FDI, Unmet Expectations, and the Prospects of Political Leaders: Evidence from Chinese Investment in Africa

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Do Political Leaders Benefit from FDI?

The Nigerian Vice-President attended a groundbreaking ceremony of a Chinese plant.

Kenyans protested against the construction of a coal plant invested by Chinese companies.
Do Political Leaders Benefit from FDI?

Political leaders typically value inflows of FDI and compete for it,

▷ but do they really gain political dividends from it?
▷ at which stages of FDI (announced or operational)?

Answer from our paper: political leaders reap short-term benefits at the stage of announcement, but eventually pay reputational costs when projects are implemented, irrespective of the tangible impacts of the projects.
Why?

Unmet Expectations and Political Blame

- Perceptions on political leaders are formed in two stages
  - announcement of new projects
  - actual implementation of the projects

- When new projects are announced
  - political leaders reap short-term benefits
  - oversell the potential benefits of FDI projects
  - FDI, jobs, and job touting (different from aid)

- The political risks of touting FDI
  - local communities develop inflated expectations
  - political leaders stake their reputations on promises
Empirical Implications

Perception gaps from announcement to implementation

► When new projects are announced
  – public perceptions are positive on economic conditions
  – public perceptions are positive on political leaders

► When projects are implemented
  – public perceptions turn negative on economic conditions
  – public perceptions turn negative on political leaders
Research Design

Data

- **Chinese FDI in Africa**
  - Financial Times *fDi markets*
  - 438 Chinese FDI projects in Africa from 2003 to 2018
  - We geocoded exact locations for each project
  - We coded the year of announcement and implementation
  - 223 projects with precise geolocation

- **Geocoded Afrobarometer: Round 1 to Round 7 (1999-2017)**

- **Geocoded Chinese aid from AIDDATA: 2003-2013**
  - As a comparison to Chinese FDI
  - To rule out the effects from China’s presence per se
Research Design

Dependent Variables

- Perceptions on economic conditions
  - Current economic conditions (1-5)
  - Future economic conditions (1-5)

- Perceptions on political leaders
  - Managing the economy (1-4)
  - Creating jobs (1-4)
  - Presidential approval (1-4)
Connecting Geocoded Projects to Survey Responses (50km cut-off)
Research Design

Identification Strategy

- Challenge: locations of FDI are not random
- Solution: compare with respondents close to *inactive* projects
  - *inactive*: not announced or operational at the time of survey
  - *active*: operational at the time of survey
  - *announced*: announced but not active at the time of survey

Baseline Model

\[ Y_{ivt} = \beta_1 \text{announced}_{it} + \beta_2 \text{active}_{it} + \beta_3 \text{inactive}_{it} + \lambda X_i + \theta_c + \gamma_t + \varepsilon_{ivt} \]

Alternatively, we drop the respondents not close to FDI

\[ Y_{ivt} = \beta_1 \text{announced}_{it} + \beta_2 \text{active}_{it} + \lambda X_i + \theta_c + \gamma_t + \varepsilon_{ivt} \]
Main Results: Perceptions on Economic Conditions

(a) FDI: Current economic conditions
Main Results: Perceptions on Economic Conditions

(b) FDI: Future economic conditions
Main Results: Perceptions on Political Competence

(a) FDI: Managing economy
Main Results: Perceptions on Political Competence

(b) FDI: Creating jobs
Main Results: Perceptions on Political Competence

(c) FDI: Presidential approval

95% confidence intervals around point estimates
Marginal Effects by Years: Perceptions on Political Competence

(a) FDI: Managing economy
Marginal Effects by Years: Perceptions on Political Competence

(b) FDI: Creating jobs

95% confidence intervals around point estimates
Marginal Effects by Years: Perceptions on Political Competence

(c) FDI: Presidential approval

95% confidence intervals around point estimates

(c) FDI: Presidential approval
Marginal Effects by Years: Perceptions on Economic Conditions

Years after the project is announced or active

Current economic conditions

Announced Active

95% confidence intervals around point estimates

(a) FDI: Current Economic Conditions
Marginal Effects by Years: Perceptions on Economic Conditions

(b) FDI: Future Economic Conditions

95% confidence intervals around point estimates

Years after the project is announced or active

Future economic conditions

Announced Active

1 2 3 4 5 6 7 8
Heterogeneous Effects across Age Groups

(a) FDI: Current economic conditions
Heterogeneous Effects across Age Groups

(b) FDI: Future economic conditions

95% confidence intervals around point estimates

Age groups

Future economic conditions

Announced  Active

[18,26) [26,34) [34,46) [46,110]
Comparisons with Chinese Aid: Perceptions on Economic Conditions

(a) Aid: Current economic conditions

(b) Aid: Future economic conditions
Comparisons with Chinese Aid: Perceptions on Political Competence

(a) Aid: Managing economy

(b) Aid: Creating jobs

(c) Aid: Presidential approval
Robustness Checks

- Different distance cut-offs (25km)
- sub-national region fixed effects
- project fixed effects
- matching
Summary of the Main Findings

Compared with people living close to inactive Chinese FDI projects

- People living close to announced Chinese FDI projects
  - are more excited about economic conditions
  - give credits to political leaders, but only for a period of time

- People living close to active Chinese FDI projects
  - are more negative about economic conditions
  - blame political leaders for their disappointments

The perception gaps are more salient among the workforce groups

Chinese aid projects do not elicit the same effects
Conclusion

► Do political leaders benefit from FDI?
  - reap near-term political bump
  - but eventually pay a reputational cost
  - near-term political bump undermines later political payoffs
  - it may be the successors who bear the cost

► Communities react differently to FDI and foreign aid
Thank you for your comments!