opportunities for firms to exploit oligopolistic or monopolistic market positions are low. Investors with low fixed assets still retain substantial bargaining power ex post by leveraging exit options. Therefore, these investors should favor an institutional environment that protects property rights and constrains government’s opportunistic behavior. Thus we expect that personalist dictatorships should attract more non-fixed-asset intensive FDI than other political regimes.

**Empirical Analysis**

To test the hypothesis, we follow the “obsolescing bargain” literature (Vernon 1971, 1980) and proxy FDI’s fixed asset intensity by sector of investment—primary versus secondary. The central argument of the “obsolescing bargain” model is that high fixed asset investments in the extractive industry become sunk costs ex post and thus a hostage to the host government. On the contrary, MNCs in the manufacturing sector characterized by relatively high mobility, changing technology, and global integration possess substantial bargaining power and are less likely to turn into an obsolescent bargain (Kobrin 1987). On average, investments in the primary sector should require higher capital expenditures than those in the secondary sector. For instance, in 2013 the net value of property, plant, and equipment accounts for about 40 percent of total assets of majority-owned foreign affiliates of US MNCs in the mining sector, compared to 17 percent in the manufacturing sector. Thus, sectoral investment should be a good proxy for fixed asset intensity.

We utilize sectoral FDI inflow data from UNCTAD. The data span the years from 1980 to 2010. There are two drawbacks to using this data. First, the data coverage is poor. As overall FDI to developing countries increased from the early 1980s through the 2000s, countries became more likely to report sectoral FDI data. This means many low FDI observations have missing data, particularly in the 1980s. We address this issue by using multiply imputed data for missing values for the sixty-one countries that have at least one observation of sectoral FDI in the time series. Imputing missing data in country-series with at least one observation of sectoral FDI data should allay concerns about bias arising from dropping observations from the estimating sample early in country time series, particularly when FDI inflows are low.

The geographic coverage of the data series is also poor. A substantial number of countries in a sample with available data on total FDI (109 countries) have missing data for the entire time series for sectoral data (forty-eight countries). If the dropped countries are those with high primary FDI but low personalism or with low primary FDI but high personalism, excluding them would bias our estimates upward.

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13 The index is constructed based on executives’ responses to the following question in the World Economic Forum’s Executive Opinion Survey: “in your country, how effective are antimonopoly policies at ensuring fair competition?”

14 The primary sector includes both the agricultural and extractive industries. Fixed asset intensity varies within the agricultural industries. Large industrial plantation production such as tea and rubber is characterized by capital intensity and oligopoly; by contrast, small cash crop production such as coffee has low entry barriers and high market competition (Shafer 1994). Our results are consistent and robust if we exclude agricultural FDI from primary FDI. We later produce results at a more disaggregated industry level, which show that personalism correlates positively with FDI in fixed asset intensive industries in general, but the relationship turns negative in non-fixed-asset intensive industries. See Figure 8.

15 Calculation is based on data from the US Bureau of Economic Analysis.

16 We do not impute data for countries that the entire time series of sectoral FDI is missing because we are concerned that doing so may introduce more bias.
This is because these omitted observations would indicate a negative relationship between personalism and primary FDI.

To assess this possibility, we examine whether the sixty-one countries in the estimating sample differ along key dimensions from the forty-eight countries excluded from the estimating sample. We chose not to impute missing data for the latter forty-eight countries because they had no observations with any sectoral FDI data. Figure 2 plots average level of three variables—total FDI from all sectors, oil rents, and GDP per capita—for each regime type in the data for the sixty-one countries in the estimating samples (included countries) and for the forty-eight countries not in the sample (excluded countries).

The top panel shows that, among the included countries (left plot) personalist regimes have, on average, more total FDI than military regimes or monarchies but less than democracies or dominant party regimes. However, among excluded countries (right plot) personalist regimes have more total FDI. If aggregate FDI is more likely to be composed of primary FDI in personalist regimes among the excluded countries, then the top panel suggests the estimates for personalism using only the included countries might be biased downward.

The middle panel shows that, while included countries have more oil rents, on average, than those excluded from the sample, the pattern ranking regimes by oil wealth remains consistent across the two groups of countries. In both groups, personalist regimes have roughly the same average level of oil rents as military regimes and democracies but less oil rents than monarchies and party regimes. Finally, the bottom panel again shows similar patterns between the two groups of countries: monarchies are the richest and personalist dictatorships the poorest.

Our next approach assesses whether the two groups of countries differ in the change over time in total FDI in a way that might suggest bias from estimates that only include the sixty-one countries with sectoral data. Figure 3 plots the time trend in total FDI for countries included in the estimating sample and those excluded from it. The left panel shows that the FDI trend in the two groups of countries is nearly identical for nonpersonalist regimes. This indicates that, in nonpersonalist dictators and democracies, changes in total FDI over time are roughly the same. For both groups of countries, FDI inflows respond to global shocks after the Asian financial crisis (1998) and the Great Recession (2008).

The time trend for each group of countries with personalist regimes, plotted in the right panel, shows a similar pattern, but with two exceptions.17 In the early 1980s, when overall FDI inflows to the developing world are low, the excluded personalist regimes have higher total inflows. Second, the responses to the commodity boom of the 1990s and 2000s—as well as the attendant dips in 1998 and 2008 resulting from global shocks—are stronger in the group of included personalist regimes than in those excluded. Finally, total FDI inflows in personalist regimes appear to be more responsive to commodity prices—and the respective recessionary dips—than the group of nonpersonalist countries. This pattern is consistent both with our argument that personalist regime receives more FDI inflows in resource extraction sectors and with the documented dependence of personalist regimes on nontax revenue, particularly from foreign resource investment (Wright 2008).

Appendix F in the supplementary information describes two more tests that address concerns about bias resulting from excluding forty-eight countries from the estimating sample. We show, first, that in a model of total FDI (rather than sectoral FDI), personalist regime has a similar effect in both groups of countries. Second, we show that an indicator of being an included country is not systematically correlated with either total FDI inflows or personalist regime. While these tests cannot rule out potential bias, they nonetheless do not raise any strong concerns about bias.

We address missingness in the time series for the sixty-one countries in the estimating sample by imputing the missing data (King et al. 2001; Honaker and King 2010).

A second empirical issue that arises when using sectoral FDI data is the highly skewed distribution of FDI inflows. Inference from skewed distributions may be heavily influenced by the presence of outliers. To address this issue, we construct the dependent variable as the cube root of primary sector FDI as a share of GDP.

Since we argue that personalist dictatorships offer a particularly attractive institutional environment for fixed asset investors, we use an indicator for personalist regime as the independent variable (Geddes et al. 2014). The personalism indicator measures whether the leader of the autocracy has consolidated control over policy and personnel appointments at the expense of the supporting political party (if there is one) and military and internal security institutions (Geddes 2003). The questions used to code this variable do not address investment, either domestic or foreign, but rather informal power politics among regime elites.21 The reference category is all other polities, including other types of autocracies (Party, Military, and Monarchy) and democracy.

The main model specification includes potential confounders that influence FDI inflows: economic development (GDP per capita, log), market size (population, log), trade openness (total trade as a percentage of GDP, log), economic growth, regime durability, civil violence, national resource endowments, and total FDI inflows into the developing world. The latter accounts for the strong calendar time trend in the FDI inflow data. Data on GDP per...
Figure 2. Structural features of countries in estimating sample
capita, population, trade openness, economic growth rates, total FDI into developing countries are from the World Bank’s World Development Indicators. Regime duration is the natural log of the years the regime has been in power, from Geddes, Wright, and Frantz (2017). Civil conflict incidence data come from the Uppsala Conflict Data Program (UCDP) Peace Research Institute Oslo (PRIO) Armed Conflict Dataset (Gleditsch et al. 2002; Themnér and Wallensteen 2014). The specification also includes a measure of past expropriation, from Kobrin (1984) and Hajzler (2012). This variable measures the number of expropriations in the prior eight years using an exponentially weighted moving average, such that more recent expropriations are given more weight.23

To account for natural resource endowments, which influence both personalist rule and sectoral FDI, we include a measure of the mean level of oil reserves in a country prior to the start of the sample period. The data are from Haber and Menaldo (2011). By design, this variable cannot be endogenously determined by observed FDI during the sample period and does not reflect a posttreatment effect because it measures reserves prior to the observation of regime type. We believe it is a plausible cross-sectional measure of resource endowments. Finally, the specification also includes geographic region effects.24

We employ a linear estimator with country-random effects (REs); because the data show serial correlation, we employ a random effects estimator that allows for autoregressive errors.25 Since we report results from ten multiply imputed datasets, we aggregate the estimate from each imputed dataset into one reported estimate using the rules outlined in Rubin (1987).26

23 Using a six- or ten-year weighted moving average lag does not change the results (see replication materials).
24 The region effects are the following: Americas, Asia, East Asia, and sub-Saharan Africa, with the Middle East as the reference category. We omit results for these effects in the figures below.
25 A Wooldridge test for serial correlation rejects the null of no autocorrelation at the 0.10 level in seven of ten imputed datasets.
26 The reported coefficient estimates are the average estimates from ten models from ten datasets with imputed data: \( \bar{\beta} = \frac{1}{m} \sum_{i=1}^{m} \beta_i \), where \( m = 10 \). The variance estimates are the variances from within each of the ten imputed datasets, plus the sample variance in the coefficient estimates across the ten datasets, multiplied by a factor that corrects for \( m < \infty \): 

\[ s^2 = \frac{\sum_{i=1}^{m} s_i^2}{(m-1)(m+1)} + \left( \frac{1}{m} \right) \right] \]

Figure 3. Total FDI time trend in estimating sample

Figure 4. Primary sector FDI

Foreign Investment in Fixed Assets: Primary Sector FDI

Figure 4 reports the results of the baseline model of primary sector FDI. It displays point estimates and confidence intervals (95%, 90%) for each covariate, saving the region dummies. The estimate for personalist is positive and statistically significant at the 1 percent level. Substantively, compared to other regimes, personalist dictatorship is associated with 0.06 units more of primary FDI. This is 48 percent of the standard deviation of the dependent variable. As expected, the estimates for oil reserves and regime longevity also correlate positively with primary FDI. In contrast, past expropriations, economic development, and civil conflict are associated with less primary FDI.

Results in the supplementary information show that the positive association between personalist regime and primary FDI is robust to specification changes, to different operationalizations and transformations of the dependent variable.
First, we employ Baltagi’s error component two-stage least squares (EC2SLS) random-effects estimator. It is more efficient than a generalized 2SLS estimator. We also report estimates from an ordinary least squares (OLS) random-effects model with clustered errors but no autocorrelation correction for direct comparison with the two-stage results.

Second, we report results from fixed effects (FEs) estimators that model autoregressive (AR(1)) process: OLS-FE with AR(1) errors, OLS-FE with heteroscedasticity-autocorrelation-consistent (HAC) errors, and 2SLS-FE with HAC errors. Models with HAC errors assume an AR(1) process (that is, Newey-West) and correct for arbitrary heteroscedasticity. While we believe the RE approach with AR(1) errors is preferable to the FE estimator, the latter more easily models serial correlation in a 2SLS framework. Further, a Hausman test indicates that the RE and FE models yield similar coefficient estimates.

The top estimate for personalist in Figure 6 is the RE estimate with AR(1) errors—the same as reported in Figure 4. Next is the RE estimate with clustered errors. The latter yields a slightly smaller coefficient estimate and slightly larger error bands. The third estimate is from the 2SLS-RE model with clustered errors. The point estimate is slightly larger than the OLS-RE estimates, but with larger error bands. The next three estimates are from the FE models. While the OLS-FE estimates are slightly smaller than the RE estimates, the 2SLS-FE estimator with HAC errors yields a larger point estimate.

Overall, the 2SLS estimates are similar to the OLS estimates. This indicates that—if we believe that how the regime seizes power does not cause foreign investment apart from influencing political regime type—the estimates for personalist regime can be interpreted as causal. We discuss this assumption in detail in Appendix D of the supplementary information, but note that the 2SLS result is robust to modeling additional potential confounders, such as covert interventions from superpower countries that might prop up personalist dictatorships that are friendly to foreign investors.

**Figure 5.** Divided seizure predicts personalist regime

A positive correlation between personalist regimes and primary sector FDI might reflect an endogenous relationship: FDI flows may shape the behavior of dictators, such as the appointment of family relatives to positions of high office or the facilitation of the development of corrupt resource management; such information is then used to distinguish personalist dictatorships from other types of autocratic rule.

To address this issue, we use information on how the dictatorship arose in the first place in a two-stage model. How the first leader of a new dictatorship seizes power is correlated with the personalist regime indicator: these dictatorships are more likely to arise from uprisings and when a democratically elected leader, such as Peru’s Alberto Fujimori, grabs power by closing democratic institutions. These scenarios—uprisings and power grabs—indicate situations in which the new dictator is likely to bargain over initial power-sharing with a relatively divided military or a weak political party (Geddes et al. 2017). Alternatively, leaders of dictatorships that seize power in an armed rebellion are likely to bargain with a unified military or a cohesive revolutionary party. Similarly, leaders of regimes established by coups led by senior military officers are likely to face a unified military. More initial bargaining power for the dictator leads to the concentration of political power in his hands—in other words, a personalist, or “consolidated,” dictatorship (Svolik 2012; Geddes et al. 2017). Importantly, the information on how the regime seizes power (divided seizure) is chronologically prior to the behavior of the dictator once in power. Using information on seizure of power as an excluded instrument thus alleviates concerns about reverse causation, in which foreign investment shapes autocratic behavior once in power.

Figure 5 shows the results of a “first-stage” equation (RE, clustered errors) that uses divided seizure as the excluded instrument. The F statistic for this variable is 46, indicating a strong excluded instrument.

To estimate a two-stage model, we adopt two approaches. First, we employ Baltagi’s error component two-stage least squares (EC2SLS) random-effects estimator. We report cluster-robust standard errors.

27 All variance components are estimated with the Baltagi-Chang estimator.

28 Note that with FE models, the time-invariant covariates drop from the specification: pre-1980 oil reserves and the region dummy.
not receive more FDI in sectors characterized by low levels of fixed assets. We test this proposition by repeating the main model specification but with secondary sector FDI, instead of primary sector investment.

We also report a test for tertiary FDI, but view this type of FDI as a less compelling proxy for asset immobility because investment in this sector yields both mobile and immobile assets. Investment in the construction and energy supply and transportation sectors, for example, is classified as tertiary FDI but yields a relatively immobile asset. In contrast, financial or information technology investments also count as tertiary FDI, but the asset remains relatively mobile. If tertiary FDI in our sample tends to flow to immobile assets such as construction or resource extraction services, then this variable may better reflect investments in immobile assets.

The left panel of Figure 7 shows the estimates for personalist regime from the sectoral models. The top estimate is the same as the one from Figure 4, with primary FDI as the dependent variable. The next two estimates are from models with secondary and tertiary FDI as the outcomes, respectively. Both estimates are close to zero and neither is statistically significant. This suggests that personalist regimes do not have more secondary and tertiary sector FDI than other regimes. This result is consistent with theoretical expectations.

**Oil Rich and Oil Poor Countries**

A final test examines whether the main finding holds in both oil rich and in oil poor countries. If primary FDI simply flows to countries where resources are located and if personalist regimes are more likely to arise in countries with large natural resource endowments, then a finding indicating that personalist regimes attract more primary FDI than other regimes may be spurious. We have already addressed this counterargument by directly accounting for resource endowment in the regression analysis (see especially Appendix C in the supplementary information). Further, the fixed effects estimates (shown in Figure 6) compare periods of personalist rule with other types of government within the same country, directly accounting for cross-country differences in fixed resource endowments.

The right panel of Figure 7 shows estimates from a split-sample model. We divide the sixty-one countries in the sample in two categories: low oil countries and high oil countries. The cut-point distinguishing the two is whether the maximum value of logged oil reserves (per capita) is greater than 1. The sixty-one countries in the sample, thirty-five are in the high oil category and twenty-six are in the low category. In each category, just over 25 percent of the countries have had a personalist regime during the sample period (1980–2010).

The top estimate in the right panel of Figure 7 is the main model that pools information from all sixty-one countries (reported in Figure 4). The next two split the sample into the two categories. The estimates for personalist regime are positive and statistically significant in both models. These results suggest that the main finding is not the product of some unobserved relationship between resource wealth and personalism.

**Industry-Level FDI**

In the previous model specifications, we focus on the broad distinction between the primary and secondary sector as proxies for high and low fixed-asset intensive investments,
respective. Yet, levels of fixed assets also vary within the primary and secondary sector. In this section, we explore the industry-level variation to assess the relationship between personalism and foreign investment. According to our theory, we should expect a positive relationship between personalist dictatorships and high fixed asset investments but not between the former and low fixed asset investments.

We regress FDI in each of the eighteen primary and secondary industries on personalism and covariates, and then plot the coefficients against industry-level fixed asset intensity. As shown in Figure 8, the coefficient of personalism is positive and significant in fixed-asset intensive industries, such as mining, quarry and petroleum, and electricity, gas and water. It becomes much smaller and turns negative in industries with low levels of fixed assets, such as textiles, clothing and leather. The correlation between the estimated coefficients and our measure of fixed asset intensity for the eighteen industries is 0.65.

These results suggest that the correlation between fixed asset investors and personalist dictatorships is not confined to the primary sector only and holds in fixed-asset intensive industries in general.

**Mechanisms: Corruption, Governance, and Market Dynamics**

We have shown that personalist dictatorships receive more foreign investment in fixed-asset intensive industries than other political regimes. Our theory suggests that this relationship is driven by a favorable institutional environment that facilitates MNCs’ monopoly or oligopoly rent extraction, despite high political risk. Accordingly, we should observe lower transparency and accountability, more corruption, and higher market concentration in fixed-asset intensive sectors in personalist regimes. In the following sections, we examine these underlying mechanisms.

**Corruption**

We provide two pieces of evidence that suggest personalist dictatorships enable monopoly rent extraction and thus more corruption in the fixed-asset intensive resource sector. Firms’ corruption activity is directly linked to the level of rents they extract. High rents not only reinforce firms’ ability to internalize the cost of corruption, but also increase government officials’ incentives to engage in the quid pro quo of their “control rights” for bribes (Ades and Di Tella 1999). Extant literature shows that, in the cross-section, personalist dictatorships have higher levels of overall corruption, as measured by survey data on perceptions of corruption (Chang and Golden 2010).

Instead of relying on data for corruption that cover all markets in a domestic economy, we examine the relationship between personalism and corruption in the resource sector, focusing on two new measures. The first is the Resource Governance Index (RGI), which captures the level of transparency and accountability in the oil, gas, and mining sectors.
sctors in fifty-eight resource-rich countries (Revenue Watch Institute 2013). A lack of transparency and accountability facilitates rent-seeking activities. We expect that personalist regimes should score lower in the RGI compared with other regimes. The second is the incidence of prosecutions for bribery in the oil and gas sectors under the US Foreign Corrupt Practices Act (FCPA). The data come from Mahdavi (2015).

Resource governance First, we examine the cross-sectional composite RGI. This index combines information from four component areas: the institutional and legal setting, reporting practices, safeguards and quality controls, and the enabling environment.34

The RGI data only exist for the year 2013, and the data on personalism only extend to 2010. Therefore, we construct a measure of the mean level of personalism for each country. We begin with cross-section, time-series data on four features of personalism in dictatorships (Geddes et al. 2017): (1) whether appointment to high office in the government depends on a personal relationship with the regime leader (office personal); (2) whether the regime leader appoints family relatives to position of high office in the government or military (leader relative); (3) whether the regime leader created his own political party during a democratic election and then subsequently “authoritarianized” the regime (create party); and (4) whether the regime leader is a personal relative of the prior leader (family succession) in contexts—such as Haiti (Duvalier family), North Korea (Kim family), and Syria (Assad family)—where there is no formal hereditary succession rule (i.e., nonmonarchies). These variables capture two aspects of personalism central to our argument: whether individual personal relations with the dictator and his family structure elite behavior (i.e., personal cronyism) and whether the supporting political party acts as a check on the leader’s behavior.35

To construct a cross-country index of personalism, we first take a linear combination of the four items (office personal, leader relative, create party, and family succession) and then calculate the country-mean of this variable for all autocratic years up to 2010. Finally, we weight this country-mean by the share of years from 1980 (or independence) that the country had a nondemocratic regime. This means that the raw Venezuela personalism index is weighted less because the country is only coded as nondemocratic from 2005, while Cambodia’s score is weighted more because it was coded as nondemocratic for all years from 1980 to 2010. The left panel of Figure 9 plots the composite RGI score against the personalism index; there is a strong negative correlation. Dominant-party dictatorships such as China, Mexico, Mozambique, and Vietnam as well as long-lasting democracies such as Colombia and India have low personalism scores and high values of resource governance. In contrast, personalist dictatorships, such as the Democratic Republic of Congo, Gabon, and Libya, have high personalism score and poor resource governance.36

Because the values of the RGI index are bounded at 0 and 100, we divide it by 100 and then test a generalized linear model with logit link function. The right panel shows the conditional correlation between the personalism index and the transformed RGI score. The estimate is conditioned on cross-sectional measures of GDP per capita (log) and oil rents (log), as well as a binary indicator of whether the main resource in the country is hydrocarbons. A second model adds a variable capturing whether the oil industry

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34 Further tests in Appendix H of the supplementary information indicate that findings for the composite measure extend to each of the component scores except enabling environment.

35 When dictators such as Alberto Fujimori or Hugo Chavez create personal political machines to campaign for office, they typically retain control over high-level appointments to the party, and the parties therefore rarely constrain the way the leader relates to other elites. In contrast, supporting parties that arise as part of rebel groups or independence movements, such as the Vietnamese Communist Party or the Tanzanian TANU (later CCM), structure leader and elite interactions. In the former, the dictator selects the party; in the latter, the party selects the leader.

36 We note two countries that stand out in this pattern: Myanmar and Turkmenistan. Like many other post-Soviet autocracies in Central Asia, Turkmenistan inherited its ruling political party from the Soviet era; the leader therefore did not create a new party. However, unlike other autocracies in the region, the first postindependence leader was an orphan and thus did not have an extensive family to appoint to high office. Therefore, the only item in the personalist index that indicates this regime is personalist is office personal, lowering the overall personalist score. In Myanmar, the military junta that ruled during the sample period did not create a new political party until 1993, and there was no family succession of leaders. When we exclude these two cases, the results are substantially stronger than those reported in Figure 9.
is governed by a regulatory nationalized oil company (NOC). In both tests the estimate for the personalist index is negative. This suggests a negative cross-sectional correlation between personalism and resource governance, even once we account for some of the other explanations for resource corruption in the literature (Luong and Weinthal 2010).

Corruption prosecutions in the resource sector In this section, we examine whether personalism is associated with bribery in the oil and gas sectors, using data on prosecutions under the FCPA. According to our argument, personalist dictatorships tend to tolerate market concentration and facilitate MNCs’ monopoly rent extraction. When rents are high, we should observe a high frequency of corruption involving foreign investment in fixed assets in these regimes. The FCPA was passed in 1977, granting authority to the US Security and Exchange Commission and the US Department of Justice to prosecute US companies or foreign organizations that trade securities in the United States for bribing foreign government officials and politicians. Mahdavi (2015) collects data on FCPA prosecutions in the oil and gas sectors. All but two of the FCPA prosecutions occur after 1996, so we examine forty-six oil-producing countries from 1997 to 2010. We test a kernel regression model but show in Appendix I that the time-varying results remain in conditional logit, random effects logit, and rare events logit tests as well.

The left panel of Figure 10 shows the cross-section correlation among the ninety-five individual regimes; the dependent variable is a binary indicator of whether the regime (either a specific autocratic case or democracy) faced prosecution. The specification reported in the top estimate has only two control variables: GDP per capita and population. The second set of estimates is from a specification that adds oil-related covariates (oil rents per capita and regulatory NOC), while the last estimates are from a specification that includes measures of US military and economic aid. The structural covariates and foreign aid variables are the regime-mean. We test a model with foreign aid to account for the possibility that US prosecutions are less likely for US allies; however, we find the opposite. This may reflect more corruption scrutiny for foreign governments that receive high amounts of US aid. In all specifications, we find that FCPA prosecutions in the oil sector are more likely to target regimes with a higher personalism score.

The right panel of Figure 10 reports results from a series of models with time-varying data on all variables, including the personalism index. The results are similar to those reported in the left panel: personalism, GDP per capita, population, oil rents, and regulatory NOCs are all associated with a higher likelihood of corruption prosecution. However, the aid variables do not yield consistent results. Overall, the findings in Figure 10 suggest that prosecution for corruption cases in the oil sector are more likely to target personalist dictatorships.

Export Concentration To examine whether personalist dictators tolerate monopolistic or oligopolistic market structures, ideally we would like detailed firm-level data across different industries for a large sample of countries. However, such data is extremely difficult to come by. Alternatively, we utilize a country’s export profile as a proxy for its market structure. Note that a lack of export diversity is not a direct measure of market concentration. Nonetheless, it likely reflects the underlying market dynamics in the country, especially in extractive industries in which giant MNCs typically dominate and produce in developing countries is primarily for export (UNCTAD 2007). We obtain detailed commodity trade data from the United Nations Comtrade database and calculate the Herfindahl-Hirschman Index (HHI) of each country-year’s primary and secondary exports using two-digit commodity export

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[37] The hydrocarbon indicator is from Revenue Watch Institute (2015), and the indicator of regulatory NOC is from Mahdavi (2015). The NOC variable is only available for thirty-one oil-producing countries, reducing the sample size.
data. We use the two HHI indicators as a measure of export concentration in the primary and secondary sector, respectively.

Because this index is bounded by 0 and 1, we logit transform it for use in a linear model. Tests indicate the presence of autocorrelation in the panel data, so we employ a model with an AR1 error structure. The reported specifications control for the size of the market (log population) as well as GDP per capita and trade openness. We also condition the estimates on current oil rents per capita to capture the effect of past investment—which yields current resource production—and thus influences the composition of exports. To account for unmodeled time-invariant differences between economies from different geographic regions, such as distance to advanced economy markets, we include region effects.

Figure 11 reports the results for export concentration models in the primary and secondary sectors. The top estimate for each variable is for the primary sector, while the bottom estimate is for the secondary one; the thick lines represent the 90 percent confidence intervals and the thin lines indicate the 95 percent confidence intervals. For the primary sector, personalist regimes have higher average export concentration than other regimes. In the secondary sector, the estimate for personalist regimes is roughly zero. Finally, oil rents correlate positively with export concentration in both sectors but more so in the primary sector. The finding indicating higher primary export concentration in personalist dictatorships remains when we model fixed effects, drop control variables, or estimate various lagged dependent variables. These results are consistent with our argument that personalist dictatorships tolerate more market concentration in the primary sector than other regimes.

Taken together, these results provide strong support to our argument that personalist regimes have poorer governance, more corruption, and higher market concentration in the primary sector. Personalist dictatorships therefore provide a favorable institutional environment for foreign investments in fixed assets that seek monopoly or oligopoly rents.

Conclusion

The past decades have witnessed a boom of foreign investment in the primary sector, especially since the commodity price hikes in the 1990s. Much of the investment has poured into unconventional, politically risky destinations. This seems to contradict arguments in the recent political economy of FDI literature, which holds that the immobility of fixed assets—and their vulnerability to host government’s expropriation—should deter foreign investment in such countries. But, as we show, fundamental regulatory changes since 1980s—both in developing countries and at the international level—have greatly reduced MNC fears of nationalization and asset expropriation. Existing literature also overlooks another critical aspect of fixed assets: high initial capital requirements and substantial sunk costs act as entry barriers. This gives rise to opportunities for monopoly rent extraction. Personalist dictatorships provide a particularly favorable institutional environment for this type of investor because of a lack of de facto institutional constraints and because leaders’ families control key economic sectors. We find strong evidence that, compared with other regimes, personalism correlates strongly with more FDI in fixed-asset intensive industries. We also find that personalist dictatorships have lower transparency and accountability, more corruption prosecutions, and higher market concentration in the resource sector. This suggests that personalist dictatorships provide an attractive institutional environment for monopoly rent extraction.

We believe it is fruitful to move this research agenda forward in two directions. First, future research can explore additional dimensions of foreign investment and variation in political contexts. In addition to fixed asset intensity, multinationals differ widely in technology sophistication, research and development (R&D) expenditures, skill profiles, marketing and advertising intensity, and so forth. These factors influence their preferences for institutional environments where firms can make the most use of firm-specific assets. High-tech and R&D intensive MNCs, for instance, are likely to favor political institutions that provide strong property rights protection and encourage citizens’ investment in human capital, two factors crucial to capitalize on these types of investments.

Second, it is important to examine the political and economic consequences of primary sector FDI in developing countries. Foreign investments in extractive industries tend to have limited backward and forward linkages, as well as a small effect on employment creation, compared to investment in the manufacturing sector. Many important questions remain to be explored, such as how primary sector FDI influences leader and regime survival in authoritarian countries and whether the entry and presence of rent-seeking MNCs may result in the deteriorate governance or even fuel political violence (see Pinto and Zhu 2017).

Supplementary Information

Supplementary information is available at the authors’ websites and the International Studies Quarterly data archive.
References


