

Local Effects of FDI on Material and Political Grievances

Evidence from Africa

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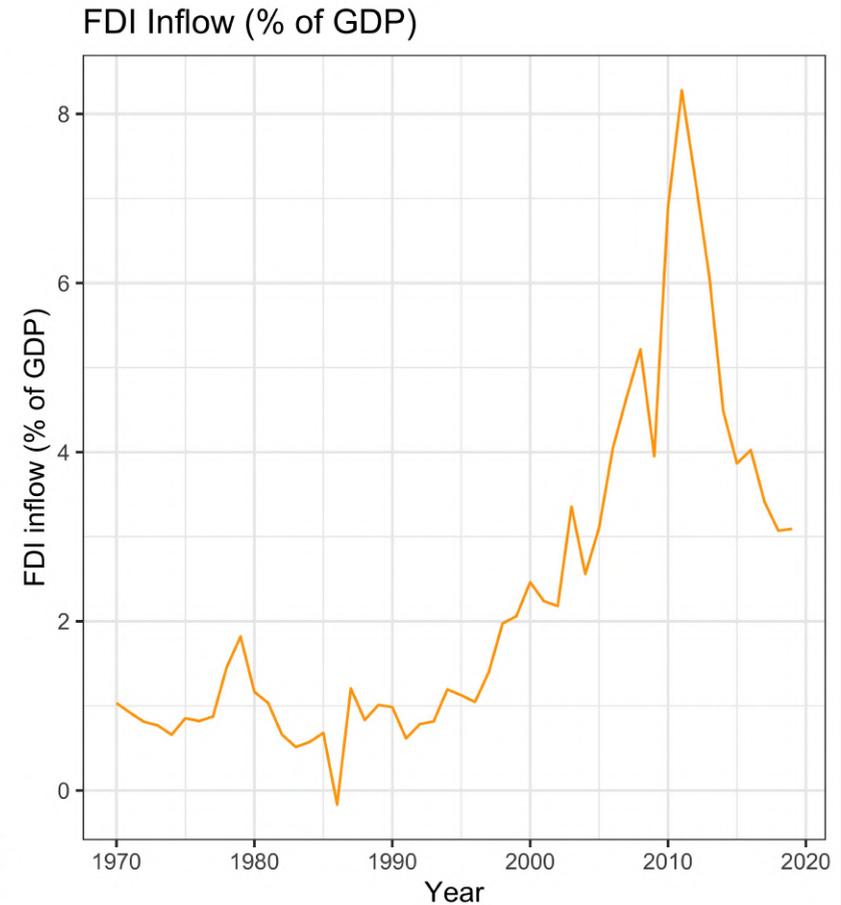
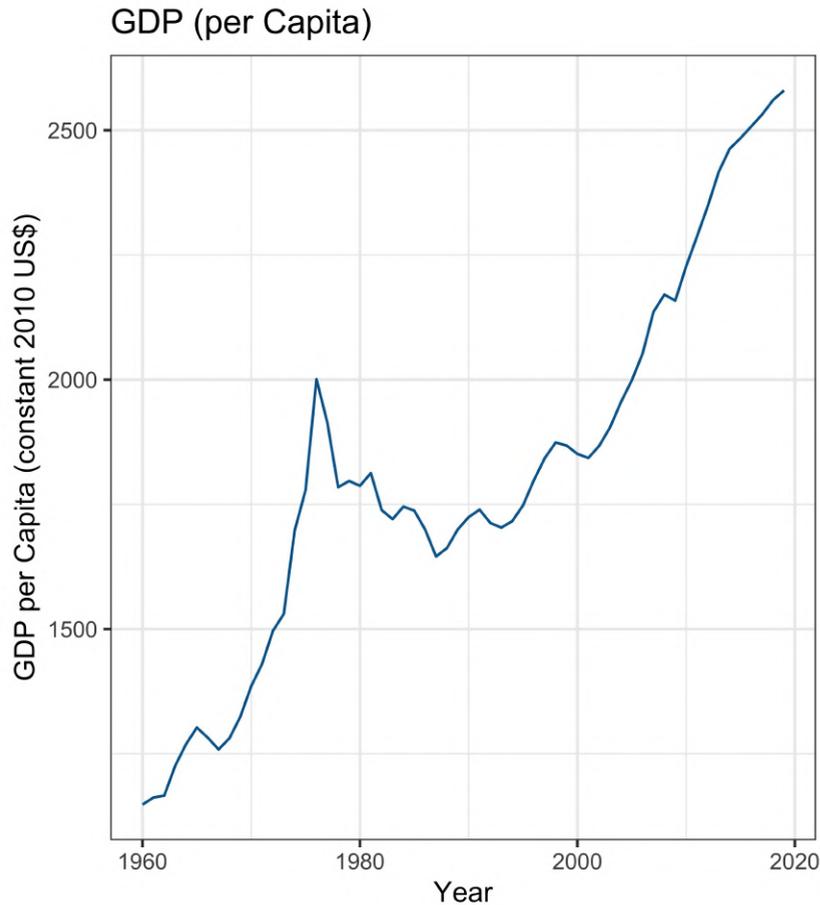
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Introduction

Does FDI drive political consequences in developing countries?

Let's take a closer look

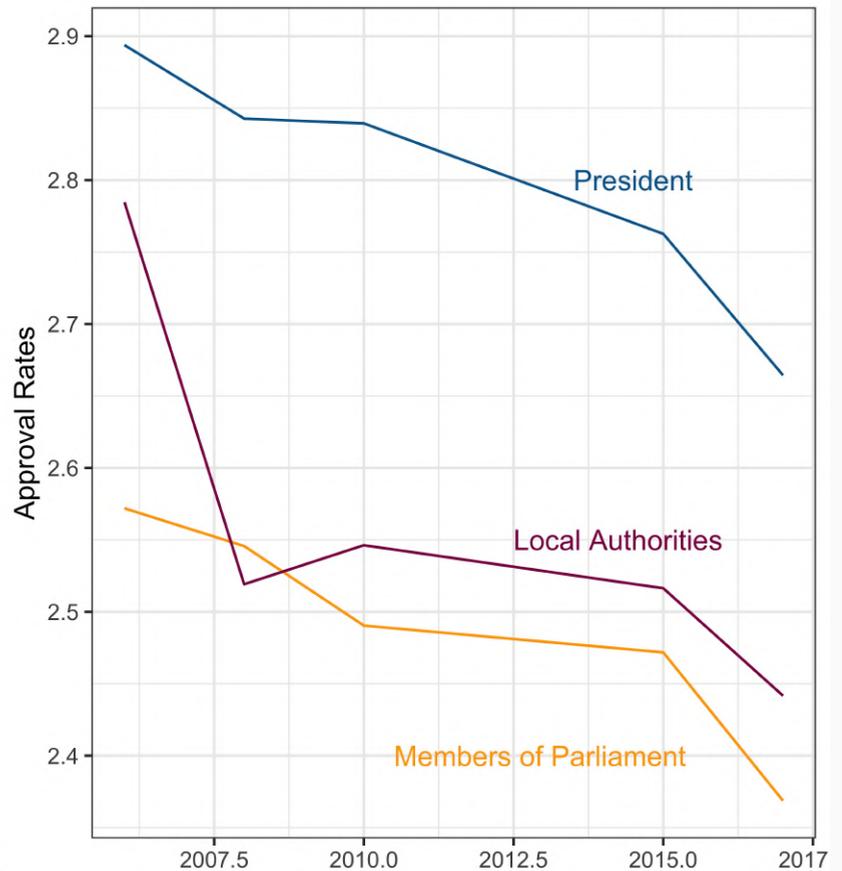
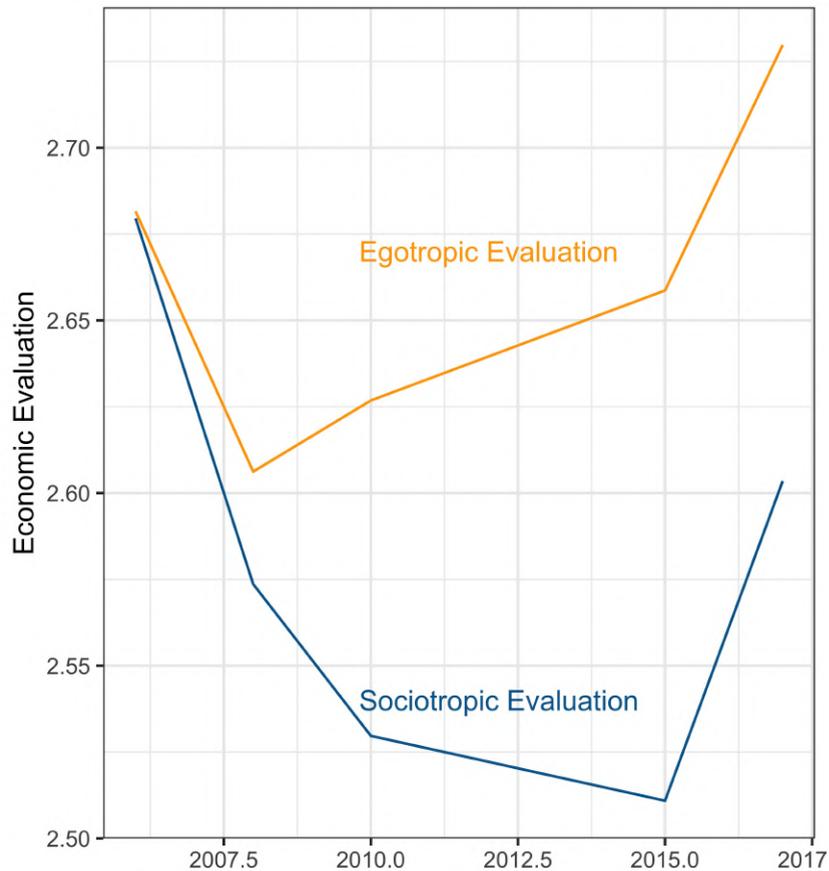
African countries received more FDI and grew economically



Source: World Bank

Let's take a closer look

At the same time, economic evaluation stagnated, and approval rates declined.



Source: Afrobarometer

Introduction

Does FDI drive political consequences in developing countries?

This paper focuses on:

- How FDI affects the well-being of individuals?
- Whether FDI creates (dis-)satisfaction with the government?
- Which role does ethnic favoritism play?

Theory

Local Labor Market Effects

- FDI creates local growth and inequality effects
- While some people win, many people fear to lose: Differences in wages, domestic competition of firms and labor, a manifestation of inequalities, higher insecurity of workers

H1: FDI projects will lead to a worsening of the reported economic well-being in developing countries.

Satisfaction with the government

2 Assumptions need to hold:

- Voter's political behavior is affected by the assessment of their economic well-being.
- Individuals need to understand the political responsibilities and draw the connection

H2: FDI projects will lead to a worsening of the political satisfaction with their government.

Theory

Because distributive effects are subjective, several moderators affect the relation between FDI and the individual:

This paper focuses on Favoritism:

Ethnic Favoritism = Regions that are dominated by ethnically favored groups or are not discriminated against are handled favorable

Individuals who feel underrepresented or discriminated will

- have greater concerns with incoming FDI.
- feel less protected by the government.

The effect of FDI on individual well-being and satisfaction is stronger in ethnically discriminated regions. (H3)

Methods: Operationalization

IV:

- FDI Data from the *fDi Markets* dataset

DV:

- Survey Data from the *Afrobarometer* dataset
- Well-being: Ego- and sociotropic assessment
- Political: Trust and performance rating

Moderator:

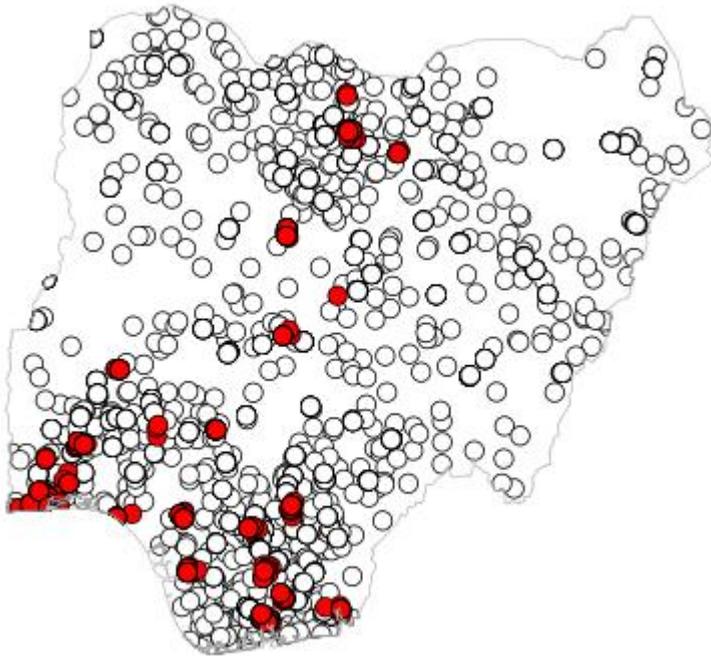
- Ethnic discrimination status: *GeoEPR*
- Share of discrimination: *GeoEPR*
- Ethnic group of the president: *PLAD*

Controls:

- Local economic development: *Nightlight data*
- Population Data: *HYDE*
- Individual: *education, gender, income, media, job status, age, urban*

Methods

Geo-merge FDI with Afrobarometer clusters around the enumeration area



Model

Difference-in-Difference model with FDI project & Time Fixed Effects, clustered SE for enumeration areas.

Problem: project sites are not randomly distributed within countries:

Solution: Geographical difference-in-difference estimator $\beta_1 - \beta_2$ (see Kotsadam and Tolonen, 2016)

$$Y_{ist} = \alpha + \beta_1(\text{active})_{i,t} + \beta_2(\text{future})_{i,t} + \theta_t + \sigma_s + \epsilon_{ist}$$

Results

H1 : FDI and Economic Well-Being

- FDI has no effect on the egotropic evaluation
- FDI has a negative effect on the sociotropic evaluation

H2 : FDI and Political Satisfaction

- FDI has a negative effect on the trust in the president
- FDI has a negative but insignificant effect on the performance rating

Mixed findings for FDI effects -> Let's focus on potential moderators

Favoritism Interactions

H3 : FDI and Ethnic Favoritism

People that live in regions that are predominantly populated by a group in power show:

- higher political trust in the president once exposed to FDI

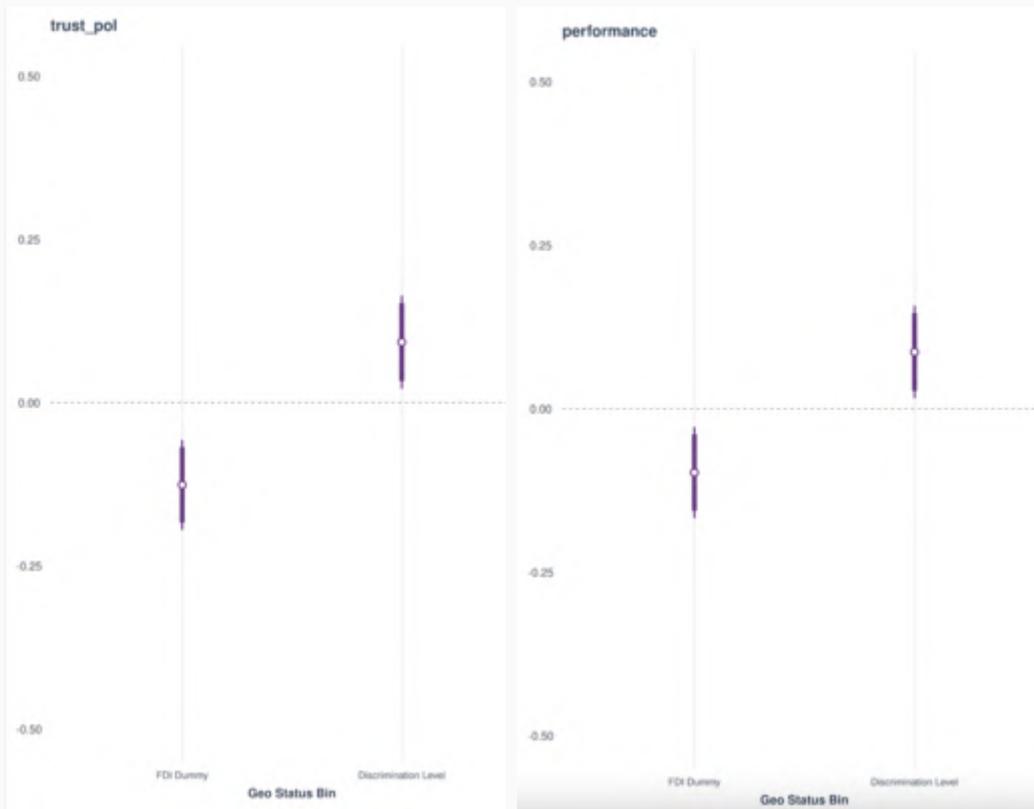


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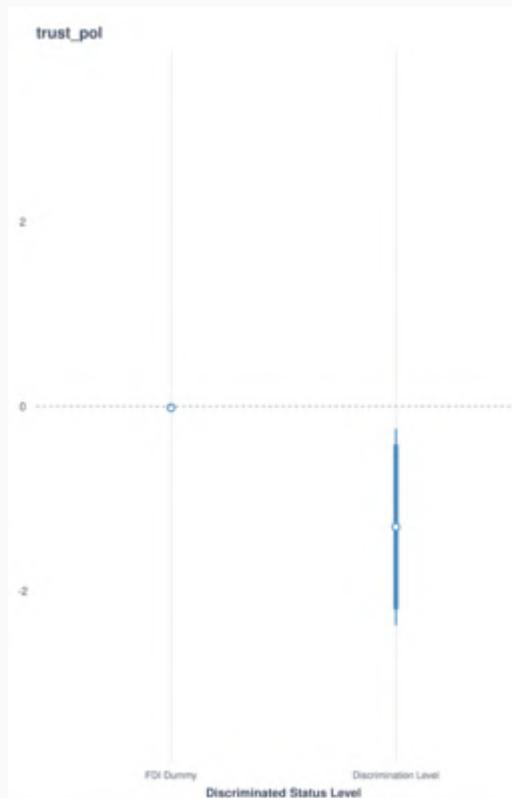


Favoritism Interactions

H3 : FDI and Ethnic Favoritism

People that live in regions that have a higher share of discriminated groups living in them show:

- lower trust in the president once exposed to FDI

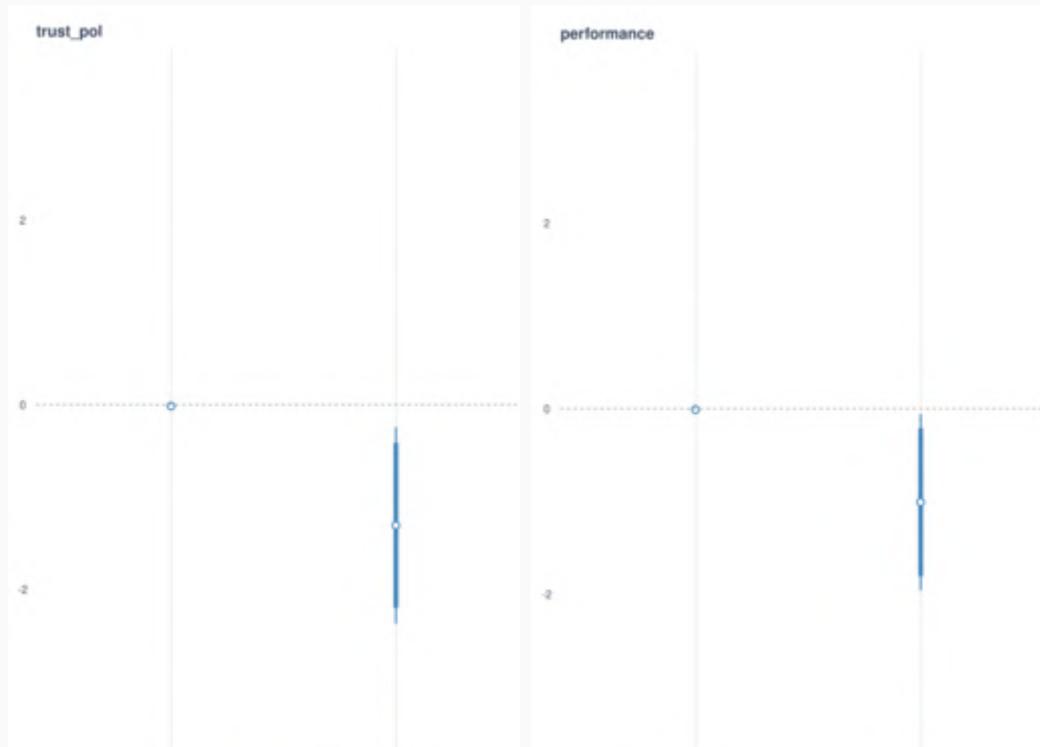


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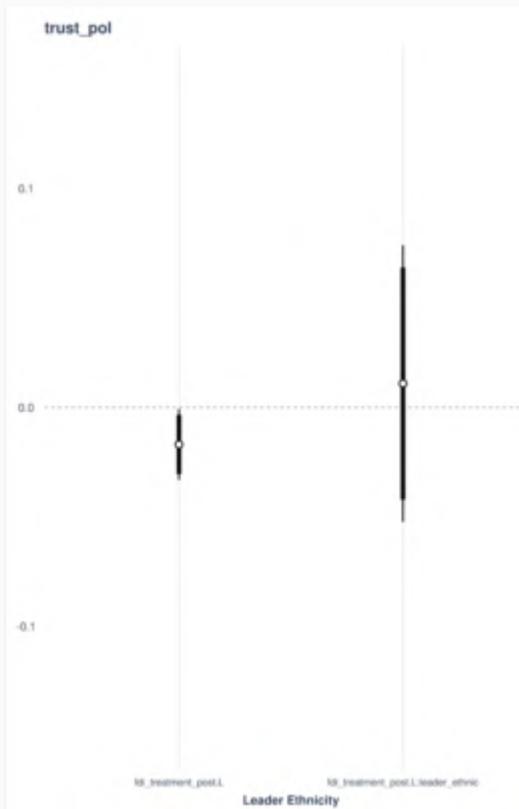


Favoritism Interactions

H3 : FDI and Ethnic Favoritism

People that live in regions that are predominantly populated by a group with the same ethnicity as the leader do

- not show higher trust in the president once exposed to FDI

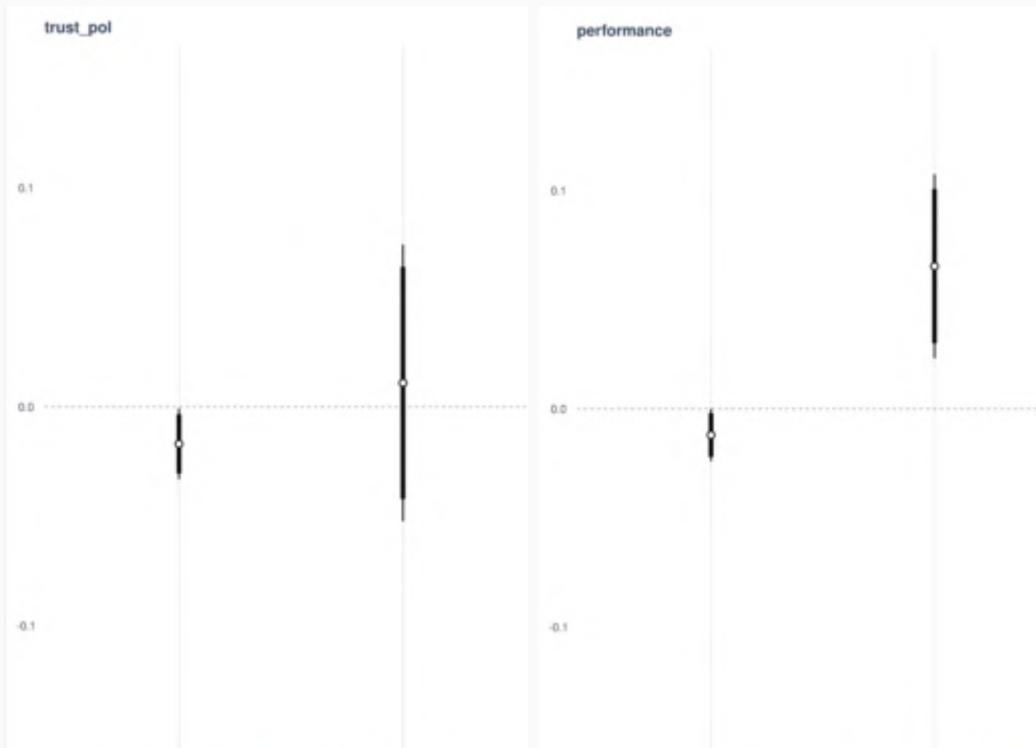


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Results

Favoritism Interactions

H3 : FDI and Ethnic Favoritism

- Ethnic favoritism variables interact with political satisfaction with the national government and president

Robustness checks validate results

- Use estimated FDI amount in USD instead of treatment dummy
- Alter the buffer zone to 20 km around FDI project
- Run ordered logit regression to account for the ordinal well-being and satisfaction variables

Limitation

Theory

Well-being and satisfaction are heavily endogenous. Effects depend on other elements (socio-demographic, political attitudes, access to information etc.)

FDI Data:

- Only announcements
- Only greenfield
- Unreliable amounts of FDI
- No data prior to 2003

Survey Data:

- Limited countries and periods
- Missing elements of (dis)satisfaction
- Generalizability

Empirical Design:

- High endogeneity: Allocation of FDI projects depends on individual political perceptions

Conclusion

- Aside from objective economic consequences of FDI, subjective factors matter
- FDI affects the individual insecurity and is amplified if people feel less represented or even discriminated
- Future research on the interaction of objective and subjective effects needed

Thank You

for your attention and the invitation!