

ABSTRACT

Title of Dissertation: THE VALUE OF STATE-BUSINESS
CONNECTION IN THE POLITICS OF
CROSS-BORDER CAPITAL

Seungjun Kim
Doctor of Philosophy, 2020

Dissertation Directed by: Professor Todd Allee
Department of Government and Politics

This dissertation demonstrates that in a highly integrated global economy, state-business relationships have significant value for cross-border investors. The first paper shows that the governments of developed countries establish international investment agreements to protect their firms' existing international investments. The second paper reveals that these home-country governments further support their firms' international investments by supplying them with financing through state financial institutions. The third paper builds on the assumption that political relationships increase corporate value; therefore, domestic portfolio stock investors, unlike their foreign counterparts, are able to increase their returns by investing in politically-connected firms. The broad lesson from this series of papers is that governments can increase their firms' profits abroad and that such increases are experienced primarily by the largest firms.

THE VALUE OF STATE-BUSINESS CONNECTION
IN THE POLITICS OF CROSS-BORDER CAPITAL

by

Seungjun Kim

Dissertation submitted to the Faculty of the Graduate School of the
University of Maryland, College Park in partial fulfillment
of the requirements for the degree of
Doctor of Philosophy
2020

Advisory Committee:
Professor Todd Allee, Chair/Advisor
Professor William Reed
Professor Scott Katner
Professor Virginia Haufler
Professor Rebecca Hann

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Acknowledgments

First and foremost, I am grateful to my advisor, Dr. Todd Allee. I have received help from many corners during this journey, but his mentorship was by far the greatest source of assistance. It was when I was taking his graduate seminar in the fall of 2015 that I decided to conduct my dissertation on international political economy. Since then, he has continuously inspired me to produce high-quality academic work with precision and rigor. My dissertation would not have been possible without his tremendous help. I attribute my success in pursuing this degree largely to having met him at Maryland and to have been able to learn from him. Dr. Allee has shaped me into a better international relations scholar and will continue to influence me after I receive my degree.

I would also like to thank my committee members. Dr. Reed has provided me with innovative thoughts and feedback. Dr. Kastner has always been a thorough reader of my work and provided me with critical guidance. Dr. Haufler has been a constant source of warm advice and encouragement. I thank Dr. Hann for her crucial help in getting the dataset that I used in my dissertation.

I have met many amazing people throughout this journey. I may not be able to list all of their names due to the frailty of memory, but I would like to thank them even if their names are not listed here. For those whose names I have been

able to hold on to, I would like to thank Hyunseob Kim, Kate E. Min, Kai Jäger, Sohpie Jiseon Lee, Daeun Song, Prof. Jin Suk Yu, Jaemin Lee, Hangyoung Lee, Prof. Joseph Grieco, Prof. Peter Feaver, Hyo Joon Chang, Hoyoun Koh, Kiyoun Chang, Brandon Ives, Andrew Lugg, Caitlin McCulloch, Jose Cabezas, Heedong Kim, Dongwon Lee, Yoonbin Ha, Inwook Kim, Hyun-Binn Cho, Jeheung Ryu, Jae Hyun Lee, In Ho Choi, Prof. Chungshik Moon, Prof. Byunghwan Son, Ji Hyun Lee and Andrew Cheon. I particularly thank Cameron Chansong Lee and for his prayer.

I cannot overstate how much my family's endless support and sacrifices have meant to me. I thank my mother and father, the two people that love me the most in this world. I could never have even begun this journey without their constant love and support. I am truly lucky to be their son. I thank my younger sister, Yunhee Kim, for being my shelter and support while I was working on my dissertation. She was always available and willing to listen to my groaning. I am grateful to my brother-in-law, Syung Jin Han, who I met in Chapel Hill as a friend and who has since become family. I thank my sister and my brother-in-law for their prayers. I also thank my nephew, Chae Eun Han, who just came into the world a few weeks ago. She has already given me so much joy and laughter. She has also given me the strength to finish my degree because I want so much to see her.

Finally, I thank my Lord, Jesus Christ. All my life, you have been faithful. I dedicate this work to you.

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1 Introduction

Firms play a powerful role in the global economy. They affect many domestic trade policies by lobbying for favorable tariffs and pushing for preferential trade agreements with countries in the Global South. Their presence is seen in prominent international organizations such as the World Trade Organization, where they are the driving force behind many trade disputes, as well as the International Monetary Fund, where they may seek to influence loan decisions. These efforts can be seen as attempts by firms to protect or expand their global value chains in order to increase profitability. International firms effectively engage in the above behaviors to such a degree that the distribution of economic benefits from globalization are unequal.

It is commonly assumed that the size of a firm determines the degree to which they can reap the benefits of globalization. Large firms tend to have an identifiable brand and produce products that consumers value. They are able to sell their products at more competitive prices than smaller firms because they can take advantage of economies of scale. Additionally, large firms can engage in foreign direct investment because they can afford the significant costs associated with establishing facilities abroad. These large firms also tend to establish foreign subsidiaries, so trade agreements and international institutions primarily protect their interests over the interests of smaller firms. Moreover, large firms are effective in lobbying their governments to implement policies which will allow them to engage in more international trade. Thus, the redistributive effects of globalization appear to be concentrated in a small group of the largest firms.

This dissertation contributes in several ways to emerging firm-oriented research. I focus specifically on how home governments enact policies to help their large firms. This dissertation reveals the specific mechanisms by which these large firms convince their governments to do things that help them increase their international investment output.

In the first paper, entitled “Protecting Home: How Firms’ Investment Plans Affect the Formation of Bilateral Investment Treaties,” I show that developed home countries and their firms are an overlooked driving force behind international investment agreements (IIAs). Previous scholarship on IIAs assumes that developing countries initiate IIAs in order to attract capital for financing their economic development. Furthermore, nearly all studies focus on the empirical connection between the IIA formation and future capital inflows into developing host countries. However, this perspective is myopic because firms plan their future investments well before they actually allocate any capital. By utilizing a novel investment announcement dataset, I reveal that firms’ already-planned investments strongly motivate their government’s subsequent formation of IIAs, which reverses the causality and logic of past studies. Instead, I demonstrate that IIAs function as a way for developed home countries to protect their firms’ pre-existing investments.

In the second paper entitled “Personal Networks, State Financial Backing and Foreign Direct Investment,” I challenge the tendency of previous studies to focus on firm-level characteristics, such as size, to explain their foreign direct investment (FDI) activities. I show that firms are successful not because of their size per se, but because they are in a better position to take advantage of their political

clout. Specifically, they rely heavily on their relationship with their governments to successfully finance their FDI projects. Utilizing a new executive-career dataset, I show that large firms often hire on their corporate board former high-ranking bureaucrats from state-owned financial institutions. Those that do so are able to pursue more FDI than those that do not. The finding demonstrates that board-member connections provide firms greater access to state financial backing, which significantly contributes to the amount of FDI in which they can engage.

In the third paper, entitled “How Politically Savvy are Foreign Stock Investors?,” I demonstrate how knowledge of firms’ political connections explains differences in the investment patterns of domestic and foreign stock investors. Previous studies often assume that foreign stock investors are politically informed and that they react swiftly to domestic political developments. I challenge this claim by comparing the daily stock portfolios of domestic and foreign investors during the unpredictable 2012 presidential election in South Korea. I show that after the somewhat surprising election result, domestic stock investors employed information about firms’ political connections to adjust their investments, while foreign stock investors did not. This finding calls into question the widespread assumption that foreign stock investors maintain an exhaustive understanding of the domestic political landscape in the places in which they invest.

Each of the above studies utilizes unique firm-level datasets, on phenomena ranging from firms’ global investment announcements, political connections between governments and firms, and stock portfolio investment patterns among domestic and foreign investors, respectively. Analyses of these datasets consistently reveal

that political connections help firms increase their investments and returns. This dissertation reveals specific ways in which firms benefit from globalization, such as promoting the conclusion of IIAs and receiving domestic financing.

Recent findings about how the benefits of globalization are concentrated in a small group of large firms has led to concerns about the growing disparity between the haves and have-nots. In this dissertation, I show that this concentration may be even greater than previously thought because large firms may utilize their political power to increase their economic returns. The three studies discussed in this dissertation shows that political connections help firms make investments abroad which may, in turn, intensify growing economic inequality around the world.

2 Protecting Home: How Firms' Investment Plans Affect the Formation of Bilateral Investment Treaties

Nearly 3,000 bilateral investment treaties (BITs) have been signed within the past few decades. The motivations behind the formation of BITs has received significant attention from scholars across political science, international law, economics, and business (e.g., Hallward-Driemeier 2003; Salacuse and Sullivan 2005; Kerner 2009; Haftel 2010; Yackee 2010; Chilton 2016; Albino Pimentel, Dussauge and Shaver 2018; Falvey and Foster-McGregor 2018). The leading theory dictates that developing countries sign BITs as a credible signal to investors, in hopes of attracting foreign direct investment (FDI) (e.g., Bütthe and Milner 2008). Developing countries often have relatively weak private property rights, so investors worry about investing in them (Jensen 2008). Multinational corporations (MNCs) lose a significant amount of bargaining power with host countries after they are done building production facilities or service infrastructure because it is difficult to relocate such capital. Thus, host governments can potentially breach contracts once the FDI is complete. This credibility problem is pervasive in FDI, so most studies assume that developing countries rush to sign BITs, which provide various protections to investors, to indicate that they will protect FDI (e.g., Elkins, Guzman and Simmons 2006).

However, it is important to note that international rules are largely shaped by

developed countries (Drezner 2008). It could be that developed countries are the ones putting forward BITs and that developing host countries are somewhat forced into trading their policy autonomy for this credibility, which leads to increased protection of MNCs' investments. Thus, the spread of BITs instead might be driven by MNCs in developed countries. Moreover, the reason may go beyond compensating for developing countries' poor institutional quality (see Allee and Peinhardt 2010), but because important firms are a driving force behind BITs.

Existing BIT research often overlooks the role that MNCs might play in making BITs. Large MNCs from developed countries are the main beneficiaries of BITs because they account for most FDI. Furthermore, we know that politically-privileged firms shape foreign trade policy (Grossman and Helpman 1994) and governments often acquiesce to their firms' requests (Fisman 2001; Jäger and Kim 2019). Thus, BITs can be seen as investment protection offered by powerful countries to their large MNCs.

While the assertion that powerful countries and their firms drive BIT development might seem axiomatic, this approach has been largely overlooked by previous research. BIT studies have predominantly focused on determining why capital-seeking, developing host countries enter into BITs and whether doing so encourages FDI (e.g., Neumayer and Spess 2005). This trend may be a product of the fact that there has been little scholarly interest about the timing of MNCs' FDI plans. Most studies on BITs have examined their effects on future capital flows, which capture when firms start allocating their fixed assets. However, plans to engage in FDI are often made long before actual capital flows occur, and BITs can be implemented

quickly without a great deal of negotiation between the two signatory countries. Thus, the traditional approach potentially mischaracterizes the relationship between the signing of BITs and MNCs' decisions to engage in FDI. An approach that more accurately reflects the timing of MNCs' FDI decisions might reveal that the signing of BITs is also pushed by developed home countries to protect their MNCs' future FDI, not just by developing host countries to stimulate brand-new capital inflows.

The main claim of this paper is that MNCs have a strong incentive to reduce potential risks to their FDI projects before any investment actually occurs. MNCs understand that future FDI is subject to investment risks, such as breach of contract or the imposition of additional regulatory burdens. Thus, MNCs and their home governments seek to preempt investment risks *ex-ante* by reinforcing MNCs' bargaining power after they have engaged in FDI through BITs. BITs grant MNCs the right to request international arbitration in the event of investment disputes, which can impose significant monetary damages on host governments. MNCs can strategically exploit the threat of international arbitration as means to enhance their leverage over host governments. By lobbying their home governments to establish BITs, MNCs can be better prepared to secure their long-term revenue streams from FDI.

I utilize novel data about the announcements made by MNCs from 33 developed home countries to engage in greenfield FDI in 126 developing host countries between 2003 and 2015. This data captures the timing of MNCs' FDI plans, mitigating the methodological concerns associated with analyzing capital flows. Based on this new data, I conduct country-level analyses to evaluate the relationship be-

tween MNCs' investment decisions and BIT formation. The findings show that the existence of MNCs' future FDI plans significantly increases the probability that home and host countries sign BITs. In additional tests, all individual FDI projects are matched with MNCs' financial accounting information, which creates a measure that indicates how much the proportion of a home country's planned FDI was made by the largest MNCs. The empirical evidence from these additional analyses shows that when large firms account for a greater share of their home country's planned FDI, those home countries are even more likely to sign BITs with their target host countries.

This study makes several broader contributions to the existing literature. Above all, it furthers our understanding of how powerful countries intervene in international politics to advocate for their businesses' interests (Krasner et al. 1978; Lipson 1985; Gilpin 1987). Furthermore, I show that BITs are the product of home countries' desire to protect their largest MNCs. Thus, I complement recent political science scholarship by providing further examples of the power of a small group of firms that are reaping the benefits of globalization (Baccini, Pinto and Weymouth 2017; Osgood et al. 2017). Finally, recent changes in the BIT regime are putting pressure on one of the dynamics revealed in my research. Developed-country governments had been advocating that claims be settled by arbitration tribunals, which typically have favored MNCs' interests (Gertz 2018; Simmons 2014). Ironically, as MNCs have turned to arbitration venues more frequently since the 2000s (Pelc 2017), developed-country governments have become the target of arbitration claims, leading many of them to become skeptical of BITs. This helps to explain the drop in

new investment treaties and the shift away from including investor-state arbitration clauses, a trend which puts wealthy governments at odds with the preferences of their largest firms.

2.1 MNCs and BITs

Most theoretical accounts of BIT formation are built on the time inconsistency problem of FDI. This problem arises from the fact that MNCs have a significant amount of bargaining power over host countries before making investments because they can locate their investments elsewhere. Host country governments may promise favorable conditions, such as low tax rates or reduced regulatory burdens, to attract foreign investors. However, after a building is complete, firms lose their bargaining power because their fixed assets are difficult to relocate. As a result, host country governments have a strong incentive to break their earlier commitments in various ways, such as increasing taxes or adding regulatory burdens, to increase their revenue from the MNC's investment. This risk is greater in countries where private property rights are weak and political institutions are unstable (Jensen 2008).

BITs can be a useful tool for developing host countries to calm investor concerns about the time inconsistency problem. By signing BITs, developing countries can either commit to their promises to known potential investors or signal their credibility to unknown potential investors who may be planning their own investments. BITs often contain strong investment protection provisions that impose significant costs upon host countries when their provisions are violated. Thus, it is commonly

believed that host governments can build their credibility by binding themselves with BITs. Thus, BITs play a pivotal role in increasing capital flows into developing countries from developed countries (Büthe and Milner 2008; 2014), which can positively affect developing countries' economic development (Alfaro et al. 2004). Many studies have shown this positive correlation between BIT signing and capital flows into developing countries (Neumayer and Spess 2005; Egger and Pfaffermayr 2004; Salacuse and Sullivan 2005; Hallward-Driemeier 2003; Haftel 2010; Kerner 2009; Falvey and Foster-McGregor 2018).¹

However, BITs exist to protect the interests of capital exporters (Allee and Peinhardt 2010). Powerful countries historically employed hard power in the form of military troops to protect their domestic firms' foreign businesses (Maurer 2013). Developed countries' international investment agreements long have been tied to the protection of private interests (Shadlen 2008; Baccini and Urpelainen 2012). Relatedly, recent studies show that the power disparity between developed and developing countries allows developed countries to include stronger investor protections in their BITs (Allee and Peinhardt 2014; Manger and Peinhardt 2017). Developing countries tend to simply sign BITs, despite not having had much influence over their creation (Alschner and Skougarevskiy 2016). Under these strong investor protection clauses found in most BITs, more than 750 legal claims have been brought before the World Bank's International Center for the Settlement of Investment Disputes (ICSID) by MNCs against the governments of developing countries (UNCTAD 2017).

¹However, there is also growing skepticism about the positive effect of BITs on capital inflows (Rose-Ackerman and Tobin 2005; Aisbett et al. 2009; Berger et al. 2011; Peinhardt and Allee 2012).

Moreover, most studies regard BITs as being driven primarily by states. BITs are defined as “state-to-state treaties over which governments have full control as part of their foreign policy” (Neumayer 2006; 246). Most studies of BITs downplay the role of MNCs both in terms of the role they might play in generating BITs and also how they stand to benefit from them. As shown in the left graph of Figure 1, empirical models analyzing BITs assume that the signing of BITs is exogenously influenced by home and host governments without the engagement of domestic actors. That is, two governments negotiate a BIT on their own, and only after that does an MNC plan their investments in response to BIT formations (Neumayer and Spess 2005; Egger and Pfaffermayr 2004; Salacuse and Sullivan 2005; Hallward-Driemeier 2003; Haftel 2010).

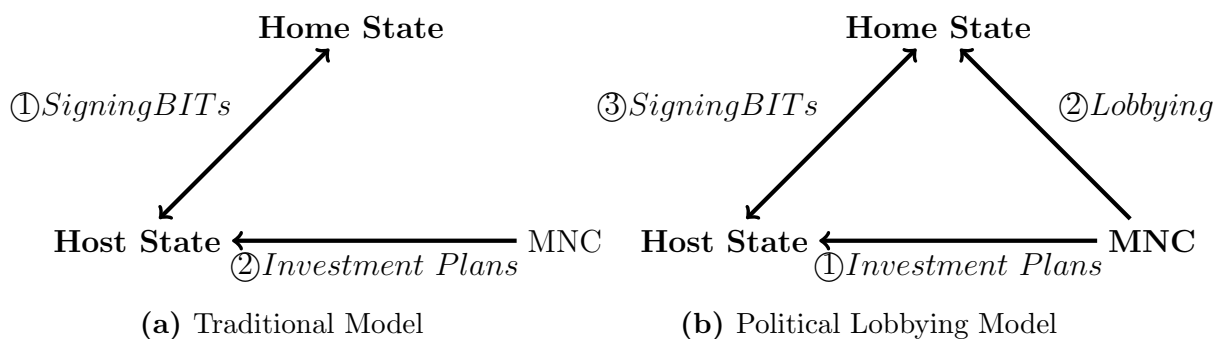


Figure 2.1: Comparing the Relationships between Actors

However, MNCs with FDI plans likely influence the BIT formation process because establishing the protection offered by BITs is beneficial. Firms often lobby their own government for desired foreign economic policies (Grossman and Helpman 1994). Studies of trade politics show that large and powerful firms influence their home governments such that corporate interests are likely to be reflected in trade

policies (Osgood et al. 2017).² Given the strength of government-business ties in many capital-exporting countries, home states and MNCs are expected to interact before BITs are formed. As illustrated by the right graph of Figure 1, a key factor affecting whether a BIT is signed might be whether MNCs work through their home governments to protect their existing FDI plans. Such *ex-ante* interactions between home governments and their most important businesses could explain with whom these governments seek to sign BITs. By looking at the situation through this lens, BITs are not simply the product of national government policy, but instead are profoundly influenced by MNCs' plans for future investments.³

Consistent with traditional firm-oriented research, this article portrays BITs as a crucial legal instrument that is jointly devised by MNCs and their home governments. In the next section, I develop a general theory of why MNCs desire BITs. Then, I explain how the evaluation of planned FDI projects can be crucial in revealing how they push for the creation of BITs.

²Milner (1988)'s seminal work illustrates this point, showing how the internationalization of U.S. firms substantially contributed to pressures for decreasing trade barriers. Milner demonstrates that American firms relied heavily on the international market by the 1970s and that sizable differences in U.S. trade policy outcomes can be seen between the 1920s and 1970s due to the altered "desires of firms," despite the fact that the level of economic distress and instability were similarly high in these two periods (Milner 1988; 376).

³It is conceivable that multinational corporations (MNCs) may try to influence BITs by lobbying host governments directly. However, MNCs tend to rely on their links with their home governments to handle international legal arrangements. For instance, Gertz (2018) shows that U.S. MNCs were less likely to initiate investor-state disputes through international dispute settlement bodies when the U.S. government maintained strong diplomatic channels with host governments. By contrast, U.S. MNCs were much more likely to go through international dispute settlement bodies against host countries in which the U.S. ambassador position was vacant.

2.2 Why Firms Desire BITs

There are numerous benefits that BITs provide to firms. BITs include significant protection provisions, including national treatment, free transfer of funds related to investments, most-favored-nation status, and compensation in the event of expropriation. More importantly, BITs provide firms with recourse to international arbitration. Firms planning FDI should be particularly keen to obtain the arbitration provisions in BITs because international arbitration is an invaluable way to handle investment disputes with host governments, as opposed to relying solely on the institutions in the host.

BITs therefore give MNCs substantial bargaining power in possible disputes over FDI. Large firms in particular are often willing to bring their disputes before international dispute settlement bodies as allowed under BITs because they can afford these costly dispute resolution processes (Pelc 2017). They can more than recoup those costs if they win a sizeable judgement. For example, Dow Chemical and Occidental Petroleum, U.S.-based MNCs, received \$2.19 billion and \$1 billion in investment claims made against Kuwait and Ecuador, respectively (Kaskey 2013; Reuters 2015). Many cases brought before international dispute settlement bodies such as ICSID are settled before the dispute resolution proceedings conclude. More than 25% of such settlement agreements involve preferential concessions for MNCs. For instance, Germany settled its disputes with Vattenfall, a Swedish energy company, by reducing their environmental standards, which originally imposed substantial costs on Vattenfall's coal-fired power plants (Bernasconi-Osterwalder and

Hoffmann 2012; 4). In sum, the investor-state dispute settlement component of BITs serves as crucial risk management tool for MNCs.

Furthermore, conflicts with host governments do not prevent firms from investing again in host countries, provided that they are covered by a BIT. In April 2006, for instance, a dispute arose between Chevron and the government of Bangladesh when a state-owned company attempted to charge a large transit fee on natural gas that Chevron had produced. In 2009, before ICSID had ruled on the matter, Chevron already had received approval from Bangladesh to make a record investment to build another natural gas production facility in the country (Hafner-Burton and Victor 2016; 445). BITs provide access to arbitration for any given project in a host country and so thus particularly advantageous for large MNCs with multiple projects in the same host country.

2.3 Planned FDI and BIT Formation

There is also a methodologically-driven reason why FDI plans should be evaluated instead of FDI flows. FDI is a multi-step process, so studying corporate investment decisions using data on FDI capital flows may not produce meaningful results because the two events are often separated by significant amounts of time. Firms plan their investments long before they make capital outlays. For example, an automobile manufacturer announces that it is going to increase the capacity of its automobile factories in a developing country over the next 10 years. The project plan and resulting capital flows are separated by large and differing periods of time, so it would

not be meaningful to use capital flows to understand the company’s investment decisions. Furthermore, as the investment will be allocated over multiple years, annual capital flows might not capture the precise effects of FDI on the creation of BITs. Therefore, I examine MNCs’ FDI project announcements as a more accurate way to measure how MNCs’ investment plans affect BIT formation.

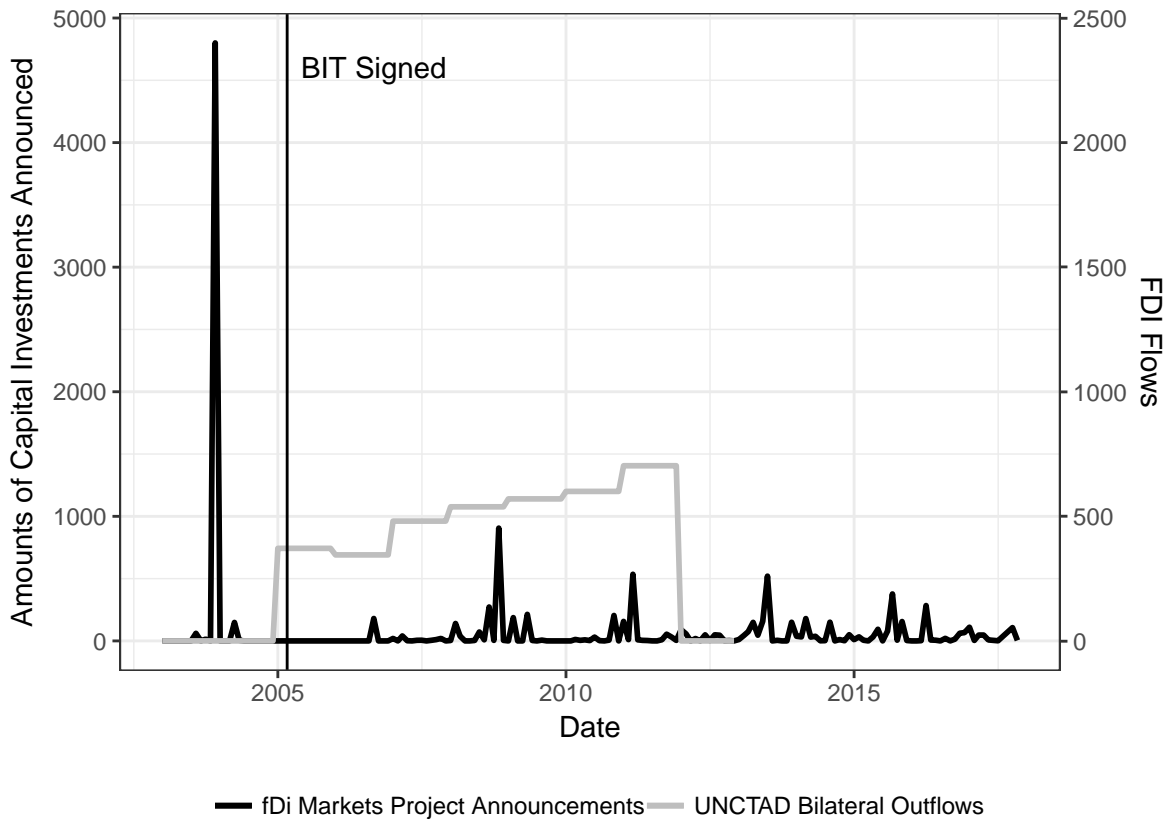


Figure 2.2: Spanish MNCs’ Investment Plans in Colombia, FDI Outflows and the Timing of Spain-Colombia BIT

Figure 2 graphically compares Spanish MNCs’ monthly investment project announcements, using data from the fDi Markets database, against Spanish bilateral FDI outflows to Colombia.⁴ UNCTAD’s bilateral FDI data shows that, prior to

⁴As UNCTAD only provides annual FDI data, a year’s worth of bilateral FDI outflows were spread evenly over a 12 month period to be able to compare the UNCTAD and fDi Markets’ data.

2005, no FDI flowed from Spain to Colombia. After the Spanish government signed a BIT with the Colombian government in March 2005, capital flows to Columbia increased gradually until 2011, suggesting that the signing of the BIT had a positive effect on FDI flows to Colombia. However, in reality, the Spanish petroleum company CESPAs had begun intensive oil exploration efforts in Colombia in 2001. In 2003, the company announced that it would make \$4.8 billion in greenfield investment in the energy industry. In 2004, CESPAs signed an agreement with a Colombian oil company to acquire 33.33% of three exploration sites in Colombia's Upper Magdalena River Valley.⁵ Subsequently, Spain and Colombia signed a BIT in 2005. As such, it was not the case that the BITs triggered subsequent financial flows, but rather that a Spanish global energy firm's project served as an efficient predictor for the formation of a BIT between Spain and Colombia. Capturing the timing of MNCs' existing commitments to prearranged investments reveals that MNCs might collaborate with their home government to establish BITs.

A great deal of anecdotal evidence supports the conclusion that MNCs are "truly full partners" of the home governments during international negotiations (Prechel 2006; 191). In the U.S., trade advisory committees, which consist primarily of the CEOs of powerful MNCs, have been established to represent the interests of private businesses. There are strong reasons for governments to involve their firms in international negotiations. While negotiating with the General Agreement on Tariffs and Trade (GATT) committee, for instance, U.S. trade advisory committees warned that private interests "would be either neutral or vocal in [their]

⁵See <https://www.energy-pedia.com/news/colombia/cepsa-picks-up-interest-in-3-blocks>.

opposition” to the GATT if their interests were not represented (Aggarwal 1992; 41). These firm-governments interactions can be extensive. As one illustration, James D. Robinson, the CEO of American Express, reported to Congress in 1992 that the U.S. Trade Representative and other government officials, “met with private sector representatives nearly 1,000 times” during the North American Free Trade Agreement (NAFTA) negotiations⁶ and that MNC representatives had provided substantive input to the negotiations at every turn.⁷ This is just one of many pieces of evidence supporting the assertion that international policy negotiations historically have involved frequent and direct communications between business groups and their home government officials. As a result, we would expect international policies to be tailored to meet interest groups’ preferences.

BITs function the same way. Consider the role of German firms in the country’s BIT with China. German corporations had begun to pursue several FDI projects in China in late 1970s and early 1980s.⁸ Diplomatic records showed that these German MNCs with investment plans “offered specific assistance and expertise in the negotiations” in the Chinese BIT to the German government (Bonnitcha,

⁶The detailed transcript can be found here: <https://www.c-span.org/video/?32666-1/north-american-free-trade-agreement>.

⁷The subsequent reactions to NAFTA also demonstrate corporate influence in the creation of international policy. Manger (2009) explains that the U.S.’s trade rivals such as Japan and Europe were expected to be disadvantaged by NAFTA while U.S. service industries were likely to benefit from first-mover advantages by setting up the market standards against rival service firms. Moreover, American manufacturing firms would benefit from preferential tariff rebates. Given this, Japanese and European businesses sought to form defensive trade agreements with NAFTA members by pushing their governments in order to “level the playing field” (Manger 2009; 55).

⁸Siemens, a German manufacturing conglomerate, began seeking its first investment opportunities in China in the late 1970s by holding its first major exhibition in Shanghai. Daimler-Benz first established its business, Beijing Jeep Corporation, in 1983 with an initial outlay of nearly \$224 million (Peng 2013; 420). Liebherr Haushaltgerate, an appliance maker, also concluded its first investment in the early 1980s (Yueh 2011; 122).

Poulsen and Waibel 2017; 187). In turn, the German government quickly provided investment protections for their MNCs by concluding a BIT with China in 1983.

A recent survey shows that MNCs from advanced economies know the value of BITs to them.⁹ In 2014, the British Institute of International Comparative Law surveyed 301 top senior executives of transnational investment corporations with more than \$1 billion in annual revenue.¹⁰ The survey results show that the majority of respondents consider BITs to be “very important” or “essential.” In the absence of BITs, 36% of investors indicate that they might decrease their planned investments. The survey also finds that when a BIT is not formed between a home and host country, 47% of senior executives said that their company would be apt to consider relocating its investments (Hogan 2015).

We see other evidence of firms lobbying directly to protect their investment interests. Large MNCs, in particular, often rely a great deal on their relationship with their home government for support in executing their investment plans. For instance, Chevron, an American oil conglomerate, maintains major stakes in the world’s largest oil reservoir in Kazakhstan, the Tengiz oil field. In 2015, Chevron decided to initiate a \$2.4 billion investment plan to expand its Tengiz oil field.¹¹ After developing this plan, Chevron filed at least 10 lobbying reports (as mandated by the Lobbying Disclosure Act of 1995) to discuss energy-related issues in Kazakhstan with U.S. politicians. The contents of these lobbying reports indicate that Chevron spent considerable resources to influence the U.S. government to enforce

⁹Some studies suggest contrasting results. For example, see Yackee (2010).

¹⁰These companies were headquartered primarily in the U.S., Canada and Western Europe.

¹¹It was to expand Chevron’s “Sour Gas Injection-Second Generation Project” in Tengiz. See <https://www.chevron.com/projects/tengiz-expansion>.

trade and investment rules with regard to Kazakhstan, including an extension of the nondiscriminatory treatment of products imported from Kazakhstan, in service of its investment plan. Moreover, in their letter to the U.S. Trade Representative (USTR) in May 2013, Chevron called for provisions, such as fair and equitable treatment and investor-state dispute settlement, which are core elements of BITs, to be included in relevant international agreements including BITs. The letter elaborates that Chevron had “consistently called for strong investment provisions in” all U.S. model BIT programs.¹²

LobbyView, a comprehensive database of lobbying reports (Kim 2018), provides more evidence that large MNCs lobby for BITs and that such lobbying efforts are oriented towards getting protection for their prearranged investments.¹³ In September 2008, Twentieth Century Fox, a global American film producer, announced that it had developed a plan to establish a studio in India to tap into the Indian film markets and to serve as a base for possibly expanding into the Chinese and Southeast Asian film markets (Batty 2008). The following year, Twentieth Century Fox started lobbying for BITs specifically with India, China, and Vietnam. Likewise, in 2008, HanesBrands, an American clothing company, established its first textile production plant in Nanjing, China. In that same year, lobbying reports indicated that HanesBrands had lobbied the U.S. government to conclude a BIT with China.¹⁴ Finally, the Emergency Committee for American Trade, a body represent-

¹²This letter is available at <https://www.regulations.gov/document?D=USTR-2013-0019-0054>. Accessed 22 Mar 2019.

¹³*Lobby View* contains 380 BIT-related lobbying reports. Accessed 31 May 2020.

¹⁴This was the first facility of Hanesbrands in Asia. See, http://www.annualreports.com/HostedData/AnnualReportArchive/h/NYSE_HBI_2008.pdf.

ing American multinational businesses, lobbied the government in 2007 to provide political support for a BIT with Rwanda, which was later signed in 2008.¹⁵

2.4 Hypotheses

Given how critical BITs are to MNCs' FDI plans, and the evidence that shows that firms advocate for the signing of BITs, I expect BIT formation to be driven by MNCs' FDI plans. FDI exposes MNCs to risks because it entails contractual relationships with host governments. Consequently, MNCs maintain a long-term perspective about protecting their investment and being able to pursue legal disputes with host countries when deciding whether to finalize FDI plans. The more FDI that MNCs have planned for a given host country, the more those MNCs would be expected to lobby their home government for a BIT. In turn, we should observe BITs as being a response to home-country firms' plans.

Hypothesis 1 *The greater the planned investment in a host country by a home country's MNCs, the more likely that the home-host country pair will form a BIT.*

Additionally, there are several reasons why this dynamic should be particularly relevant for large firms. First, political leaders of home governments are more subject to the largest firms' influence as large firms tend to dominate lobbying activities (Bombardini 2008). Also, mega-sized firms are responsible for an extraordinary amount of their home country's economic activity: the largest 1% of U.S. MNCs

¹⁵The lobbying reports related to BITs indicate that various government bodies which lead the formation and ratification of BITs, such as the White House, USTR, U.S. Department of State, U.S. Department of Commerce, U.S. Department of the Treasury, and U.S. Senate, are subject to corporate lobbying activities.

account for about 90% of the value of U.S.’s international trade (Bernard et al. 2012). Moreover, firms need to be large enough to have the resources to effectively pursue international arbitration, which can be expensive. Indeed, the majority of successful claimants tended to be large conglomerates with annual revenues of more than one billion dollars (Van Harten and Malysheuski 2016). Since larger firms can have better access to venues for international arbitration, and political leaders tend to have a close relationship with a small group of firms, home countries are more likely to sign BITs with FDI recipient countries as the largest firms account for a larger share of their home country’s planned FDI.

Hypothesis 2 *The greater the proportion of planned investment in a host country by a home country’s largest firms, the more likely that the home-host country pair will form a BIT.*

2.5 Data and Methods

This study estimates a model of the factors that affect the conclusion of BITs between developed home countries and developing host countries.¹⁶ The unit of analysis is the home-host country dyad, and the data covers all years from 2003 to 2015. The dataset contains 33 home countries, which are those countries defined as “developed” by the International Monetary Fund (IMF).¹⁷ The dataset also includes 126 host countries, which are all countries defined as “developing” by the IMF and

¹⁶Of the 391 BITs that developed home countries have signed during the examined period, 379 were with developing partner countries.

¹⁷According to IMF classification, 39 countries are defined as advanced economies. Six countries, including San Marino and Puerto Rico, are dropped from the analysis because there is no investment data available or they have too few outward-oriented firms.

for which data is available. In total, there are 3,031 home-host dyads.

The dependent variable is whether the two countries in the dyad signed a BIT with a partner country in a given year, so this variable takes the value of 1 if the two countries signed a treaty that year (provided that they have not signed any BIT previously) and 0 if the two countries did not sign a BIT that year. Once a dyad signs a BIT, it then is dropped from the dataset.¹⁸ The dependent variable is taken from the UNCTAD's IIA database.

Data on MNC investment data in each host country, is drawn from the fDi Markets database, supplied by the *Financial Times*, which tracks international greenfield investments. Greenfield investments are those in which MNCs build all of the facilities they need to conduct foreign operations. Greenfield investment data is appropriate for this study as it allows for precise analysis of MNCs' perceived investment risk. The use of merger and acquisition data would not produce clear results because sharing ownership of assets with local firms tends to lower expropriation risks. The fDi Markets database collects information about the volume of announced FDI by searching thousands of media sources, market research and investment agency reports, and internal *Financial Times* sources (fDi Markets 2019). Prominent studies in business and political science have begun to use the fDi Markets dataset (Albino Pimentel, Dussauge and Shaver 2018; Owen 2019) but have not utilized the timing aspect of the data. Using FDI project announcement data provides precise information about when individual MNCs from home countries made

¹⁸In a case where two countries signed a BIT twice, I choose the second BIT signing in the examined period for the empirical analysis.

the decision to invest in host countries, thereby allowing this study to estimate the effects of MNCs' investment decisions on BITs. In total, my study incorporates data on 29,805 individual FDI project announcements in developing host countries, made by MNCs from 33 developed countries during the period in question.¹⁹

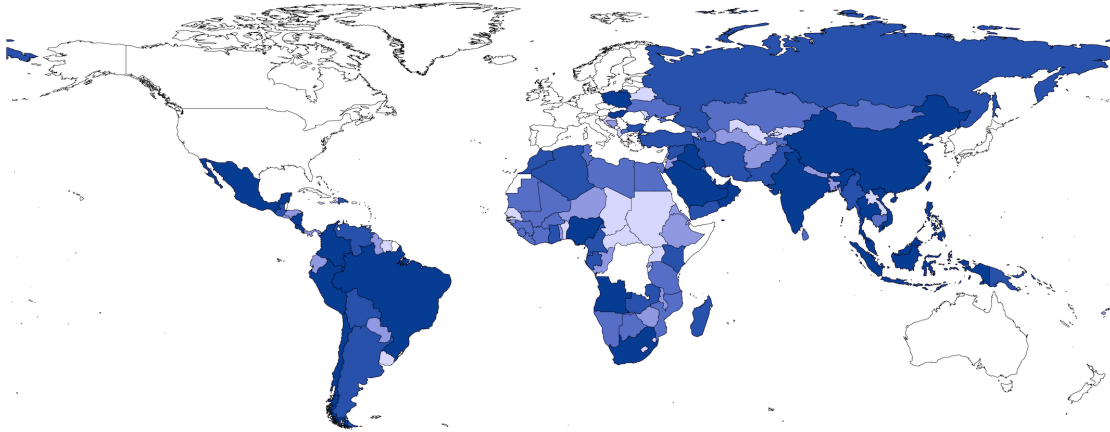
The first primary independent variable employed in this study is the size of MNCs' planned investments (in millions of US dollars) in a given host country. Because the fDi Markets database tracks and compiles information on the announced volume of individual projects into monthly sets, I aggregate the data to the yearly level. Figure 3 illustrates the distribution of the volume of planned investment as reflected in the fDi Markets database. The other primary independent variable is the share of a country's planned investments in a given country made by its largest MNCs. The firm-specific information from the fDi Markets database includes the firms' name, official websites, and headquarters location. This information is then matched with the *Compustat* and *Worldscope* financial accounting databases to identify 12,590 MNCs from developed countries. By linking MNCs' individual FDI projects with firms' financial accounting information, the large-firm FDI index is created to measure the relative share of each country's planned FDI accounted for by the planned FDI of the largest 10% firms (as measured by the size of assets).²⁰ The large-firm FDI index has a range of 0 (no planned FDI came from the largest firms) to 100 (all planned FDI came from the largest firms).²¹

I also include several control variables to predict BIT signing. First, several

¹⁹The investment amounts are aggregated across the examined period of this study.

²⁰These are 10% of all matched firms.

²¹For the analysis that employs a proportional measure to explain the formation of international agreements, see Manger (2012).



Note: Darker shading indicates greater investment amounts.

Figure 2.3: Distribution of Developed Countries' Planned Investments in Developing Countries.

variables are added to the baseline model to account for the conventional wisdom that host countries seek BITs because they are eager to compensate for their poor institutional quality. The Polity net-democracy score is included because many studies claim that autocracies are politically volatile and so may be more in need of BITs.²² Similarly, existing studies commonly assume that the more that foreign investors perceive a host state as corrupt or politically unstable, the more that the host country will endeavor to sign BITs to signal that they are a safe place for investment (Elkins, Guzman and Simmons 2006). Therefore, two variables are included to capture levels of host-state corruption and political instability, respectively. Additionally, a variable measuring political constraints on the executive is included (Henisz 2002) because developing country leaders who face fewer political constraints are more capable of expropriating foreign assets and so present greater

²²This variable ranges from -10 to 10 and higher values indicate more democratic political institutions.

risks to foreign investors (Jensen 2008). The polity and political constraint variables are taken from the *Polity IV* database (Marshall, Jaggers and Gurr 2011), while variables for corruption and political stability are taken from the World Bank's Worldwide Governance Indicators.

Other economic variables that might affect the probability of BIT signing are added in further model specifications. GDP per capita (logged) is included because poor countries may be more likely to sign BITs to improve their economic circumstances. Similarly, annual GDP growth is included because countries with slow economic growth may sign BITs to speed up their economic growth. Host country trade volume, defined as the log of imports plus exports, is also included. Home countries might find countries with which they trade more to be more ideal BIT partners. All economic data is taken from the IMF's World Economic Outlook database.

Another set of variables capture the host country's propensity to sign on to international institutional arrangements and are included in the full model specification. A variable is added for the total number of preferential trade agreements (PTA) that a host country had signed in a previous year to account for the host country's tendency to engage in international institutions. The total number of BITs signed around the world in a given year is included to account for global trends that could shape the political environment for BITs. PTA data is from the Design of Trade Agreements dataset (Dür, Baccini and Elsig 2014) and BIT data is from UNCTAD's international investment agreements navigator. Finally, pairs of dyadic controls are included. The physical distance between developed and developing country pairs is

included because the likelihood of making international arrangements is negatively correlated with the physical distance between the partners. Whether the host country was a colony of the home country also is included because home countries might be more likely to sign BITs with their former colonies. Distance and colonial links are taken from the CEPII database.

For my primary estimations, I employ a logit model, which is frequently used in studies to explain the adoption of international agreements (Verdier and Voeten 2015; Chilton 2016).²³ The model is specified as:

$$BIT\ signing_{ij,t} = \beta_0 + \beta_1 Planned\ FDI_{j,t-1} + \beta_2 Controls_{ij,t-1} + \epsilon_{ij,t-1}$$

where country i is one of the developed countries and country j is one of the developing countries and t denotes year. I follow Carter and Signorino (2010) to control for temporal dependence by adding cubic polynomials – $t1$, $t2$ and $t3$. In order to account for possible intrapanel correlation, heteroskedasticity, or serial correlation, robust standard errors are used and are clustered at the dyad level. All independent variables are lagged one year to rule out simultaneous bias.

Results

Table 1 shows the outcomes of the logistic regression to explain the formation of BITs between developed and developing countries. Model 1 shows coefficient esti-

²³I also run a series of duration models for the robustness checks. These additional models are discussed in the empirical result section.

mates when the first of the primary independent variables, the amount of all MNCs' planned investments, is included. Model 2 adds other domestic factors that account for host countries' institutional quality. Model 3 reports estimates with other economic variables and cubic polynomials. The final model shows estimates after controlling for other host country and dyad-specific variables along with global trends in the BIT formation.

The statistical results confirm the strong influence of MNCs' FDI plans on BIT signing. In all model specifications, the coefficient estimates of MNCs' planned investment projects consistently have positive effects on the creation of BITs and the results are statistically significant at the 99% confidence interval. Model 2 shows that this finding remains significant after accounting for the conventional wisdom that host countries with poor institutional quality are in greater need of BITs. Models 3 and 4 show that the finding also holds after accounting for other factors that plausibly motivate the creation of BITs, such as host country's economic needs or global trends in BIT-signing. The results are robust to time controls as including time cubic polynomials does not change the results. These findings lend solid support for the first hypothesis that the global spread of BITs has been largely inspired by home countries and their MNCs' existing plans for investment.

Figure 4 plots the predicted probabilities produced by Model 4 (in Table 1) to depict the results in a more substantive manner. This figure shows the estimated predicted probabilities of BIT-signing across a range of MNCs' planned investment values. Control variables are set to either their mean or median value. The solid line in Figure 4 shows that as planned investment values increase from the minimum to

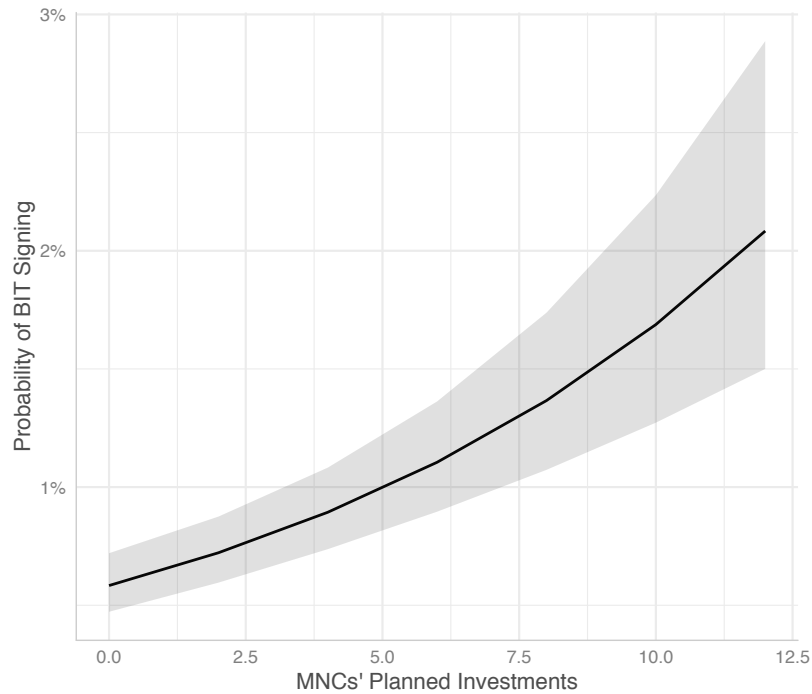
the maximum value, there is a 320% increase, from less than one-half of a percent to more than two percent, in the estimated probability of BIT-signing. Given that BIT signing is infrequent events that are being examined annually, the effect of developed home country MNCs' FDI plans is substantial.

Table 2.1: Effects of MNCs' Planned Investments on BIT Signing

	<i>Dependent variable:</i>			
	Bilateral Investment Treaty			
	(1)	(2)	(3)	(4)
Planned FDI Project Amounts	0.165*** (0.025)	0.151*** (0.026)	0.125*** (0.026)	0.113*** (0.027)
Polity (Host)		-0.049*** (0.009)	-0.036*** (0.009)	-0.023** (0.010)
Corruption (Host)		0.303*** (0.111)	0.211* (0.118)	0.242** (0.121)
Political Stability (Host)		-0.110 (0.088)	-0.238*** (0.089)	-0.206** (0.091)
Political Constraints (Host)		0.003 (0.005)	0.003 (0.005)	0.002 (0.005)
GDP per capita (Host)			0.174*** (0.053)	0.149*** (0.054)
GDP Growth (Host)			0.867* (0.511)	0.895* (0.524)
Total Trade			-0.000 (0.001)	-0.000 (0.001)
Total PTAs (Host)				-0.006 (0.069)
Global BITs				0.100 (0.386)
Distance				-0.614*** (0.080)
Colony				0.741** (0.350)
Constant	-4.728*** (0.062)	-4.551*** (0.079)	-6.268*** (0.601)	-1.171 (1.964)
Cubic Polynomials?			✓	✓
Observations	33,075	32,236	30,583	30,583

Robust standard errors are in parentheses.

*p<0.1; **p<0.05; ***p<0.01



Note: The figure is generated based on model 4 in Table 1.

The solid line shows predicted probabilities and bands represent 95% predicted values.

Figure 2.4: Marginal Effects of MNCs' Planned Investments on BIT Signing

As a robustness check, the number of announced investment projects is employed instead of the value of those projects. Although the fDi Markets data is useful to demonstrate the extent to which MNCs commit to future FDI by capturing the size of announced investment amounts, much of this data is estimated. The exact planned investment values are recorded when such information is available, but when it is not, the fDi Markets uses a proprietary algorithm to estimate the investment value.²⁴ The statistical results when using the number of FDI projects are reported in Table A3 in the appendix. Model 1 shows that the number of FDI projects also has a positive and statistically significant effect on BIT signing. Mod-

²⁴Albino Pimentel, Dussauge and Shaver (2018) also point out the possible measurement error due to estimated values in the dataset.

els 2, 3 and 4 show that this relationship remains significant after accounting for host countries' political and economic characteristics as well as dyadic controls such as the physical distance between two countries.

In Table 2, I present estimates from empirical analyses using the large-firm FDI index as my primary explanatory variable. This captures whether firm size shapes the degree to which MNCs influence their home countries to sign BITs. Model 1 yields the baseline coefficient, since it includes only the large-firm FDI index. Model 2 then adds domestic political variables. Model 3 reports estimates from the full model specifications, which include all host country and dyad-specific variables.

All of the models show that the large-firm FDI index has statistically significant and positive effects on the probability of BIT signing. This result supports the second hypothesis, which predicts that the effect of planned investments on BIT formation is shaped by firm size. As the largest firms engage in a greater proportion of the country's bilateral FDI, home countries are more likely to create BITs with host countries. This suggests that the heightened political influence and importance of large firms is a particularly strong force for treaty signing. For models 4-6, the number of investment projects planned by the largest firms is employed in place of the investment amount variable. These results further confirm the significant effects of the largest firms' planned FDI on BIT creation.

Table 2.2: Effects of Largest Firms' Planned Investments on BIT Signing

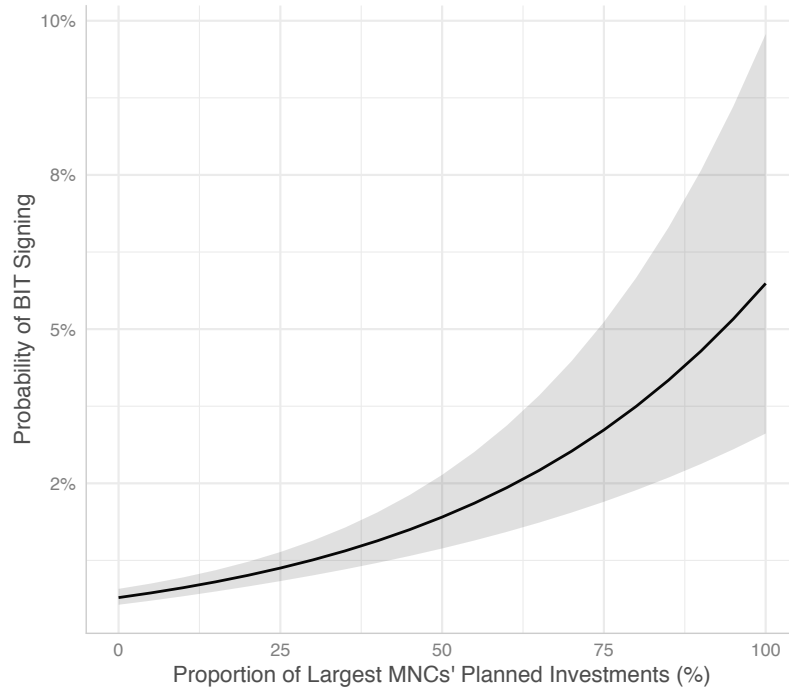
	<i>Dependent variable:</i>					
	(1)	(2)	(3)	(4)	(5)	(6)
	Bilateral Investment Treaty					
Large-Firm FDI Index (amounts, %)	0.011* (0.006)	0.015** (0.006)	0.014** (0.006)			
Large-Firm FDI Index (numbers, %)				0.016** (0.007)	0.018*** (0.007)	0.018*** (0.007)
Polity (Host)		-0.045*** (0.009)	-0.022** (0.010)		-0.045*** (0.009)	-0.022** (0.010)
Corruption (Host)		0.386*** (0.111)	0.264** (0.119)		0.385*** (0.111)	0.263** (0.119)
Political Stability (Host)		-0.145 (0.089)	-0.223** (0.091)		-0.143 (0.089)	-0.221** (0.091)
Political Constraints (Host)		0.004 (0.005)	0.003 (0.005)		0.004 (0.005)	0.003 (0.005)
GDP per capita (Host)			0.180*** (0.054)			0.180*** (0.054)
GDP Growth (Host)			0.888* (0.518)			0.889* (0.518)
Total Trade			-0.0000 (0.001)			-0.0000 (0.001)
Total PTAs (Host)			0.004 (0.069)			0.004 (0.069)
Global BITs			0.119 (0.385)			0.116 (0.385)
Distance			-0.632*** (0.082)			-0.633*** (0.082)
Colony			0.854** (0.353)			0.852** (0.352)
Constant	-4.552*** (0.053)	-4.787*** (0.480)	-1.242 (1.969)	-4.553*** (0.053)	-4.782*** (0.480)	-1.216 (1.969)
Cubic Polynomials?		✓	✓		✓	✓
Observations	36,088	32,236	30,583	36,088	32,236	30,583

Robust standard errors are in parentheses.

* p<0.1; ** p<0.05; *** p<0.01

Figure 5 illustrates the substantive significance of increasing the proportion of a home country's planned FDI accounted for by that country's largest firms (based on Model 6). The 0% situation means that small-sized companies are the only South Korean companies to plan to make FDI in a developing country. The 100% situation means that the largest South Korean conglomerates are responsible for all of South Korea's planned investments in a developing country. As one moves from the 0% and 100% situations, the predicted probability of BIT formation between home and host countries is surprising as it increases by nearly 850%, from 0.006 to 0.057. The 0% situation is represented by the Yura Corporation and Mecen IPC, a small South Korean automotive component and plastic manufacturers, respectively, being the only South Korean investors in Serbia in 2011. The 100% situation is represented by Samsung Electronics, being responsible for all South Korea's planned investment in Kenya in 2013.²⁵ The results show that when a higher proportion of investments is planned by a home country's most important firms, the likelihood of those host and home countries signing a BIT significantly increases.

²⁵Nairobi is Samsung's headquarter where the company supplies its products to 16 African countries. See <https://www.businessdailyafrica.com/corporate/Samsung-to-open-phone-and-TV-assembly-plant-in-Kenya/539550-1738928-ns8jka/index.html>.



Note: The figure is generated based on Model 6 in Table 2.

The solid line shows predicted probabilities and bands represent 95% of predicted values.

Figure 2.5: Marginal Effects of Largest MNCs' Planned Project Numbers on BIT Signing

Across all of the models, several control variables show interesting patterns. Consistent with the existing research, a low democracy score, poor host country institutional quality and a higher prevalence of corrupt practices in host countries appear to motivate BIT signing. These findings are meaningful because they demonstrate that host countries' efforts to compensate for poor institutional quality (such as high corruption or a low level of democracy) also serve as a motivation for BITs – a conclusion consistent with other studies. Nonetheless, the results also reveal that existing explanations for BITs are limited as they fail to account for important home influence over the signing of BITs. Even after controlling for many types of variables that capture host-state institutional characteristics, MNCs' existing plans

still exert strong and substantial effects on BIT signing. Unlike extant research, GDP per capita and GDP growth have statistically significant and positive effects on the likelihood of BIT signing. Thus, it appears that host countries do not sign BITs because they are desperate to promote economic growth. In addition, as countries are farther away from each other, they are less likely to form BITs. But when they share a colonial history, host countries become more attractive BIT partners.

To further confirm the robustness of the effects of MNCs' FDI plans on BIT formation, I present a series of analyses when planned investment project numbers and sizes are lagged by two and three years in the supplemental appendix. This is to control for the possibility that a government might take a year or two to negotiate a BIT that their firms have advocated. These results are all reported in Table A4, A5, A6 and A7. The primary variables for MNCs' investment plans once again are all positive and statistically significant at the 99% confidence interval, showing that the home-country firms' investment plans are positively associated with the BIT formation.

Finally, I conduct additional analyses using the Cox proportional hazard model, which estimates a hazard rate of an event occurring at any point in time, instead of the logit model. This alternative empirical approach has been adopted by other studies (e.g., Neumayer 2006). In Table A8 in the appendix, I present results when using the volume of announced projects, which I employ to test my first hypothesis (see Table 1). In Table A9, I use the large-firm FDI index, which I employ to test my second hypothesis (see Table 2). All of the results continue to provide robust support for my hypotheses, and MNCs' investment plans remain significant across

all model specifications when using the Cox proportional hazard model.

2.6 Large MNCs' Investment Plans and Japanese BIT Decisions

Several examples from Japan help to illustrate how my theoretical mechanism works in the real world. First, firms desire BITs and want them to have significant investor protections. In 2002, a survey of 140 Japanese investment firms by *Keidanren*, a Japanese business association, found that 89% of Japanese firms agreed that the Japanese government should pursue multiple BITs with individual countries of the Association of Southeast Asian Nations (ASEAN) member countries where there were high concentrations of Japanese production facilities. In particular, Japanese MNCs wanted BITs with ASEAN member states to be more rigorous in protecting their rights than existing BITs.²⁶ Japan began concluding a series of BITs with ASEAN countries in the 2000s and these newer BITs did indeed contain stricter investment rules than previous BITs, as recommended in the 2002 Keidanren report (Pekkanen 2008; 259-264).

Most importantly, analyses of the relationship between Japanese MNCs' investment plans and the timing of BITs with ASEAN member countries illustrates that corporate preferences are indeed realized via actual policy implementation. Specifically, in Vietnam, a major natural gas reserve representing forty percent of the Vietnamese total gas reserves, was found in the early 1990s. Shortly thereafter,

²⁶The survey and policy report can be founded from here: <https://www.keidanren.or.jp/english/policy/2002/042/index.html>.

a build-operate-transfer basis project known as the Phu My 3 Power Project (PM3) was carried out in Ba Ria-Vung Tau province.²⁷ The Japanese energy company, Kyushu Electric Power Company made the primary investment on the PM3 project as they entered into an agreement in 2001 that recognized their joint ownership of the PM3. In June 2003, Kyushu Electric Power Company announced that it planned to spend US \$450 million for an energy Greenfield investment project in Ba Ria-Vung Tau province. Subsequently, Japan signed a BIT with Vietnam in the end of 2003. The timing of Japan's BITs with other ASEAN countries also exhibit a similar pattern of following Japanese MNCs' investment. For instance, the first Greenfield investment announcement in Laos made by Japanese firms was in 2007 and Japan signed a BIT with Laos in 2008.

A detailed analysis of the BIT process between Japan and Myanmar reveals that Japanese firms with investment interests in Myanmar pushed the Japanese government to form the BIT. Specifically, Japanese conglomerates were heavily involved with Myanmar's Special Economic Zone (SEZ) projects. Three largest Japanese conglomerates, Mitsubishi, Sumitomo, and Marubeni, planned to develop the Thilawa SEZ, a 2,500-hectare industrial park south of Yangon, which was launched in 2011. It was also announced that major seaports and oil and gas pipelines would be developed in the Dawei SEZ in the Tanintharyi region of Myanmar, which Japanese businesses had long seen as ripe for development. In 2013, Mitsubishi announced specific plans for a USD 9 billion energy production project in the Tanintharyi region

²⁷The PM3 was a major-sized investment project that was approved for US \$40 million loans by the Asian Development Bank. The details of the PM3 investment project can be assessed from here: <https://www.adb.org/sites/default/files/project-document/66394/36901-vie-pcr.pdf>

where the Dawei SEZ project was being developed. According to the fDi Markets database, this project would be the biggest wholly-owned investment project in Myanmar made by a Japanese firm during the period of 2003-2015. In sum, by the early 2010s, several Japanese companies were pursuing investments in Myanmar.

According to reports issued by Japan Business Council for Trade and Investment Facilitation (JBCTIF), Japanese conglomerates made several requests for help to the Japanese government regarding Thilawa and Dawei SEZs between 2011 and 2016. Most of these can be seen as attempts to help offset investment risks.²⁸ Some of these risks included Myanmar's regulations on the entry of foreign capital, restrictions on transfers of capital, prohibition of local borrowing, and export tariff rates. Notably, the JBCTIF report indicates that, in response to firms' requests, the Japanese government started negotiations with the Myanmar government to establish a BIT on November 12, 2012. Just over a year later, sparked heavily by its firms' demands, Japan formed a BIT with Myanmar in December 2013.

2.7 Conclusion

Across various dyad-level analyses with different model specifications, the empirical results consistently and repeatedly convey the same conclusion: MNCs' existing investment plans are significant factors leading to BIT signing. Empirical analyses of new firm-level data further reveal that home governments do not respond to domestic firms equally, responding more strongly to the largest firms' desires for

²⁸The country reports can be founded from here: http://www.jmcti.org/cgi-bin/main_e.cgi?Kind=Country

BITs.

The dominant view of BITs is that they are driven primarily by developing countries' desire for capital and their competition with each other to attract FDI (e.g., Elkins, Guzman and Simmons 2006). However, this study finds that investors can take matters into their own hands to reduce their uncertainty about the institutional environment of host countries before making FDI. This study shows that investors also can drive the formation of BITs instead of reactively planning FDI in response to the institutional quality of host countries.

This study's results are in line with an emerging body of scholarship that provides fresh insights into international investments by focusing on the perspective of capital exporters (Beazer and Blake 2018; Albino Pimentel, Dussauge and Shaver 2018). Other research similarly shows that the designs of investment treaties are shaped by the interests of capital-exporting actors to enhance their legal power (Allee and Peinhardt 2014; Pelc 2017). Furthermore, recent scholarship in trade politics also has shown that the rewards of globalization go primarily to relatively few economic actors (Baccini, Pinto and Weymouth 2017; Osgood et al. 2017). This study complements this line of research by demonstrating that large MNCs have significant influence over the creation of BITs. Large MNCs have been further empowered by and are the clear winners of globalization.

3 Personal Networks, State Financial Backing and Foreign Direct Investment

Foreign Direct Investment (FDI) can be very lucrative for global firms. Halliburton, a U.S.-based oil company, received a \$7 billion contract to reconstruct Iraq's oil infrastructure after the Iraq war.²⁹ Skypower, whose headquarters are in Canada, concluded a \$1.3 billion contract with Uzbekistan in 2018 to build 1,000 MW of solar energy production facilities throughout the country.³⁰ Global firms can benefit not only from being awarded investment contracts, but also operating the resulting facilities, which increases long-term revenues.³¹

However, FDI involves significant costs (Foley and Manova 2015; 125-126). Most of these are up-front, fixed costs that often go towards building production or service facilities. Likewise, various non-economic factors, such as unstable political situations or weak property rights, can raise the risk of FDI projects.³² Most FDI projects only become profitable several years after the project is completed. Therefore, the significant up-front costs of FDI, and the long time horizon of its profitability prevent many firms from entering the global market.

Recent political economy models show that only the most profitable firms can

²⁹See <https://www.washingtonpost.com/archive/lifestyle/2004/02/10/the-profitable-connections-of-halliburton/2f727e5e-a3d0-4333-a389-17ca4e715b49/>.

³⁰This project was the record high investment in Uzbekistan. See <https://www.bloomberg.com/press-releases/2018-05-07/skypower-and-the-government%2Dof-uzbekistan-announce-the-signing-of-a-landmark-1-000-mw-solar-power%2Dpurchase-agreement>.

³¹Empirical evidence also suggests that increases in MNCs' stock prices resulting from positive FDI performance increases liquidity, which in turn improves market performance (Levine 1991 and Saint-Paul 1992, Lopez-Duarte and Garcia-Canal, 2007).

³²FDI can also face costs of regulatory compliance, including meeting different environmental standards or maintenance of foreign properties.

afford to bear the costs of FDI (e.g., Melitz 2003). Large firms are often best able to do so. They can provide differentiated products or deliver skill-intensive services at low prices because they are able to leverage economies of scale. In contrast, many smaller firms cannot take advantage of economies of scale and so must sell similar products at higher prices (Bernard et al. 2003). Ultimately, large firms can monopolize the market for certain products by undercutting their competitors with low prices, allowing them to further increase their profits in both foreign and domestic markets. Consequently, only the largest firms that generate the most profits are able to serve foreign markets through costly FDI (Kim 2017; Osgood et al. 2017).

FDI research has not fully explored the political power of large firms. Firms are not apolitical actors that are insulated from governments (e.g., Fisman 2001). Instead, they frequently lobby their government to obtain preferred policies (Grossman and Helpman 1994). In turn, many governments incentivize domestic firms to engage in FDI to boost national economic performance (Shi 2015; Kalinowski and Cho 2012). One of the common methods of doing so is by making credit easily available through state-owned banks.

I argue that state-subsidized financing acts as a financial incentive for firms to engage in FDI. Beyond just directly reducing the immediate financial burdens of FDI, state-subsidized financing also functions as risk insurance. Political events, such as contractual breaches and expropriations by host governments, degrade the value of firms' foreign assets. The home government can directly cover these losses with access to cheap credit or cash payments. This insurance reduces the political

risks of FDI and thereby ensures its long-term profitability. Therefore, I expect firms to enhance their government lobbying efforts to secure such state-subsidized financing. Specifically, I hypothesize that they will place on their boards retired bureaucrats who served previously in top-ranking positions at important state financial institutions. The idea is that these board members will help firms to obtain larger bank loans through existing personal networks.

I combine unique project-level FDI announcement data with firm-level board connection data to investigate the relationship between firms' ability to secure state-subsidized financing and their ability to pursue more FDI projects. I capture board-member ties to state-owned banks by hand-coding a political career dataset of 4,936 board members of 732 firms in South Korea. Examples of these financial institutions include the Korean Development Bank, the Export-Import Bank of Korea, and the Financial Supervisory Commission, all of which have authority over the distribution of state-subsidized financing. The empirical results reveal that firms that hired former financial executives at state financial institutions pursued more FDI projects than firms who did not hire such executives. The results also show that the strength of this effect is positively associated with firm size, with a logical explanation being that small firms have a limited ability to compete globally.

This study builds on recent scholarship, but is unique in several ways. It has its origins in the recent research on the political economy of large firms. So-called "new, new trade theory" suggests that firm-specific attributes, such as size, explain why it is predominantly large firms that engage in international markets (Kim 2017; Osgood et al. 2017) and thus reap most of the rewards of globalization (Baccini,

Pinto and Weymouth 2017). However, this study hypothesizes that the outsized gains that large firms receive from globalization are also dependent on their links to their home governments. Furthermore, existing economic theories have tended to focus on the value of political ties in allowing firms to manipulate domestic economic policies, such as tax rates or government procurement contracts (Faccio 2006; Goldman, Rocholl and So 2013; Schoenherr 2019). This study shows that politically connected firms can lobby their governments to receive direct financial payments that allow them to engage in greater FDI. Finally, this study's analysis of the role of corporate board members complements the literature on political lobbying. Political science scholars recently have begun to focus on the value of corporate board members in lobbying activities (Palmer and Schneer 2016; 2019). This study shows how firms can increase profits by developing board-member ties through the hiring of retired bureaucrats.

3.1 Political Economy of FDI Promotion

FDI is an essential part of global firms' profits. However, FDI is costly. Recent studies that analyze micro-level firm data have demonstrated that firm-level attributes explain firms' engagement in international markets, regardless of industry competitiveness or country-level factor endowments (Melitz 2003).³³ The consistent finding of these studies is that there is a size threshold that explains why some firms can

³³Traditional political economy models typically turn to industrial competitiveness or the degree of factor endowments (Hiscox 2002; Rogowski 1989) to explain reasons why firms can overcome the high costs of global business activities. For example, if a country is competitive at exporting automobiles, automotive firms in a given country can become profitable enough to afford costly international competition.

afford the costs of engaging in international business. The largest firms, which are often the most competitive at selling products at the lowest price, are sufficiently profitable to afford the costs of FDI. Small and medium-sized firms may be unable to bear the fixed costs of FDI and instead may export their products to target markets instead of producing them there directly. The smallest firms are unable to make profits in the face of international competition, and typically drop out from the global markets (Helpman, Melitz and Yeaple 2004).

FDI studies have largely overlooked the role that home governments play in promoting FDI. Firms are active in the domestic political process and governments are often receptive to their demands (Grossman and Helpman 1994). Therefore, home governments often provide domestic firms with various forms of support when they engage in FDI, such as international investment agreements (Allee and Peinhardt 2010; Kim 2020) and trade rules that favor their products (Baccini, Pinto and Weymouth 2017; Manger 2012).

Subsidies are an effective domestic tool for home governments that past FDI studies have tended to ignore. Governments can mobilize financial resources to support domestic firms' FDI projects if they have sufficient control over domestic banks (La Porta, Lopez-de Silanes and Shleifer 2002). For example, Japan is famous for providing state-subsidized financing for Japanese firms' foreign ventures (Solis 2003; 153). Likewise, since the 2000s, the Chinese government has been facilitating FDI by state-owned enterprises through financing from state-run banks (Gallagher and Irwin 2014; Shi 2015).

Firms employ political strategies to receive such state financial support. Am-

ple evidence suggests that banks are subject to political capture (La Porta, Lopez-de Silanes and Shleifer 2002). Banks have been found to increase their lending specifically during election years (Cole 2007). Carvalho (2014) shows that politicians can exploit bank lending to purposefully increase employment in politically attractive regions. More specifically, Khwaja and Mian (2005) show that Pakistani firms that hired boards of directors who previously ran in state or national elections took out twice as many loans from state-owned banks than other firms. Using the same political connection data, Khwaja and Mian (2008) also show that firms with political connections can avoid financial distress caused by unanticipated bank liquidity shocks by borrowing with financially preferential terms, while firms without political connections experienced significant declines in overall borrowing. Finally, Charumilind, Kali and Wiwattanakantang (2006) show that Thai firms that placed politically influential people on their boards of directors, or that were owned by wealthy families could more easily engage in long-term borrowing from government-owned banks than their competitors without political connections. Therefore, a great deal of empirical evidence exists to support claims of politically influenced lending by banks (Claessens, Feijen and Laeven 2008).

This study examines the effect of political influence on FDI, in the context of South Korea. Here, political relationships are conceptualized as those formed by placing former elite financial executives on corporate boards. The next section explains how firms form political relationships to gain access to such financing and why state financing can increase FDI.

3.2 State-Subsidized Financing and FDI

Numerous studies have found that bank loans are an important source of funding for FDI (Ma and Cheng 2005; Milesi-Ferretti and Tille 2011; Contessi and De Pace 2012; Cetorelli and Goldberg 2011; Düwel, Frey and Lipponer 2011; De Maeseneire and Claeys 2012). For example, Klein, Peek and Rosengren (2002)'s seminal study shows that the negative financial shocks suffered by Japanese banks in the 1990s reduced the amount of FDI in the U.S. by Japanese firms, indicating that firms relied on bank loans as their primary source of financing.

Financing obtained from state-run banks can account for a significant part of firms' capital expenditures. In developed economies, banks are larger and play a greater role in supplying credits to firms than in developing economies. Given that investments in fixed assets often involve large sunk costs, state banks can increase the amount of FDI firms engage in by subsidizing the costs. By contrast, difficulties in securing loans from banks can deter firms from making investments, even if they have access to equity markets (Amiti and Weinstein 2018). Firms that are unable to secure bank loans often lack of money supply, reducing the number of employees or reducing their exports (Amiti and Weinstein 2011).

State financing not only defrays the up-front costs of FDI, but also can act as a financial safeguard against future investment risks. Studies on international investment agreements commonly assume that global firms want their future FDI projects to be covered by investment protection (e.g., Allee and Peinhardt 2010). Various policy choices by the host governments can harm their significant foreign assets.

These policy choices, which include breach of contract, regulatory measures, taxation, or out-right expropriation, can lead to dispute settlement procedures that may take five or more years to complete (Raviv 2015; 654). The long repayment periods that are characteristic of loans from state banks act as insurance for firms because firms can react to those losses with long-term borrowing. Home governments can also provide troubled firms with direct financial subsidies through state-run banks. Thus, state financing can prepare firms for various future investment uncertainties *ex ante* and relax their monetary budget constraints.

Of course, large global businesses may have alternative strategies for reducing FDI risks. Firms can ask home country diplomats to step in to resolve investment disputes with host governments (Gertz 2018; Wellhausen 2015*b*). Johns and Wellhausen (2015) also argue that multinational firms, which participate in host country supply chains deter expropriation as such actions would also harm the host economy. Nonetheless, conflicts with the host government frequently occur. Pelc (2017) finds that multinational firms have been involved with litigation against host governments due to contractual breaches more frequently since the 2000s than in the past. Despite the costs of litigation, multinational firms often reinvest in the same country, even if they have legal disputes with the host government (Wellhausen 2019). Therefore, state-subsidized financing remains an attractive strategy for firms to mitigate investment risks.

3.3 Political Connections and FDI Financing in South Korea

Firms may seek to influence loan distribution processes by establishing political connections. Specifically, firms can increase their political clout by placing important ex-politicians on their boards, which helps create links with incumbent political leaders. In contrast to other lobbying activities such as making direct money contributions, hiring former officials tends to be unknown to the public. Former officials' reputations from their public service also benefit firms. (Fisman 2001; Goldman, Rocholl and So 2013).³⁴ Retired legislators tend to receive higher salaries than other types of lobbyists because they have more influence over their former colleagues through their personal networks than those who have not served as legislators before (Blanes i Vidal, Draca and Fons-Rosen 2012). Policies about issues such as government procurement contracts and tax rates have been found to be influenced by firms' personal ties (Schoenherr 2019; Faccio 2010). By the same token, firms purposefully place former financial officials on their boards to obtain more financing through the relationships those former officials have with incumbent financial officials. Beyond granting access to powerful networks, appointing elite officials and politicians may provide firms with special knowledge about bank lending procedures.³⁵

³⁴Placing these individuals on corporate boards has other potential benefits as well. Additionally, firms can utilize these officials' experience and knowledge to shape their business strategies. Because of those benefits, former government officials more frequently serve corporate boards than becoming lobbyists in the United States (Palmer and Schneer 2019; 672).

³⁵Beyond granting access to powerful networks, appointing elite officials and politicians may provide firms with special knowledge about bank lending procedures. For instance, Time Warner explicitly stated that it could get "legislative and regulatory insight" by hiring former Senator John E. Sununu to serve on its board and learning from his experience in relevant government bodies (Palmer and Schneer 2019; 184). Firms can better understand bank lending policies and how to navigate regulatory structures from employing elite financial officials, enabling them to acquire

The role of corporate political ties in increasing firms' financial strength is well-evidenced in South Korea (Korea hereafter). Korea's development state produced rapid economic growth in the 1960s and 1970s (Johnson and Mitton 2003; Amsden 1992; Evans 1995). The development state assumes direct control over the economy through close coordination with their firms. The Korean government has maintained a great deal of control over the economy since then (Kang 2002). Interviews that were conducted among 100 Korean multinational firms during the period 2000-2006 indicate that seeking government favor is "a fact of Korean business life" (Siegel 2007; 629). The corruption scandal that toppled the Park Geun-hye administration in 2017 revealed that the state had retained strong authority over powerful family-owned conglomerates, or "Chaebol" (Jäger and Kim 2019).

Korean firms can receive greater access to state-subsidized financing by strengthening their relationships with the government. Foreign firms have pursued joint ventures with local Korean firms, and prefer working with Korean firms that have ties to the government because banks tend to provide those firms with "cheap finance" (Siegel 2007). Moon and Schoenherr (2018) show that state banks' lending to firms whose executives were linked to Lee Myung-bak increased by 36.57% after he was elected President (24).

However, Korean firms often do not want their political relationships with the government to be known (Siegel 2007). This is because many corruption scandals have revealed the existence of such ties, to the detriment of the incumbent government.

non-public information about lending procedures. Thus, firms can know how to better qualify as borrowers from state financial institutions by employing board members' expertise.

ments. For example, the Kukje Group, which was the seventh-largest family-owned conglomerate, declared bankruptcy in 1985. During this process, all of their applications for loans from state-owned banks were eventually denied when they lost their political connections to President Chun Doo-hwan (Kang 2002; 188). An investigation as part of the Hanbo corruption scandal (1993-1995) revealed that “an influence-peddling network” had been formed between the head of the state-run banks, financial supervisory board members, and key officials in the Ministry of Economy and Finance – and that this network helped a global conglomerate to receive considerable financing from the government (Haggard and Mo 2000; 207-208).

Two recent Korean corruption scandals have revealed that placing former government officials on corporate boards creates important back channels to access state-subsidized financial resources. Despite being one of the largest Korean shipbuilders, STX Offshore and Shipbuilding (STX) filed for court-led restructuring in 2016 after becoming seriously debt-ridden (Yonhap 2016). The Korea Development Bank (KDB) appeared to be the main source of this debt, having granted the company KRW 900 billion (USD 883.6 million) in loans. STX used these loans to build production facilities in foreign countries, over-extending itself. It was alleged that the company’s access to KDB’s loans was a product of its political ties (Suk 2014; Chung 2014) in the person of Song Jae-yong, a former vice-chairman of KDB and STX board member. KDB also appeared to be responsible for another financial scandal at Daewoo Shipbuilding and Marine Engineering (DSME), the world’s second-largest shipbuilder (Lee 2016). DSME provided fake audit reports by not including possible costs associated with building 40 overseas production facilities.

KDB was the company's largest creditor and was responsible for overseeing its financial status. Not coincidentally, Kim Yul-jung, a member of DSME's board, was a former head of KDB. KDB ignored the company's growing financial difficulties until the fraud debacle stood out. In fact, the vast majority of former top-ranking bureaucrats at state financial institutions, such as KDB, were hired to join corporate boards soon after retiring from public service because of the political connections that they bring with them (Lee 2013). In sum, these major scandals in Korea reveal that firms can engage in FDI using financing secured through their board-member linkages with the government.

The historical record shows that the Korean government has been successful in promoting firms' FDI activities. Korean companies in the manufacturing, finance, transportation, and communications sectors have become internationally competitive after receiving the government's financial backing (Jones, 1975). The Korean government used "an extensive network of specialized state banks," such as KDB and the Export-Import Bank of Korea (KEXIM), to direct most credit to select firms to support their international investments (Frieden and Rogowski 1996; 428).³⁶

More recently, unlike its neighbors, the Korean government promoted FDI even during the 2008 global financial crisis. By comparison, FDI from China dropped by almost half in the three years following the crisis (Figure 1, top-right) and FDI from Japan dropped by more than half during the same period (Figure 1, bottom-left). FDI from other members of the Organization for Economic Co-operation and

³⁶Korean firms hardly made any FDI before the 1970s (Debaere, Lee and Paik 2010), but now Korea is one of the top 20 sources of global FDI (UNCTAD 2018).

Development began to decline as early as 2007 (Figure 1, bottom-right). In contrast, Korean FDI was nearly unaffected by the crisis (Figure 1, top-left).³⁷ The Korean government mobilized financial resources to cope with the financial crisis, which were mainly administered through state-owned financial institutions.

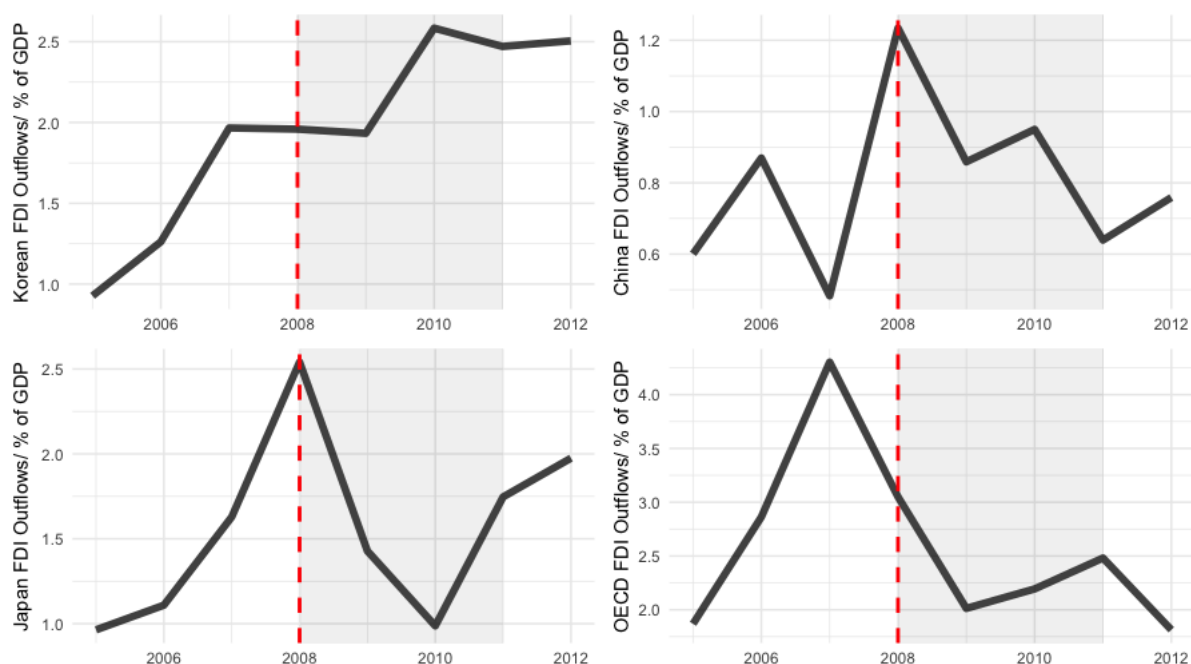


Figure 3.1: A Comparison of FDI Outflows Made by Korea (top left), China (top right), Japan (bottom left), and OECD (bottom right) Before and After the 2008 Financial Crisis. The shaded area indicates three years past the crisis (Source: OECD Data).

State-subsidized financing has desirable qualities that make it particularly attractive to Korean firms. KDB offers 100% financing with a 10-year repayment period for FDI projects. KEXIM will lend up to 90% of the required capital and offer repayment periods of up to 30 years, depending on the purpose of the loan.

³⁷In the years before the crisis, the Roh Moo-hyun administration (2004-2008) mobilized financial resources to sponsor FDI as part of so-called resource diplomacy. The subsequent Lee Myung-bak administration (2008-2012) also created resource funds of US\$860 million (KRW 1 trillion won) and a development program worth US\$17 billion (KRW 200 trillion won) to promote private sector investment and resource development to cope with the effects of the financial crisis (Kalinowski and Cho 2012; 247-248).

Access to this type of financing allows firms to hedge against FDI risks. In fact, the Korea Trade Insurance Corporation guarantees that firms will be compensated if their assets are lost due to war or host country bankruptcy. KEXIM even guarantees that Korean firms do not carry any financial liability for resource development failures.

Board-member ties help firms get access to such state financial backing, which increases the amount of FDI they can afford. However, this mechanism may increase in value relative to the size of the firm. Large firms that engage in FDI projects tend to do so concurrently in many places around the world. These firms may have stronger incentives to secure additional state financing because their cash flows will be easily constrained. Thus, large firms' significant up-front costs for constructing capital-intensive facilities, like service infrastructure, can be reduced by securing backing from state-run banks. As the potential costs for large firms increases, so does the effectiveness of state-subsidized financing for FDI.

There also are reasons why big businesses are more effective at lobbying than smaller firms. Whether political leaders remain in office is often determined by national economic performance. Large firms make the largest individual contributions to national economies (Bernard et al. 2012), so political leaders are more likely to represent their interests. The Korean government's historical favoritism towards big businesses is an example of this phenomenon.³⁸ The ties between the Korean government and large Korean companies have been characterized as a mutual hostage

³⁸The close ties between large firms and the government were the primary reason for the 1997 financial crisis in Korea. The Korean government continued to provide loans to large conglomerates despite their sharply declining profitability in the years leading up to the crisis (Krueger and Yoo 2002).

situation because the large Korean companies' role in the national economy makes them too big to fail (Kang 2002). Furthermore, small firms might not even try to lobby the government against the interests of big firms because they lack the financial resources to stand a chance of winning. There are also many more small firms than big firms, meaning that their interests are more diverse, making collective bargaining with the government difficult. Consequently, small firms' lobbying efforts are crowded out by large firms' efforts (J. Bennett 1998).

3.4 Hypotheses

This study hypothesizes that firms' political power arising from their corporate boards is closely linked to their FDI ability. Having former heads of state banks or financial supervisory institutions on their boards will serve as effective means for subsidized financing. Firms can use the connections provided by these board members to exert pressure on state banks to receive greater loans, even if their financial status may not qualify them for those loans.

Hypothesis 1 *Firms with board-member connections engage in a greater volume of FDI than firms without board-member connections.*

With such extensive financial backing, large firms are particularly well-placed to pursue more FDI projects. As discussed earlier, large firms tend to have more potential opportunities to pursue FDI projects and greater means to secure financing for those projects. In contrast, the chances for small or medium firms to create FDI projects are more limited.

Hypothesis 2 *The strength of the effect of board-member connections on FDI volume is positively associated with firm size.*

3.5 Data and Methods

To test these two hypotheses, I analyze the FDI decisions of the 732 Korean firms that were listed in the Korea Composite Stock Price Index from 2012 to 2016. The unit of analysis is the firm level, and this includes all publicly traded firms engaging in FDI for which data is available. The period of analysis was chosen to capture the effect of board ties during an administration that was elected in 2012, but then replaced in 2017.

The dependent variable in this study is the logged volume of FDI projects (in millions of US dollars). The firm-level FDI data analyzed in this study was drawn from the fDi Markets database provided by The Financial Times. The fDi Markets database contains information about multinational firms' announcements of greenfield investment projects in which firms planned to build all project facilities and did not plan to engage in mergers or acquisitions. The benefit of using greenfield investment data is that it captures firms' perceived investment risk. Analyzing projects that involved mergers or acquisitions would not reflect the perceived risk because such projects would be less subject to host government expropriation. Additionally, firms can start building entire facilities some years after planning their FDI projects. However, FDI announcement data allows one to estimate the direct impact that the board ties have on firms' ability to plan their future FDI. Finally, the database

provides company information (such as its name, official website, and headquarters location), so it is possible to combine individual Korean firms in the database with publicly available financial statements for those firms. The volume of FDI projects is analyzed instead of the number of projects because pursuing a greater number of FDI projects would require substantial resources and so might obscure the effects of board-member connections on FDI. FDI volume is a more conservative metric for measuring the value of board connections.

The first main independent variable, “Board Ties to State Banks,” measures whether a firm maintained any board-member connections to state banks. To create this variable, I coded data on 4,936 members of boards of directors provided by the Korean Listed Companies Association (KLCA), which annually surveys all publicly listed Korean firms. The main argument of the study is that firms that establish ties with state banks via their boards are more likely to engage in FDI given their great political access to financial resources. Thus, I analyzed board members’ political profiles to determine the financial institutions with which they were employed previously. These banks included the KEXIM, the KDB, and the Korea Trade Insurance Corporation (KSURE). Firms were also identified as politically affiliated if at least one member of their board of directors had worked in the leadership position at lending supervisory institutions, such as the Financial Supervisory Service, the Fair Trade Commission, the Financial Services Commission, or the Ministry of Finance. Ninety-six companies were identified as having political connections to the core, state financial institutions.³⁹

³⁹Following previous research that assumes that political connections are sticky, corporate board

The second main independent variable is firm size. The largest firms are generally the only firms that can compete internationally (Osgood et al. 2017), so this study analyzes whether size affects a firm's ability to pursue more FDI projects. I use market capitalization (in millions of USD) of firms to capture their size and this data is drawn from the Worldscope database.

I also include a variable that multiplies firm size times board connections. This interaction variable examines whether board connections affect FDI contingent on firm size. I hypothesize that firm size shapes the extent to which board ties increase the volume of FDI firms can pursue. I argue that large firms have the motivation and resources to dominate lobbying efforts to secure FDI financing. As predicted by my theory, data on board-membership shows that the likelihood of firms forming board ties to state banks was positively associated with firm size. Among the largest 10% of firms, which have the highest potential for creating FDI projects, the chances of employment for former financial executives are high: about 46% (33 out of 72) of firms employed at least one board member with experience of serving at state financial institutions or the government's supervisory body. In contrast, among the smallest firms, which range from 0-10% or 10-20%, these rates of employment were lower than 2% of firms.

Various control variables are added to account for other individual firm characteristics that have been found to correlate with firms' market performance. Debt ratio, defined as the ratio of total debt to total capital, and profitability, defined as

ties were based on 2011 executive career data that was not updated during the period of analysis. Shoneherr (2019) explains that board membership changes can be endogenously related to government policy outcomes. However, existing board ties might be endogenously related to other firm characteristics, such as size. This concern is addressed in the empirical results section.

return on equity, are included in all models as control variables. A chaebol dummy is included to account for the perceived political prominence of this group of firms, separate from any board-member ties they might have. Finally, I added sector dummy variables based on the Standard Industrial Classification codes. Data on all these individual firm characteristics are drawn from the Worldscope database, which is based on annual corporate reports.

3.6 Empirical Results

Table 1 presents the results of the multiple regression analyses which predict the volume of FDI project announcements made by Korean firms during 2012-2016. Model 1 is the first of two simple models and shows coefficient estimates when including all board membership connections, the primary variable of interest, in the analysis to estimate the overall FDI effect of placing retired financial executives on corporate boards on the volume of FDI decisions. Model 2 likewise estimates only the effects of firm size on FDI. Model 3 includes both of these of these aforementioned variables. Model 4 controls for all of the previously-discussed firm characteristics. Model 5 is the full model, which includes a term that captures the interaction between board connections and firm size to estimate how board connections affect the value of FDI decisions. All models include dummies for industry fixed effects.

Table 3.1: OLS regression analyses to explain FDI decisions

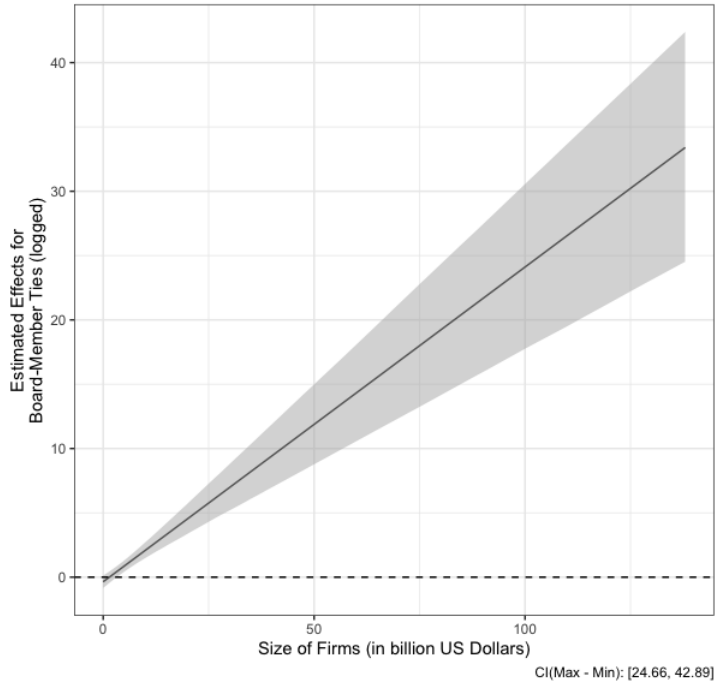
	<i>Dependent variable:</i>				
	Total Amount of Announced FDI Projects				
	(1)	(2)	(3)	(4)	(5)
Board Ties to State Banks	1.240*** (0.252)		0.789*** (0.229)	0.548** (0.228)	-0.367 (0.252)
Firm Size		0.155*** (0.011)	0.150*** (0.011)	0.136*** (0.011)	0.110*** (0.011)
Board Ties X Firm Size					0.245*** (0.033)
Debt Ratio				0.542 (0.364)	0.785** (0.352)
Profitability				0.002 (0.001)	0.002* (0.001)
Chaebol				1.023*** (0.185)	0.981*** (0.178)
Constant	-0.000 (0.838)	-0.019 (0.754)	-0.018 (0.748)	-0.220 (0.744)	-0.302 (0.717)
Industry Fixed Effects?	✓	✓	✓	✓	✓
Observations	724	720	720	703	703
R ²	0.043	0.229	0.242	0.281	0.334
Adjusted R ²	0.031	0.220	0.232	0.268	0.321
Residual Std. Error	2.053 (df = 714)	1.847 (df = 710)	1.833 (df = 709)	1.795 (df = 689)	1.729 (df = 688)
F Statistic	3.570*** (df = 9; 714)	23.491*** (df = 9; 710)	22.659*** (df = 10; 709)	20.745*** (df = 13; 689)	24.679*** (df = 14; 688)

Note: *p<0.1; **p<0.05; ***p<0.01

The statistical results in Table 1 show that both board member connections and firm size exert strong effects on the volume of FDI projects. The coefficients for board connections and firm size for Models 1-4 indicate that they both have positive and statistically significant effects on firms' ability to pursue FDI projects. Model 1 shows that the board member connection variable individually has positive effects on FDI promotion. Model 2 shows that the effect of firm size is also independently strong, supporting the conventional wisdom that large firms are better at engaging in FDI. Model 3 shows that these relationships remain significant when these two variables are included in the same model. Model 4 shows that the results are robust after accounting for basic firm characteristics. The findings from Models 1, 3, and 4 provide strong empirical support for the first hypothesis that political ties with state-owned financial institutions have a significant effect on firms' ability to extend

their global businesses. All of the results are robust to industry fixed effects.

Model 5 shows that the strength of the effect of board ties on the value of FDI projects is positively associated with firm size (Table 1). This result reveals a dynamic that importantly alters the way that the effect of board ties on FDI should be thought of. The effect of the board connection variable in Model 5 is no longer statistically significant when the interaction term is accounted for. However, the interaction term between board connection and firm size is statistically significant at the 99% confidence level. Put differently, the board connection effects presented in Models 1, 3, and 4 are mostly driven by large firms. Thus, this result supports the second hypothesis of this study that firm size conditions the effect of board member linkages on FDI. Large firms with board connections have a particular advantage in promoting their FDI projects because of their political dominance in domestic lobbying.



Note: The shaded area gives 95% confidence interval.

Figure 3.2: Marginal Effects of Financial Board Ties on Investment Project Amounts

Figure 2 graphically shows the marginal effect of board connections on planned FDI volume conditional on firm size.⁴⁰ The shaded area contains the 95% confidence interval for the marginal effect. The figure shows that the marginal effect of hiring board members who had previously served in important positions at core financial institutions is significantly positive across almost the whole range of firm sizes. The strength of this effect is positively linked to firm size, demonstrating that board connections have a greater impact on the volume of FDI projects for larger firms. These substantive effects are large. For the largest firm with a market capitalization of USD \$137 billion (i.e., setting size equal to Samsung Electronics), board ties to state-run banks increased the volume of FDI projects by 33%. However, for the

⁴⁰The graph is created based on Model 5 in Table 1

smallest firm with a market capitalization of USD \$4 million (i.e., setting size equal to the Kukdong Corporation), board ties actually have very little effect on the volume of FDI projects.

Furthermore, firms' connections to the incumbent political party is employed as a different measure of board tie, to confirm that firm size shapes the effect of board-member ties on FDI promotion. Two major elections in 2012 in Korea resulted in the conservative New Frontier Party (NFP) gaining a majority of legislative seats and the presidency (with its candidate Park Geun-hye). Empirical evidence suggests that firms with political links to the incumbent party or president influence government policy (Jäger and Kim 2019). Furthermore, the president has strong control over the financial sector as almost all of the heads of state-owned banks resign their positions when a new president takes power and are replaced by people from the incoming president's network.⁴¹ Thus, corporate board ties to the incumbent political party may reflect firms' influence over state financial institutions. The variable, "Board Ties to the Incumbent Party," measures whether a firm had political, social, or familial connections with NFP candidate Park Geun-hye or the conservative NFP party. For instance, Lee Hoon Kyu, a director of SK Innovation, was a member of the NFP party and Park Geun-hye's close political ally.

⁴¹For instance, Kang Man-soo was a known political ally of President Lee Myung-bak, who served as the head of the KDB during the Lee Myung-bak administration (2008-2012). Shortly after Park Geun-hye took office, Kang Man-soo was replaced by Hong Ki-taek, who had previously worked for President Park's Presidential Transition Commission.

Table 3.2: OLS regression analyses to explain FDI decisions with a board connection to the incoming NFP Party

	<i>Dependent variable:</i>			
	Total Amounts of Announced FDI Projects			
	(1)	(2)	(3)	(4)
Board Ties to the Incumbent Party	1.013*** (0.289)	0.848*** (0.258)	0.846*** (0.255)	-0.135 (0.294)
Firm Size		0.154*** (0.011)	0.137*** (0.011)	0.127*** (0.011)
Board Ties to the Incumbent Party X Firm Size				0.389*** (0.062)
Debt Ratio			0.538 (0.363)	0.641* (0.353)
Profitability			0.002 (0.001)	0.002 (0.001)
Chaebol			1.101*** (0.182)	1.081*** (0.177)
Constant	-0.169 (0.847)	-0.160 (0.750)	-0.360 (0.742)	-0.234 (0.722)
Industry Fixed Effects?	✓	✓	✓	✓
Observations	724	720	703	703
R ²	0.027	0.241	0.287	0.325
Adjusted R ²	0.015	0.230	0.273	0.311
Residual Std. Error	2.070 (df = 714)	1.834 (df = 709)	1.788 (df = 689)	1.741 (df = 688)
F Statistic	2.232** (df = 9; 714)	22.511*** (df = 10; 709)	21.302*** (df = 13; 689)	23.664*** (df = 14; 688)

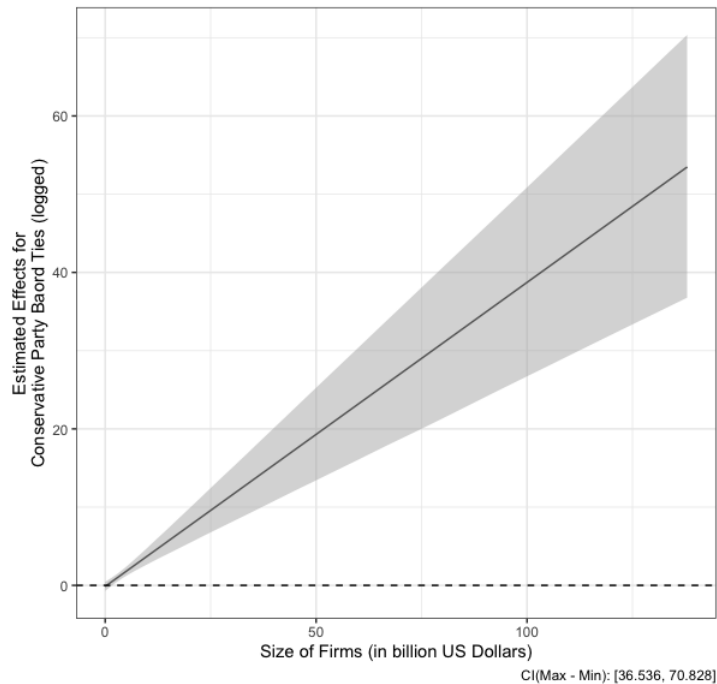
Note:

*p<0.1; **p<0.05; ***p<0.01

The effects of large firms' board ties hold regardless of using this different measure for political connections. In all model specifications in Table 2, board ties to state banks in previous models are replaced with board ties to the incoming-government. The coefficient estimates for Models 1-4 show that ties to the conservative NFP party do increase the FDI volume, supporting the first hypothesis that corporate political ties and firm size independently increase firms' FDI volume. All results are statistically significant at the 99% confidence level. Model 1 shows that board ties to the conservative NFP party alone significantly increases firms' FDI. Model 2 shows that this effect remains significant when firm size is accounted for. Likewise, Model 3 demonstrates that the effect of board ties to the incoming NFP party on FDI remains strong after accounting for individual firm characteristics,

including firm size.

Finally, the coefficient estimates of the interaction term between the incumbent party ties and firm size reveal that the estimated effects of board ties to the NFP party are positively associated with firm size. Notably, Model 4 (Table 2) shows that the effect is largely due to the influence of large firms because the coefficient estimates for NFP connections lose its statistical significance when the interaction term is included. Figure 3 shows the marginal effect of the NFP ties along the range of firm sizes based on the coefficient estimates of the interaction terms in Model 4. The figures show how the volume of FDI projects is greater when firms maintain the incumbent party ties but that the strength of this relationship diminishes when firm size diminishes.



Note: The shaded area gives 95% confidence interval.

Figure 3.3: Marginal Effects of the conservative NFP Ties on Investment Project Amounts

An additional robustness check is conducted. I consider the possibility of reverse casualty, which in the context of this study is that the risk of FDI projects motivates firms to form board-member ties, not that the ties motivated firms to engage in FDI. Investment risks vary across sectors, and are greatest in those that tend to incur large sunk costs or are vulnerable to negative public sentiments. Colen, Persyn and Guariso (2016) find that FDI in the natural resource extraction, utilities, agriculture, and real estate sectors are politically risky based on the fact that most investor-state dispute settlement cases brought to international dispute resolution bodies are in these sectors. Thus, it is plausible that within these sectors, firms are likely to form board membership ties to guard against these risks. By contrast, we are less likely to see such strategic board-stacking behavior in lower-risk sectors.

Therefore, I explore whether my findings hold for lower-risk sectors, which include retail, financial services, and transportation. Table 3 shows the estimates of the analysis with FDI decisions in low-risk sectors as the dependent variable. Three different measures of board ties from previous analyses are employed as predictors. Models 1-2 in Table 3 include basic firm-level control variables with industry fixed effects. The results show that the coefficients for board ties are consistently positive, indicating that they increased FDI in low-risk industries. Figure 1B in the appendix shows the marginal effect of the interactive terms between board ties and firm size in Models 3-4.

Table 3.3: OLS regression analyses to explain FDI decisions with low expropriation risk

	<i>Dependent variable:</i>			
	FDI decisions with low investment risks			
	(1)	(2)	(3)	(4)
Board Ties to State Banks	0.348** (0.160)		-0.334* (0.175)	
Board Ties to the Incumbent Party		0.331* (0.179)		-0.103 (0.210)
Firm Size	0.122*** (0.008)	0.123*** (0.008)	0.102*** (0.008)	0.118*** (0.008)
Board Ties to State Banks X Firm Size			0.183*** (0.023)	
Board Ties to the Incumbent Party X Firm Size				0.172*** (0.044)
Debt Ratio	0.089 (0.255)	0.102 (0.255)	0.270 (0.245)	0.148 (0.252)
Profitability	0.0002 (0.001)	0.0003 (0.001)	0.0003 (0.001)	0.0002 (0.001)
Chaebol	0.146 (0.129)	0.194 (0.128)	0.115 (0.124)	0.185 (0.126)
Constant	-0.048 (0.520)	-0.108 (0.521)	-0.108 (0.498)	-0.052 (0.516)
Industry Fixed Effects?	✓	✓	✓	✓
Observations	703	703	703	703
R ²	0.311	0.310	0.369	0.325
Adjusted R ²	0.298	0.297	0.356	0.311
Residual Std. Error	1.254 (df = 689)	1.256 (df = 689)	1.201 (df = 688)	1.243 (df = 688)
F Statistic	23.970*** (df = 13; 689)	23.820*** (df = 13; 689)	28.772*** (df = 14; 688)	23.638*** (df = 14; 688)

Note:

*p<0.1; **p<0.05; ***p<0.01

3.7 Conclusion

A growing number of studies reveals that there are clear winners and losers in globalization because the benefits of globalization are concentrated in the largest firms (Kim 2017; Osgood et al. 2017). We see the power of large firms under globalization via their promotion of trade liberalization (Baccini, Pinto and Weymouth 2017; Manger 2012), frequent pursuit of trade disputes before the World Trade Organization (Ryu and Stone 2018), influence over World Bank's lending decisions (Malik and Stone 2018; Lim and Vreeland 2013), and effective advocacy for strong protecting international investment agreements (Allee and Peinhardt 2010). This study shows that the largest firms can also increase their presence in global markets by gaining access to domestic financial assistance.

One insight that can be gained from this study is that political and economic power is linked. Political connections that large firms have with the government provide these firms with greater access to greater financial resources, which allows them to pursue more FDI projects than other similarly sized firms without such connections. In short, the largest firms become more dominant in global markets by out-competing domestic rivals using political influence. Therefore, the beneficiaries of globalization may be *even more highly concentrated* than previously thought.

Board-member ties are effective because they serve as a more legitimate form of corruption. The Korean news media periodically reports on the corruption of former chief officials of government banks, revealing that they asked for kickbacks and pressured state institutions to provide funds to politically connected firms. For

instance, Kang Man-soo was recently sentenced to jail for more than five years because he exploited his position as the Korean Development Bank chief to improperly exert influence on government institutions to provide subsidies to a company with which he had personal connections (Yonhap 2018). However, hiring board members is a more accepted way to establish social connections and potentially gain advantages for firms – without resorting to direct corruption. It appears that these social connections do pay off. A recent study in Germany finds that state-owned banks extended more credit to firms when the bank and firm executives were both members of a private club (Haselmann, Schoenherr and Vig 2018). Therefore, the personal networks of newly-appointed board members may give firms greater access to financing without having to resort to more clearly corrupt practices.

4 How Politically Savvy are Foreign Stock Investors?

International capital investors are commonly thought to have a significant amount of power in their relationships with host governments because they can pressure them to change undesirable policies (Oates 1972; Cerny 1993; Kerner 2015; Rodrik 2018). This conclusion is based on the twin premises that international capital investors closely monitor domestic political developments and that they can penalize host governments for implementing unfavorable policies by quickly withdrawing their capital (e.g., Bernhard and Leblang 2006). As a result of the first premise, a large number of studies have evaluated international capital markets' reactions to domestic political events such as elections (Sobel 2002; Martinez and Santiso 2003; Vaaler, Schrage and Block 2005; Leblang and Mukherjee 2005; Mosley and Singer 2008; Brooks and Mosley 2008; Bechtel 2009; Gaikwad 2013; Frot and Santiso 2013; Benton and Philips 2020). One prominent claim is that international capital investors punish incoming liberal governments and reward conservative governments (Leblang and Mukherjee 2005; Vaaler, Schrage and Block 2005; Frot and Santiso 2013; Campello 2014) because the former favor labor while the latter favor capital owners (e.g., Hibbs 1977).

International capital investors are assumed to be knowledgeable enough to understand the effects of elections on financial markets (Sattler 2013). However, newly elected governments are rarely either fully pro-business or anti-business. Instead, they often favor firms with political connections (e.g., Fisman 2001). Politically

connected firms benefit from economic policy tools such as reduced tax rates and regulatory burdens (Faccio 2006; Kroszner and Stratmann 1998), and increased bank loans (Claessens, Feijen and Laeven 2008; Khwaja and Mian 2005) and access to government procurement contracts (Schoenherr 2019). Consequently, in response to an election, stock market participants should invest more in firms they expect to benefit from new political leadership’s policies and invest less in other firms. Studies have confirmed that financial markets are sensitive to information on firms’ political connections generated by elections (Acemoglu et al. 2016; Gaikwad 2013; Goldman, Rocholl and So 2008; Herron 2000; Shon 2010). Therefore, the political sophistication of foreign stock investors can be tested by examining their micro-responses to unique political events.

I argue for the presence of a “political home bias,” which means that domestic stock investors have an informational advantage over foreign investors due to information costs. Foreign stock investors often have investments in multiple countries (e.g., Calvo and Mendoza 2000), making it prohibitively expensive to understand the nuanced politics of each country in which they invest (Mosley 2000; Cunha 2017; Frankel and Schmukler 1998). Thus, foreign stock investors tend to have a less complete political understanding than domestic stock investors, perhaps causing them to react differently to elections. This conclusion contradicts the generally accepted view that foreign investors are politically omniscient.

This paper utilizes an event study framework to compare the micro-level responses of foreign portfolio stock investors (FPSIs) with those of domestic investors after the 2012 South Korean presidential election. The goal is to determine whether

politically-savvy foreigners have the requisite level of political information to capitalize on political changes in the way that domestic investors do. My firm-level analysis of domestic and foreign stock investors leverages data on 752 South Korean firms' political affiliations. I show that there is a clear information asymmetry between the two groups of investors. Domestic stock investors responded to the election of a conservative government by investing more in firms with political connections to Park Geun-hye, the winning conservative party candidate, and less in firms with political connections to Moon Jae-in, the losing liberal party candidate. However, FPSIs failed to react similarly to the election outcome because they lacked information on firms' political affiliations and did not allocate their money appropriately.

This study makes several meaningful contributions to our understanding of the international political economy of financial markets. First, this study contributes to existing studies that show market actors do not all respond in the same ways to political developments (Mosley 2000; Hardie 2006; Wellhausen 2015*a*; Cunha 2017). Second, while previous research generally has examined the overall impact of political events on foreign market participants through country-level analyses (Vaaler, Schrage and Block 2005; Leblang and Mukherjee 2005; Mosley and Singer 2008), this study focuses on the impact of election outcomes on micro-level foreign market responses. Third, I show that information is a necessary condition for the proper functioning of “pricing politics” (Bernhard and Leblang 2006). Because foreign investors and foreign capital markets may be unable to assess the complete firm-level financial consequences of political events, we may observe a very weak connection between foreign financial capital and politics. Fourth, this study calls

into question the assumption in the financial liberalization literature that foreign investors are powerful in constraining state's authority to pursue policies (Drezner 2001; Kerner 2015; Rodrik 2018). It is often assumed that foreign investors are formidable because they are all-knowing, but I show that their power to reward and punish may be constrained.

4.1 Existing Portrayal of Foreign Capital Investors

International capital investors are assumed to closely monitor “a wide range of information” about host countries (Mosley 2003; 35) by following newspapers and social media (Benton and Philips 2020). In particular, it is believed that they strongly consider cabinet composition or dissolution in post-election periods (Leblang and Bernhard 2000; 296) when they make their investments because such leadership changes often affect economic outcomes (Leblang and Mukherjee 2005).

The partisan orientation of the government, which can change after elections, is often considered to be the central variable that affects whether foreign capital investors will punish or reward an economy (Bechtel 2009; Sattler 2013; Leblang 2002). Foreign stock investors are believed to increase their investments in countries when conservative governments come into power (Mosley and Singer 2008; Vaaler, Schrage and Block 2005) because they expect such governments will implement market-friendly policies, such as low inflation rates, low budget deficits, low tax burdens, and greater financial liberalization (Hibbs 1977; Wibbels, Arce et al. 2003; Quinn and Inclan 1997; Oates 1972). By contrast, foreign investors are

expected to reduce their investments in countries when liberal governments take power because they expect such governments will impose market-unfriendly policies (Garrett 2001).⁴²

Although elections should shape forward-looking stock investors' decisions (Fama 1965), market actors may have different expectations about what policies governments will implement depending on what they know. Market actors decide to collect information based on the costs and benefits of acquiring that information (Brooks, Cunha and Mosley 2015). Comparing foreign and domestic stock investors' responses to elections allows me to probe the traditional portrayal of foreign investors because it shows the degree to which each group relies on political information when making investment decisions.

4.2 Political Home Bias

In this paper, I argue that foreign and domestic stock investors have different levels of political sophistication and that FPSIs are disadvantaged by a “political home bias.” This disadvantage to FPSIs explains why foreign and domestic stock investors may respond differently to certain political events. The political home bias is a product of the cost of information (Grossman 1976).

It can be costly for FPSIs to monitor all of the political developments in all of the countries in which they have investments. Calvo and Mendoza (2000; 3) famously assert that “[a]ssessing country risk requires gathering and processing in-

⁴²Some scholars produce empirical results that flip this conventional wisdom. See, Pinto, Weymouth and Gourevitch (2010), and Pinto and Pinto (2008). In any case, financial market actors are assumed to respond knowledgeably to country-specific information.

formation about all key macroeconomic and political variables on a recurrent basis, independently of investment size.” Because of the enormity of these costs, FPSIs’ decisions instead tend to be based on a narrow set of a host country’s economic indicators (Mosley 2000). In support of this claim, a 1997 survey shows that international investors emphasized partisanship and political leadership less in their investment strategies than other macro-economic indicators such as inflation rates (Mosley 2000; 750-752).

By contrast, domestic stock investors have more private information about their home country, which can lead to differences in how they utilize detailed political information in making investment as compared to FPSIs. Domestic stock investors have strong incentives to understand the results of political events such as elections because they have greater shares of their portfolios invested in the home country (Cunha 2017). More importantly, domestic investors can more easily collect information about the domestic economy than FPSIs given their familiarity with local products, business practices, and regulatory standards (Obstfeld 1998). Domestic stock investors also have more chances to interact with firm representatives than foreign stock investors, given their closer geographic proximity to their investment targets (Bae, Stulz and Tan 2008; 582). Furthermore, local stock investors often join interest groups to influence their home governments and are heavily involved in domestic lobbying (Bebchuk and Neeman 2010; Kerner 2015). Consequently, they tend to acquire more information about the domestic political economy, including knowledge about the distribution of political power, personal networks of influential politicians, and political interactions between the government and local businesses.

Domestic market participants can use such information to predict the economic effects of political events. Many studies have shown that political events are priced into the stock prices of politically connected firms. Knight (2006) shows that the 2000 U.S. presidential election produced a differential return of approximately 9% between firms favored by Bush's policies as compared to Gore's stated policy platforms. Moreover, Imai and Shelton (2011) analyze the 2008 Taiwanese Presidential campaign and find that a better election outlook for the KMT party positively affected the stock returns of Taiwanese firms with investment in Mainland China as the KMT was expected to pursue the deregulation of cross-strait capital flows.⁴³

Given that stock prices efficiently reflect changes in political power, stock market investors also should react to information on firms' political connections. Incoming political regimes often implement new policies, including distributing bank credits, reducing tax rates, granting government subsidies, and offering bailouts for individual firms (Khwaja and Mian 2005; Claessens, Feijen and Laeven 2008; Faccio 2010; 2006). Thus, firms that are politically connected to the new regime can reap the benefits of these policy instruments better than those which are not politically connected. If precise information about corporate political ties were available to all equity market participants, all equity investors would allocate their investments into firms with political links to the newly elected government by updating their expectation about future policies (Bailey 2005; 64).

These stock market expectations about the policy effect of political changes

⁴³Political events other than elections also may affect the equity prices of firms. Jayachandran (2006) reveals that the U.S. Senator James Jefford's sudden party switch in 2001 induced a 0.8% difference in stock returns between firms that had donated to the Republicans compared to firms that had donated to the Democrats.

tend to be realized. To give an example, after the 2007 election of Lee Myung-bak in South Korea, firms within his personal network experienced a 3.03 percent increase in receiving government contracts and about a 17 percent increase in sales (Schoenherr 2019; 20). Empirical evidence further shows that firms affiliated with President Lee received 16.66 percent higher credits from private banks and 36.57 percent higher credits from the state-owned banks compared to firms not affiliated with President Lee (Moon and Schoenherr 2019). Corporate political ties to the opposite party, on the other hand, could become liabilities (Siegel 2007). After the election of Park Geun-hye in 2012, firms with political ties to the losing candidate Moon Jae-in significantly lost their value in market capitalization (Jäger and Kim 2019; 23).

4.3 An Event Study Framework for Analyzing the 2012 South Korean Presidential Election

A growing number of studies utilizing the event study framework to study micro-level stock market reactions to political events (e.g., Fisman 2001). Event studies have shown that stock returns of politically affiliated firms respond systematically to surprising political events in countries like the United States (Gaikwad 2013; Acemoglu et al. 2016), Brazil (Claessens, Feijen and Laeven 2008), and South Korea (Jäger and Kim 2019; Schoenherr 2019). However, very few studies have specifically analyzed the same election periods to determine whether there is an information asymmetry in the political landscape of the country where investments take place

between local and foreign investors (e.g., Hardie 2006). This study analyzes domestic and foreign stock investors' reactions to the South Korean election of 2012 by leveraging the event study framework.

South Korea is famous for the coordinated nature of the market economy and the heightened value of political connections (Kang 2002). The formation of collusive relationships between the government and business elites that were developed in the 1970s and 1980s helped spark rapid economic development (Evans 1995; Rodrik 1995; Siegel 2007). Recent empirical findings suggest that the value of state-business ties still exists today, and can provide South Korean firms with greater economic returns (Jäger and Kim 2019; Schoenherr 2019; Moon and Schoenherr 2019). The political information derived from a shift in political powers, therefore, have great value for Korean equity market participants.

There are multiple reasons why the 2012 Korean election is ideally suited for testing the financial effects of political events. Above all, the public opinion polls did not predict the narrow victory achieved by the conservative New Frontier Party (NFP)'s presidential candidate, Park Geun-hye, over the Democratic United Party (DUP)'s candidate Moon Jae-in (Rauhala 2012). The election was marred by a political scandal involving the National Intelligence Service, who were accused of manipulating public opinion to influence the election outcome because the election was very close (Choe 2013). Since this unexpected outcome could not have been priced into asset prices *ex-ante*, examining FPSIs' reactions can reveal whether FPSIs had the political knowledge to capitalize in the aftermath of this election. Politically informed FPSIs would have been sensitive to the micro-political information

generated by the 2012 Korean presidential election.

Furthermore, a direct comparison of the investments of foreign market actors and domestic stock prices is possible due to the existence of a unique, micro-level stock market data set in Korea. The Korea Exchange (KRX) not only supplies the domestic stock prices of individual firms, but also details how much of each Korean firm's stock foreign investors buy on a daily basis. Thus, the daily selling and buying positions of foreign portfolio investors for all Korean stocks can be directly compared to domestic stock prices during the targeted election period.

4.4 Data and Methods

To capture the impact of the 2012 South Korean presidential election on the South Korean stock markets, I conduct an event study (Campbell et al. 1997; chap. 4). I estimate the abnormal returns for a company after the election, which is calculated as the difference between the company's actual return and its estimated return. I define the actual return as the daily percentage change of a stock price, formally:

$$r_i = \ln(P_t) - \ln(P_{t-1}) \times 100$$

where r_i shows the price returns for company i , P_t shows the price of period t and P_{t-1} shows the price of period $t-1$. The outcome of the equation is multiplied by a hundred to indicate returns as percentage rates. The starting price on December 20, and the amounts of stocks foreign investors bought during the day, are employed to calculate the actual returns for the event day because elections took place on

December 19 and the Korean stock market was closed on that day.

The estimated return is the stock return for a firm we would have observed in the absence of the election. Following Bechtel and Schneider (2010; 211), I include several economic indicators in a regression model to calculate the estimated returns. This includes the returns of the Kospi 100 index r_{kospi} , the Standard and Poor's 500 index from the previous day r_{sp} , the Won-US Dollar exchange rate r_{won} and the Nikkei 225 index r_{nikkei} . Economic indicators are employed to capture various opportunities for stock portfolio investors during 120 trading days before the election day (Campbell et al. 1997). These market indicators then work as explanatory variables to produce individual firms' estimated returns for the event day, which yields the following equation:

$$r_{it} = \alpha_i + \beta_{kospi}r_{kospi} + \beta_{sp}r_{sp} + \beta_{won}r_{won} + \beta_{nikkei}r_{nikkei} + \varepsilon_{it} =$$

$$r_{it} = \alpha_i + \sum \beta_i r_t + \varepsilon_{it}$$

$$r_{it} = E[r_{it}] + \varepsilon_{it}$$

The abnormal returns for a company then formally defined as:

$$AR_{it} = \varepsilon_{it} = r_{it} - E[r_{it}]$$

Where r_{it} shows the actual returns for company i of period t and $E[r_{it}]$ equates

the estimated returns. The error term ε_{it} shows the abnormal return AR_{it} and also indicates the difference between the estimated returns and the actual returns for a company. Thus, positive abnormal returns show that domestic investors and FPSIs expect a firm to benefit from the presidential election, whereas negative ones indicate the opposite.

Two dependent variables are employed to measure the domestic abnormal price returns and foreign investors' abnormal returns. They are generated for all 732 listed firms that were traded in the KRX in the aftermath of the presidential election of December 19, 2012. These measures are based on the daily stock price and foreign investors' the volume of buying.⁴⁴ The abnormal returns are used to capture the direction and the magnitude of the stock market reactions to elections.

I create an original set of variables to measure political connections between firms and the presidential candidates from the major Korean parties. The purpose is to evaluate the level of political knowledge of domestic and foreign investors. My connections variables draw upon an executive career dataset, provided by the Korea Listed Companies Associations, which annually surveys all publicly listed Korean firms. In total, it identifies 4,936 Board of Director members of 732 South Korean firms. Using this dataset, I collect data on board members' career backgrounds, which includes personal information such as name, birth date, alma mater, and previous work experience. Individual members' political careers also are carefully searched via internet sources. These sources include one of the largest search engines

⁴⁴For the second dependent variable, foreign investors' purchase of stocks a value of one is added to the original value (which sometime is 0) in order to be able to log it. Then the estimation follows the same steps to calculate the abnormal returns for FPSIs' abnormal returns.

in Korea, the *Naver*, corporate documents from the general meetings of shareholders, and corporate websites.

For my two primary operational variables, I compile politically relevant information on whether a firm maintained any political ties with either of the two presidential candidates. Based on above political profiles of board members, I create a dummy variable titled “Park Connection,” which measures whether a board holds any personal or political ties with the conservative New Frontier Party (NFP)’s presidential candidate Park Geun-hyue. Likewise, “Moon Connection” captures whether a firm maintains such ties with the Democratic United Party (DUP)’s presidential candidate Moon Jae-in. As an example of personal ties, Hee-yong Kim, a chairman of Tong Yang Moolsan, is coded as having a personal tie to Park because he is the husband of Park Geun-hye’s cousin. As an illustration of political ties, Wooridul Life Science Pharmaceutical is coded as having a political tie with Moon Jae-in because he previously worked as a legal advisor for the company. These variables, which are not necessarily obvious, allow me to compare the real-world ties between major Korean firms and the presidential candidates. In total, I identify 29 firms connected to Park and 12 connected to Moon, which are represented in my models with a pair of dummy variables.

In addition to these political connection variables, several variables are added to control for firms’ structural characteristics, which have been commonly found to correlate with firms’ performance in the stock market. First, a chaebol-dummy is added to measure whether a corporation is a part of Korea’s 16 biggest family-run business group. Variables that capture firm size (log of total assets), debt ratio

(total debt to total capital), and profitability (return on equity) also are added to the models. Finally, sector dummies are included in the analyses based on the Standard Industrial Classification (SIC) code. Data for all control variables are drawn from the Worldscope database, using the annual reports of December 31, 2011. Table 1C in the appendix shows the descriptive statistics for all of the variables used in my models.

4.5 Empirical Analysis

Figure 1 summarizes the empirical findings of the multiple regression analyses that explain abnormal domestic price returns and abnormal FPSI price in the aftermath of the 2012 Korean presidential election. The coefficient plot shows the estimated effects for each covariate, and 90% and 95% confidence intervals are indicated as whiskers. The plot graphically demonstrates the contrasting investment patterns of domestic and foreign investors.

In Figure 1, the coefficient estimates for the political connection variables, which are this study's main variables of interests, show that domestic stock investors reacted swiftly to the electoral victory of Park Geun-hye over Moon Jae-in by differentiating their investments in firms politically linked to either Park or Moon. Firms that were connected to Park received about 5% more returns from domestic investors, whereas firms that were connected to Moon lost about 8% of their equity returns. These results are statistically significant at the 95% confidence levels.

However, FPSIs' reactions differed from those of domestic investors. The re-

sults show that Park-related firms actually lost 1% of their returns for FPSIs after her electoral victory. This result is significant at 90%. Furthermore, FPSIs did not contribute to Moon-related firms' significant loss in equity value: the coefficient for FPSIs' returns of Moon-related firms is not statistically significant. Overall, Figure 1 demonstrates clearly that FPSIs did not alter their behavior in a major way after the election, despite strong reasons for doing so.

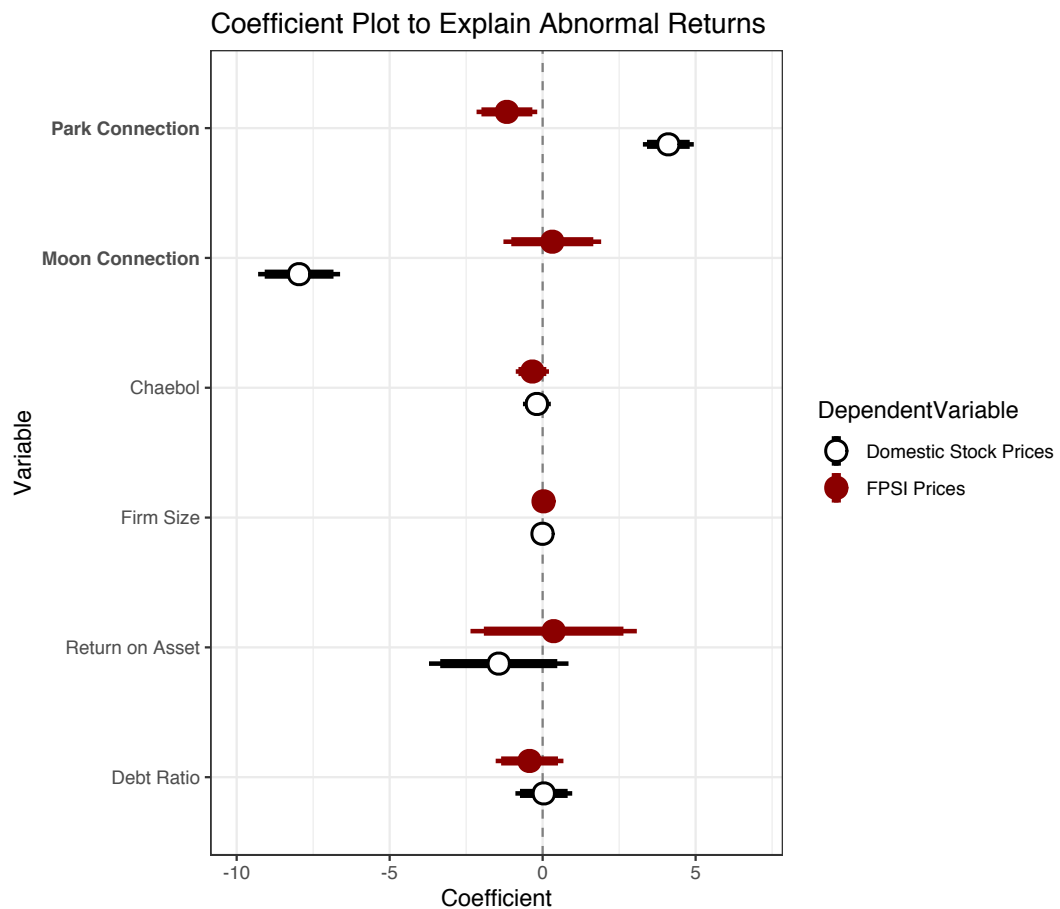


Figure 4.1: Comparison of Investment Decisions between Domestic and Foreign Stock Investors during the 2012 Korean Presidential Election

These empirical findings plotted in Figure 1 indicate that domestic and foreign actors reacted very differently to the same electoral outcome. They suggest

that there was an information asymmetry among different market participants. Because domestic stock investors allocate a greater share of their investments in the home country, they can more easily collect detailed information about South Korean politics. Then, politically-informed domestic stock investors anticipate the future policies of the newly elected governments by allocating their money into likely beneficiaries.

However, since their investment portfolio is diversified internationally, foreign actors appear not to have full information about domestic political economy issues. Foreign actors failed to target their investments into firms with political ties to the winning or losing presidential candidates. FPSIs appear to have limited understanding of the Korean political dynamics between businesses and the government, and thus they were unable to anticipate the economic effects of the surprising election outcome. In sum, FPSIs, with their internationally diversified investment portfolios, had clear informational disadvantages.

Next, I consider a broader conceptualization of political connections in order to further investigate domestic and foreign investors' different reactions to the 2012 South Korean presidential election. Based on the political profiles of board members, the dummy variables "NFP Connections" or "DUP Connections" add firms that maintain *any* political affiliations with the conservative NFP or liberal DUP parties in addition to firms that had affiliations with the presidential candidates. To be specific, some board members served at higher bureaucratic ranks under conservative or liberal governments (i.e., ministers in the executive or presidential secretaries). Other board members were engaged in political activities as either a

party member or a former Member of Parliament. For example, Cho Yoon Je, a director of Tongyang Securities, was previously the advisor to President Roh Moo Hyun for the national economy under the liberal government. On the other hand, An Chong-Bum, a director of Hyundai Securities, was a member of the NFP party. Accordingly, their political backgrounds were used to sort companies via connections with the conservative NSF and the liberal DUP parties. These are broader measures than the presidential candidate connection variables used in the main analysis presented in Figure 1. This broader measure identifies 105 firms connected to the NFP party and 66 connected to the DUP party.

Figure 2 displays the results when analyzing the 2012 presidential election with the extended political connection variables. This figure once again shows that domestic stock prices were sensitive to political information generated by the election, whereas the abnormal returns of FPSIs was insensitive to such information. That is, domestic actors correctly predict firms that are likely to benefit from the new administration's future policies and invest accordingly. By contrast, FPISs fail to allocate their investments into likely beneficiaries in the aftermath of the election

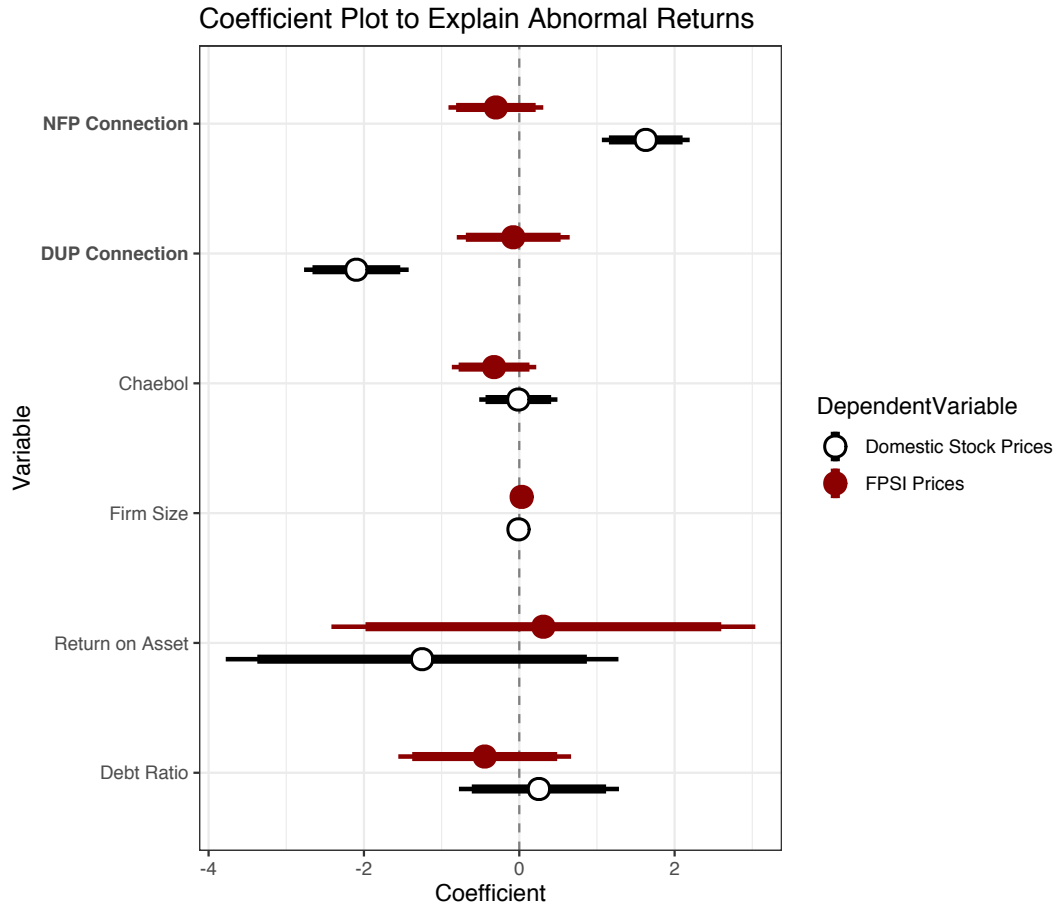
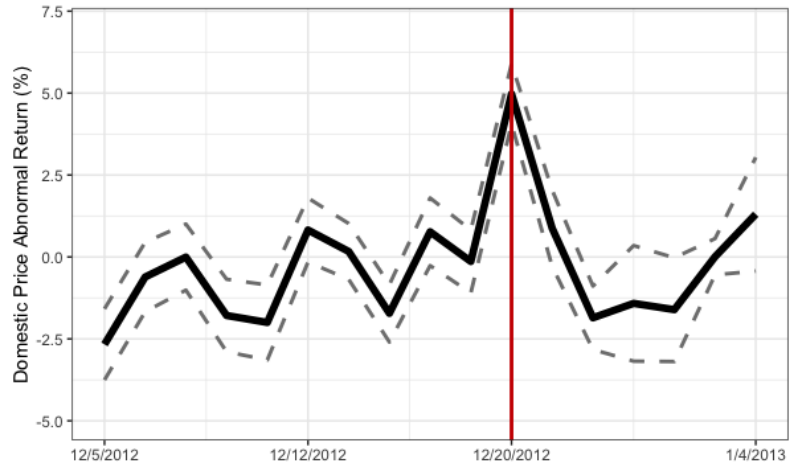


Figure 4.2: Comparison of Investment Decisions between Domestic and Foreign Stock Investors during the 2012 Korean Presidential Election (with extended political measures)

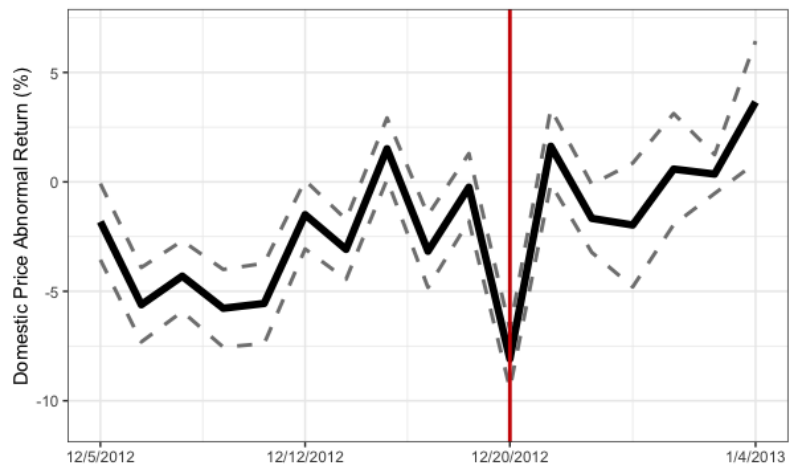
In the following set-up, I demonstrate the financial effects of the 2012 Presidential election across a longer time window. Following Acemoglu et al. (2016; 378), I graph the equity patterns of domestic and foreign stock investors in the pre- and post-presidential election periods. I hypothesize that when the information about the election of Park Geun-hye was not known in the weeks before the election, the coefficient on the Moon or Park connections variables should have no effect on the stock prices. However, when the information became available on the event day, the coefficients for political connections should respond to the election results by

increasing or decreasing stock returns of politically connected firms. The estimated coefficients for daily price returns and FPSIs' returns of firms with connections to the winning candidate (Park Geun-hye) and the losing candidate (Moon Jae-in) before and after election day are presented in Figures 3 and 4, which depicts the two weeks before and after the election. In the middle of each graph, the election date was indicated with a red vertical line. Each graph shows confidence intervals of 95% level.

Figure 3a shows that Korean domestic participants reacted swiftly and significantly to the election result by increasing their investments in firms politically linked to Park. The abnormal price returns are near zero for all days leading up to the election, but then spike by 5% immediately following Park's election. Likewise, Figure 3b shows that domestic market participants reacted most negatively toward Moon-related firms right after the election. Although there are some negative effects of the Moon-connection variable before December 12th, 2012, there is no consistent pre-trend in the week preceding the election among domestic market participants. On election day, however, Moon-related firms significantly lost market value.



(a) Park Connected Firms: Domestic Price Returns

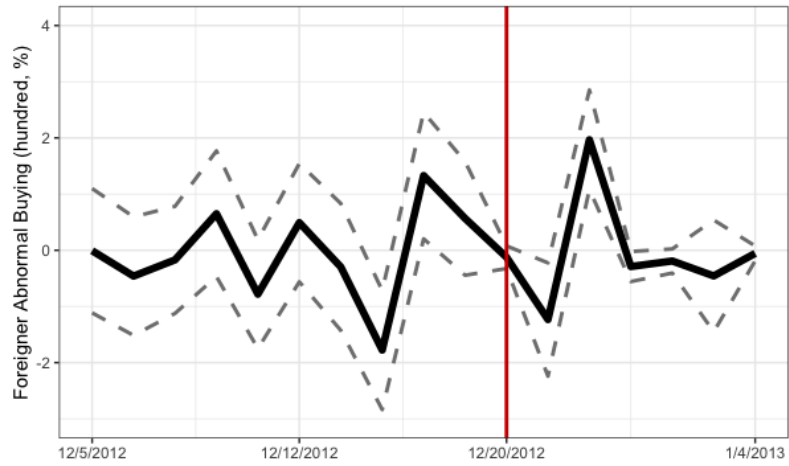


(b) Moon Connected Firms: Domestic Price Returns

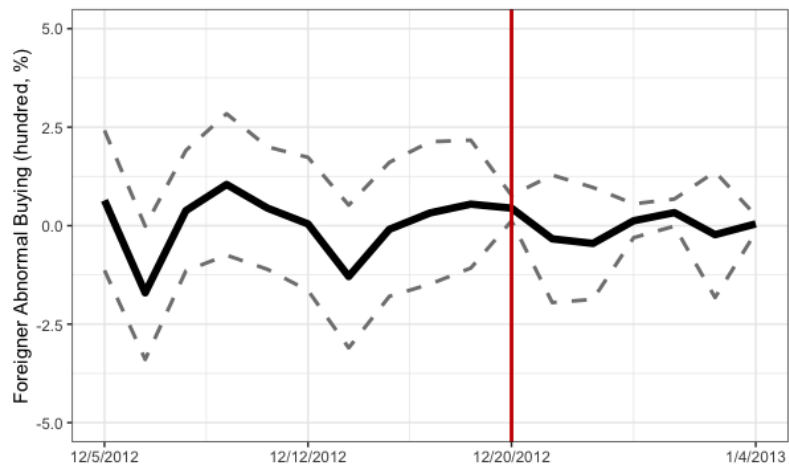
Figure 4.3: Park and Moon Connection Coefficients for Domestic Stock Returns

However, foreign investors exhibited few differences across the two types of firms on election day. Interestingly, Figure 4a shows that the negative and significant coefficient of the Park Connection variable on election day, which was based on the main analysis presented in Figure 1, was quite limited compared to domestic stock investors' reactions. Furthermore, across a 4-week period, FPSIs' abnormal returns are almost zero and FPSIs also did not contribute to Moon-related firms' significant loss in value on the event day. These findings show that FPSIs did a poor job understanding the South Korean market. This supports my argument that foreign market actors' investment decisions tend to be based on imperfect information shortcuts because collecting information about all of the invested countries is costly. Overall, both Figures 3 and 4 graphically depict the political home bias theory of this paper.⁴⁵

⁴⁵Models estimated with industry-fixed effects are reported in the appendix. These additional models do not change the interpretation of this study's main findings.



(a) Park Connected Firms: FPSIs' Returns



(b) Moon Connected Firms: FPSIs' Returns

Figure 4.4: Park and Moon Connection Coefficients for FPSI Returns

Across different model specifications, the empirical results of this paper consistently show that domestic equity market participants correctly capitalized on future beneficiaries of the newly elected political regime. However, results for FPSIs show insignificant or incongruent responses to the political links held by firms. Thus, the information asymmetry concerning the political situation of the country clearly exists between domestic and foreign investors.

4.6 Conclusion

International capital investors are traditionally thought to carefully watch domestic political events (Mosley and Singer 2008; Brooks and Mosley 2008; Frot and Santiso 2013; Sobel 2002; Martinez and Santiso 2003; Vaaler, Schrage and Block 2005; Bechtel 2009; Gaikwad 2013; Benton and Philips 2020). Past empirical evidence supports this image of politically informed foreign investors who respond to domestic political changes, especially those that relate to political control of the government or the composition of executive cabinets (Leblang and Bernhard 2000). However, these political indicators are relatively blunt and easy to observe, so international capital investors who rely heavily on them when making investment decisions may be missing out on other, important information.

This study identifies the limits of the political knowledge of international capital investors by comparing their investment patterns with those of domestic investors in response to the unexpected outcome of the 2012 South Korean presidential election. The results show that companies' stock prices were strongly associated with

their individual political characteristics, driven by domestic investors. By contrast, foreign stock investors were unable to use this information to update their expectations about future government policies.

Previous studies have shown that the value of corporate political ties is great not only in developing countries, where political institutions and constraints are less developed, but also in developed countries with strong political institutions such as United States (Acemoglu et al. 2016) and Germany (Haselmann, Schoenherr and Vig 2018). One contribution of this study is that I add South Korea to the list of countries discussed above. This study demonstrates that the political home bias is applicable to even more countries and in a variety of political economy settings.

5 Conclusion

This dissertation advances our understanding of how international firms promote their interests by leveraging relationships with their home governments. These state-business connections may give rise to growing inequality between the so-called haves and have-nots. The dissertation further implies that the concentration of wealth in the hands of winners can also have negative consequence for the overall economic system.

The first study shows that firms' investment plans in developing countries, such as India, Vietnam, and Myanmar, compel firms to engage in domestic lobbying activities to form IIAs. Several illustrations show that IIAs are not formed solely as a result of developing countries' desire to attract capital. My argument is further supported by analysis of 29,805 announcements of investment projects in developing countries made by firms in developed countries, which avoids the misunderstanding of firms' investment timing that would be caused by analyzing actual investments. I show that relevant firm lobbying activities begin in advance of actual financial outlays, and that in general, home governments want to protect their domestic firms by negotiating IIAs.

The second study shows that subsidies and investment insurance significantly increase the degree to which large firms make investments overseas. There are many examples in South Korea in which there is a powerful network of current and former high-level government officials at state financial institutions who can direct substantial financing to select firms. Recent corruption scandals further demonstrate

that debt-ridden conglomerates endeavor to receive greater financing from state-owned financial institutions through their board members' personal connections. Overall, I find that state financing for politically connected firms has been a critical driver of FDI outflows from South Korea.

The third study is based on the assumption that political connections increase corporate profitability. It examines the consequences of firms' political connections for portfolio stock investors. It is commonly believed that financial market participants utilize private information about firms' political connections. That is, stock investors know that government policies will favor certain firms which are politically connected to an incoming government, so investors invest more in these companies right after elections. I test the level of political understanding of foreign stock investors by using this assumption about private information. I examine the common assumption in studies of international financial markets that foreign stock investors are politically omniscient by analyzing investment patterns after the 2012 South Korean presidential election. Analyses of foreign and domestic stock investors show that foreign stock investors failed to incorporate private information about investment targets' political connections to the degree that domestic investors did. This result indicates that foreign stock investors may not rely on political information as much as is commonly assumed.

Cronyism is when firms seek to increase their profits through political ties. This type of activity may be more common in developing countries due to a lack of institutional mechanisms that prevent it (Fisman 2001). However, firms' connections with governments may solidify as their political systems develop (Olson 2008).

My research suggest that firms in developed countries such as Korea also can use these connections to increase their profits. Therefore, the value of cronyism may be applicable to various political economy settings including both developed and developing countries.

Specifically, in China, businesspeople can secure more resources for their firms through personal relationships with local government officials (Park and Luo 2001). Personal links to the top official in the Department of the Treasury are also valuable to businesses in the United States (Acemoglu et al. 2016). In Germany, firms with employees who belong to the same private clubs as directors of banks get more loans from those banks (Haselmann, Schoenherr and Vig 2018). In Japan, retired bureaucrats commonly work for firms that they previously regulated (Schaede 1994). This practice of hiring former politicians and bureaucrats onto corporate boards to increase firms' profits has become common across many countries (Faccio 2010).

Governments often feel compelled to help their politically connected firms face new investment risks and challenges posed by globalization. Informal personal networks between businesses and governments may facilitate information flows, fostering economic development. However, these networks become problematic when they give rise to cronyism that disrupts healthy economic competition (Holcombe and Castillo 2013). When firms know that they can profit more by their government connections than through economic competition, they will focus more on fostering those connections than increasing their economic competitiveness. Firms that do not receive preferential treatment from the government may give up on efforts to increase productivity. Under these conditions, firms' political connections can ulti-

mately harm overall economic prosperity.

A Appendix for Paper 1

A.1 Summary Statistics

Table A1: Summary Statistics

Statistic	N	Mean	St. Dev.	Min	Max
DV: Bilateral Investment Treaty (BIT)	36,088	0.011	0.102	0	1
Proj Amount, Logged	33,075	0.457	1.484	0.000	10.597
Proj Number, Logged	33,075	0.140	0.506	0.000	6.084
Large Firm FDI Index (amounts)	36,088	0.403	5.537	0	100
Large Firm FDI Index (numbers)	36,088	0.293	4.244	0	100
Polity (Host)	32,236	2.119	6.038	-10	10
Corruption (Host)	33,075	-0.579	0.626	-1.773	1.582
Political Stability (Host)	33,075	-0.527	0.865	-3.181	1.283
Political Constraints (Host)	33,075	0.249	17.832	-88	7
GDP per capita (Host), Logged	32,975	7.528	1.283	4.683	11.530
GDP Growth (Host)	32,975	0.126	0.146	-0.536	1.493
Total Trade (Host)	31,191	17.275	35.507	-123.640	616.069
Total PTA Number (Host), Logged	32,514	0.566	0.882	0.000	5.106
Global BIT Number, Logged	33,075	4.086	0.446	3.367	4.625
Distance	33,075	8.865	0.573	4.719	9.891
Colony	33,075	0.011	0.102	0	1

A.2 Robustness Checks for Hypotheses

Table A2: Robustness Check: Effects of MNCs' Planned Investments (Number of) on BIT Signing

	<i>Dependent variable:</i>			
	Bilateral Investment Treaty			
	(1)	(2)	(3)	(4)
Planned Project Numbers	0.401*** (0.065)	0.357*** (0.069)	0.312*** (0.069)	0.282*** (0.072)
Polity (Host)		-0.049*** (0.009)	-0.036*** (0.009)	-0.023** (0.010)
Corruption (Host)		0.312*** (0.112)	0.210* (0.118)	0.240** (0.122)
Political Stability (Host)		-0.109 (0.089)	-0.240*** (0.090)	-0.207** (0.092)
Political Constraints (Host)		0.003 (0.005)	0.003 (0.005)	0.002 (0.005)
GDP per capita (Host)			0.183*** (0.053)	0.157*** (0.054)
GDP Growth (Host)			0.881* (0.513)	0.914* (0.525)
Total Trade			-0.000 (0.001)	-0.000 (0.001)
Total PTAs (Host)				-0.011 (0.069)
Global BITs				0.116 (0.385)
Distance				-0.614*** (0.081)
Colony				0.760** (0.351)
Constant	-4.699*** (0.059)	-4.518*** (0.076)	-6.277*** (0.601)	-1.247 (1.964)
Cubic Polynomials?			✓	✓
Observations	33,075	32,236	30,583	30,583

Robust Standard errors are in parentheses.

*p<0.1; **p<0.05; ***p<0.01

Table A3: Robustness Check: Effects of MNCs' Planned Investments (lagged by two years) on BIT Signing

	<i>Dependent variable:</i>			
	Bilateral Investment Treaty			
	(1)	(2)	(3)	(4)
Planned FDI Project Amounts	0.213*** (0.024)	0.195*** (0.026)	0.176*** (0.026)	0.166*** (0.028)
Polity (Host)		-0.044*** (0.010)	-0.031*** (0.010)	-0.020* (0.010)
Corruption (Host)		0.308*** (0.120)	0.227* (0.126)	0.267** (0.129)
Political Stability (Host)		-0.145 (0.093)	-0.248*** (0.095)	-0.219** (0.097)
Political Constraints (Host)		0.001 (0.005)	0.000 (0.005)	-0.001 (0.005)
GDP per capita (Host)			0.153*** (0.059)	0.128** (0.061)
GDP Growth (Host)			1.266** (0.635)	1.288** (0.640)
Total Trade			-0.002 (0.002)	-0.002 (0.002)
Total PTAs (Host)				-0.012 (0.080)
Global BITs				0.098 (0.428)
Distance				-0.565*** (0.086)
Colony				0.885*** (0.361)
Constant	-4.843*** (0.068)	-4.664*** (0.086)	-6.481*** (0.995)	-1.693 (2.014)
Cubic Polynomials?			✓	✓
Observations	30,116	29,412	27,890	27,890

Robust Standard errors are in parentheses.

*p<0.1; **p<0.05; ***p<0.01

Table A4: Robustness Check: Effects of MNCs' Planned Investments (lagged by three years) on BIT Signing

	<i>Dependent variable:</i>			
	Bilateral Investment Treaty			
	(1)	(2)	(3)	(4)
Planned FDI Project Amounts	0.192*** (0.028)	0.172*** (0.029)	0.147*** (0.030)	0.139*** (0.031)
Polity (Host)		-0.057*** (0.011)	-0.042*** (0.011)	-0.030*** (0.011)
Corruption (Host)		0.271** (0.132)	0.202 (0.138)	0.240* (0.140)
Political Stability (Host)		-0.079 (0.105)	-0.196* (0.106)	-0.163 (0.107)
Political Constraints (Host)		0.005 (0.007)	0.004 (0.007)	0.004 (0.008)
GDP per capita (Host)			0.168*** (0.064)	0.141** (0.066)
GDP Growth (Host)			1.641** (0.713)	1.750*** (0.721)
Total Trade			-0.002 (0.003)	-0.002 (0.003)
Total PTAs (Host)				-0.016 (0.097)
Global BITs				0.253 (0.483)
Distance				-0.583*** (0.093)
Colony				0.938** (0.382)
Constant	-4.912*** (0.074)	-4.723*** (0.093)	-7.263*** (1.837)	-2.584 (2.295)
Cubic Polynomials?			✓	✓
Observations	27,204	26,599	25,208	25,208

Robust Standard errors are in parentheses.

*p<0.1; **p<0.05; ***p<0.01

Table A5: Robustness Check: Effects of MNCs' Planned Investments (Number of, lagged by two years) on BIT Signing

	<i>Dependent variable:</i>			
	Bilateral Investment Treaty			
	(1)	(2)	(3)	(4)
Planned Project Numbers	0.449*** (0.065)	0.397*** (0.068)	0.371*** (0.068)	0.342*** (0.070)
Polity (Host)		-0.044*** (0.010)	-0.031*** (0.010)	-0.019* (0.010)
Corruption (Host)		0.343*** (0.121)	0.242* (0.126)	0.276** (0.129)
Political Stability (Host)		-0.153 (0.095)	-0.264*** (0.096)	-0.233** (0.098)
Political Constraints (Host)		0.001 (0.005)	0.000 (0.005)	-0.000 (0.005)
GDP per capita (Host)			0.176*** (0.059)	0.151** (0.060)
GDP Growth (Host)			1.279** (0.634)	1.305** (0.636)
Total Trade			-0.002 (0.002)	-0.002 (0.002)
Total PTAs (Host)				-0.008 (0.080)
Global BITs				0.129 (0.427)
Distance				-0.566*** (0.086)
Colony				0.935*** (0.361)
Constant	-4.776*** (0.064)	-4.588*** (0.081)	-6.474*** (0.993)	-1.813 (2.014)
Cubic Polynomials?			✓	✓
Observations	30,116	29,412	27,890	27,890

Robust Standard errors are in parentheses.

*p<0.1; **p<0.05; ***p<0.01

Table A6: Robustness Check: Effects of MNCs' Planned Investments (Number of, lagged by three years) on BIT Signing

	<i>Dependent variable:</i>			
	bit			
	(1)	(2)	(3)	(4)
Planned Project Numbers	0.417*** (0.071)	0.367*** (0.075)	0.332*** (0.076)	0.305*** (0.080)
Polity (Host)		-0.058*** (0.011)	-0.041*** (0.011)	-0.029** (0.011)
Corruption (Host)		0.296** (0.133)	0.212 (0.137)	0.246* (0.140)
Political Stability (Host)		-0.083 (0.106)	-0.204* (0.106)	-0.170 (0.108)
Political Constraints (Host)		0.006 (0.007)	0.004 (0.007)	0.004 (0.008)
GDP per capita (Host)			0.183*** (0.064)	0.156** (0.066)
GDP Growth (Host)			1.687*** (0.711)	1.785*** (0.719)
Total Trade			-0.002 (0.003)	-0.002 (0.003)
Total PTAs (Host)				-0.018 (0.093)
Global BITs				0.268 (0.503)
Distance				-0.581*** (0.092)
Colony				0.976** (0.361)
Constant	-4.860*** (0.071)	-4.665*** (0.091)	-7.185*** (1.933)	-2.576 (2.514)
Cubic Polynomials?			✓	✓
Observations	27,204	26,599	25,208	25,208

Robust Standard errors are in parentheses.

*p<0.1; **p<0.05; ***p<0.01

Table A7: Estimates from the Cox Hazard Model (using Planned FDI Project Amounts)

	<i>Dependent variable:</i>					
	(1)	(2)	(3)	(4)	(5)	(6)
Planned FDI Project Amounts	0.135*** (0.014)	0.127*** (0.014)	0.114*** (0.015)	0.246*** (0.028)	0.222*** (0.029)	0.204*** (0.031)
Planned Project Numbers					-0.075***	-0.063***
Polity (Host)		-0.076*** (0.008)	-0.064*** (0.008)		(0.008)	(0.008)
Corruption (Host)		0.124 (0.102)	0.098 (0.111)		0.164 (0.101)	0.111 (0.110)
Political Stability (Host)		-0.061 (0.080)	-0.141* (0.084)		-0.068 (0.081)	-0.151* (0.084)
Political Constraints (Host)		0.003 (0.005)	0.005 (0.005)		0.003 (0.005)	0.005 (0.005)
GDP per capita (Host)			0.083 (0.050)			0.102** (0.050)
GDP Growth (Host)			0.558 (0.435)			0.555 (0.433)
Total Trade			0.002 (0.002)			0.002 (0.001)
Total PTAs (Host)			-0.077 (0.062)			-0.070 (0.062)
Distance			-0.433*** (0.072)			-0.443*** (0.072)
Colony			0.928*** (0.257)			0.987*** (0.257)
Observations	39,444	38,596	36,921	39,444	38,596	36,921

Standard errors are in parentheses.

*p<0.1; **p<0.05; ***p<0.01

Table A8: Estimates from the Cox Hazard Model (using Large-Firm FDI Index)

	<i>Dependent variable:</i>					
	(1)	(2)	(3)	(4)	(5)	(6)
	Bilateral Investment Treaty					
Large-Firm FDI Index (amounts, %)	0.012*** (0.002)	0.012*** (0.002)	0.012*** (0.002)	0.021*** (0.003)	0.023*** (0.003)	0.023*** (0.003)
Large-Firm FDI Index (numbers, %)					-0.080*** (0.008)	-0.067*** (0.008)
Polity (Host)		-0.080*** (0.008)	-0.066*** (0.008)		0.216** (0.097)	0.137 (0.106)
Corruption (Host)		0.240** (0.097)	0.151 (0.106)		-0.074 (0.078)	-0.150* (0.082)
Political Stability (Host)		-0.102 (0.078)	-0.179** (0.082)		0.004 (0.005)	0.006 (0.005)
Political Constraints (Host)		0.005 (0.005)	0.007 (0.005)			0.114** (0.049)
GDP per capita (Host)			0.122** (0.049)			0.513 (0.426)
GDP Growth (Host)			0.494 (0.426)			0.002 (0.001)
Total Trade			0.002 (0.001)			-0.044 (0.061)
Total PTAs (Host)			-0.037 (0.061)			-0.480*** (0.072)
Distance			-0.472*** (0.072)			1.018*** (0.257)
Colony			1.031*** (0.257)			
Observations	42,741	38,596	36,921	42,741	38,596	36,921

Standard errors are in parentheses.

* p<0.1; ** p<0.05; *** p<0.01

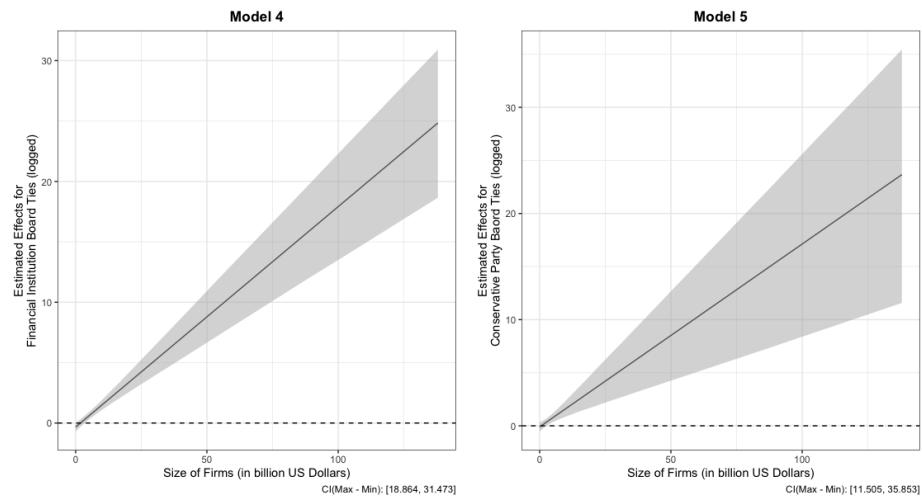
B Appendix for Paper 2

B.1 Summary Statistics

Table B1: Summary Statistics

Statistic	N	Mean	St. Dev.	Min	Max
DV: FDI project amounts, Logged	732	0.898	2.077	0	10
DV: FDI project Numbers, Logged	732	0.258	0.644	0	5
Board Ties to Banks (Financial Institution)	732	0.131	0.338	0	1
Board Ties to NFP	732	0.081	0.272	0	1
Board Ties to DUP	732	0.079	0.270	0	1
Debt Ratio	728	0.264	0.194	0.000	0.844
Firm Size	726	1.361	6.288	0.004	137.949
Profitability	709	-2.011	67.113	-1,307.740	441.230
Chaebol	731	0.193	0.395	0.000	1.000

B.2 Robustness Check for Hypothesis



Note: The shaded area gives 95% confidence interval.

Figure B1: Marginal Effects of Financial Board Ties (left) and the NFP Ties (right) on FDI Decisions with Low Investment Risks

C Appendix for Paper 3

C.1 Summary Statistics

Table C1: Summary Statistics

Statistic	N	Mean	St. Dev.	Min	Max
Abnormal Returns, December (Domestic)	732	-0.067	2.651	-19	14
Abnormal Returns, December (Foreign)	732	0.168	2.735	-14	16
Park Connection	732	0.041	0.205	0	2
Moon Connection	732	0.016	0.127	0	1
NFP Connection	732	0.143	0.351	0	1
DUP Connection	732	0.090	0.287	0	1
Chaebol	732	0.191	0.394	0	1
Firm Size	704	12.151	1.791	8.327	18.742
Return of Assets	701	0.033	0.082	-0.459	0.748
Debt Ratio	706	0.266	0.193	0.000	0.853

C.2 Robustness Check for Hypothesis

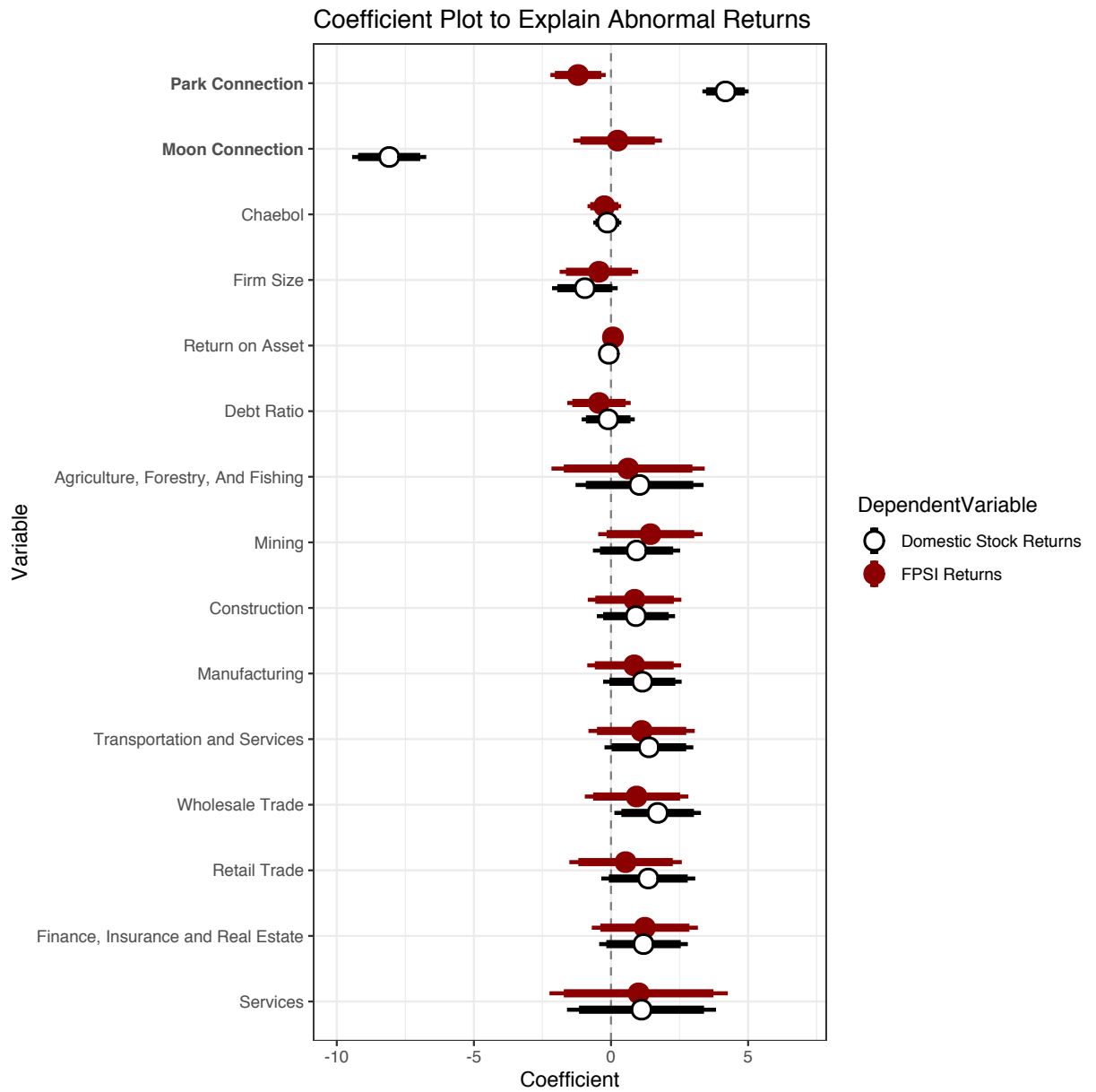


Figure C1: Comparison of Investment Decisions between Domestic and Foreign Stock Investors during the 2012 Korean Presidential Election (Full Model)

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