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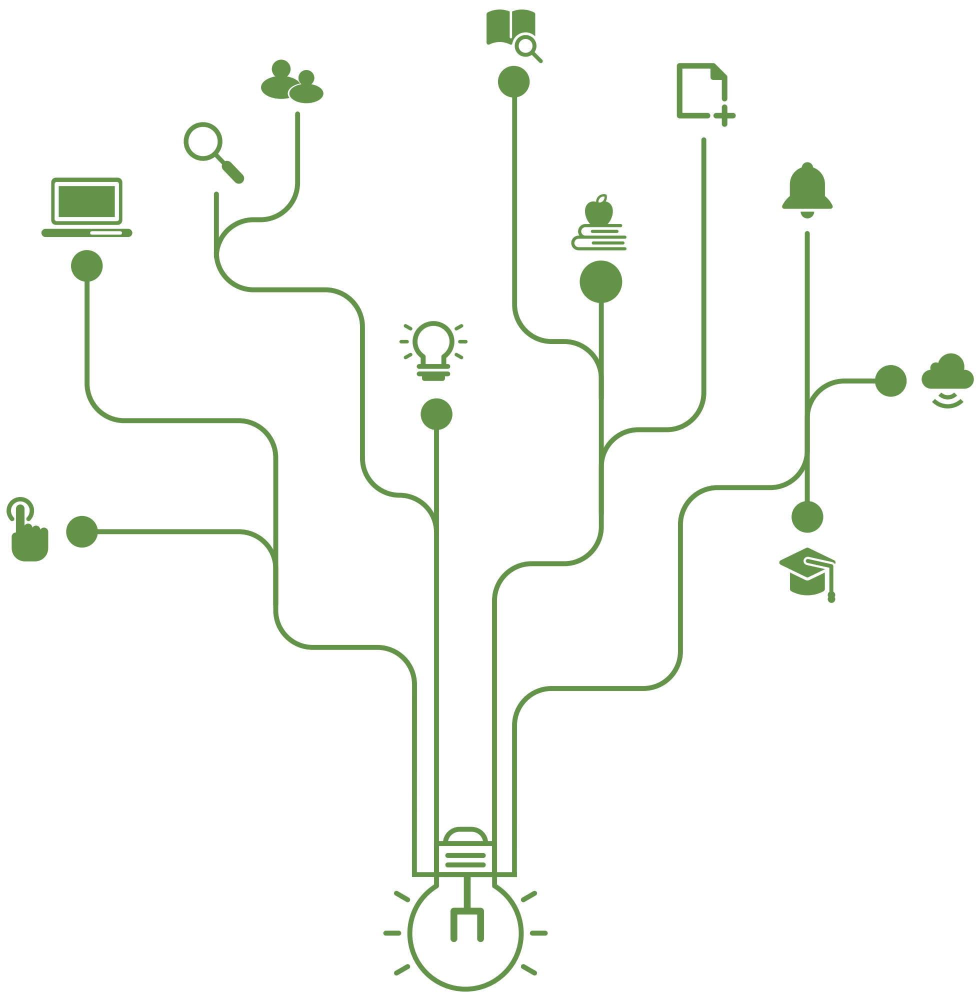
To Stay or To Go? Sources of Domestic Support for Foreign Direct Investment in Kenya

Inbok Rhee(KDI School of Public Policy and Management)
Joonseok Yang (Sungkyunkwan Universeity)



KDI SCHOOL
KDI School of Public Policy and Management

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Abstract

When do citizens support foreign direct investment (FDI) in developing countries? FDI flows are the single largest source of global capital flows and are considered a conduit for economic growth. However, many studies find a negative impact of FDI inflows, such as an increase in inequality, corruption, or environmental degradation. While most existing studies predominantly focus on the supply side of FDI policies, study on the public demand for FDI is still in infancy. Using a series of original survey experiments in Kenya, this paper considers when host country citizens prefer foreign versus domestic investments and what characteristics make foreign direct investment more desirable to host country citizens. We also investigate when and from whom governments can claim credit for increased foreign investments. We find that host country citizens generally prefer foreign over domestic firms, and the concern for corruption seems minimal. While economic factors such as job creation matter the most in determining public support for FDI, we also show that citizens emphasize social responsibility or minimal policy concessions. Finally, we find that politicians can credit claim even when they are clearly not attributable to the increased FDI inflows, but such an effect is only detectable for coethnic voters.

Introduction

In his speech on development economics, the then-President of the World Bank, Robert Zoellick, stated that “foreign Direct Investment (FDI) inflows were the single biggest source of capital for developing countries and a critical input for technology transfer in developing country firms.” (Zoellick, 202?). Indeed, textbook expectations on the impact of FDI on development states that they can help fill in the development gaps between domestic resources and development targets, in foreign exchange or trade gaps, between targeted government tax revenue and locally raised tax, in management, entrepreneurship, technology, and skill (Todaro and Smith 2015). At the same time, there are also potential negative impact as increased FDI may lower domestic savings and investment rates, reduce foreign-exchange earnings in the long run, lead to pressure for policy concessions and influence government policies, not bring much new skills or suppress domestic entrepreneurship, or allocate resources to socially undesirable projects (ibid.).

In particular, sub-Saharan Africa has witnessed a significant increase in foreign direct investment (FDI) over the past few years. According to the UNCTAD’s World Investment Report 2022, FDI inflows to the region more than doubled 2021, reaching a record $83 billion. This growth in FDI can be attributed to several factors, such as improvements in infrastructure, the implementation of business-friendly policies, and the discovery of new natural resources.

Many countries in the region have been actively promoting FDI through policies such as tax incentives, streamlined business registration processes, and investment guarantees. For example, countries such as Kenya established Kenya Investment Authority (KenInvest) in 2004 operating through an Act of Parliament (Investment Promotion Act No. 6 of 2004) with the main objective of promoting investments in Kenya (KenInvest 2022).[1] In the hopes to gain broader popular support, the topic of increased FDI has even featured as one of the main achievements of the incumbent government in the run-up to its re-election campaign.[2] Yet others blamed that tax incentives given to multinational firms only benefits the investors without any gains for the

[1] http://www.invest.go.ke/who-we-are/
[2] https://nation-africa.webpkgcache.com/doc/-/s/nation.africa/kenya/newsplex/factcheck-the-truth-about-foreign-investment-since-2013-416684

Kenyan economy as a whole.[3] Others have also pointed out to the potential negative impact of FDI as well, including the exploitation of natural resources, increased inequality, and negative environmental effects.[4]

Given the mixed theoretical as well as popular discourse expectations on the benefits of FDI, when and why do host country citizens support FDI policies? While there has been a number of papers examining where FDI goes or testing the positive or negative impact of FDI, few has examined the host country citizen perception of FDIs. In particular, when do host country citizens prefer foreign versus domestic investments? What characteristics make foreign direct investment more desirable to host country citizens? When and from whom can governments claim credit for increased foreign investments? In this paper, using micro-level individual data to analyze public's demand for foreign direct investment in the context of Kenya, we show that host country citizens prefer foreign over domestic firms. Moreover, contrary to the expectation from the theoretical literature, we find that the concern for corruption seem minimal. When it comes to the characteristics of preferred FDI projects, we find that while job creation or wage levels matters the most, citizens put strong emphasis on social responsibility or minimal policy concessions. Finally, we show that elected politicians can credit claim even when they are clearly not attributable for success, but such effect is only found among the coethnic voters.

In the following section, we introduce review some of the existing literature on the topic, followed by the introduction of our data and research design. Then we proceed to presenting our main findings and discuss relevant mechanisms before we conclude.

Theoretical Background

When and why do citizens support or oppose foreign direct investment (FDI) policy in developing countries? Most studies on the topic of FDI has been broadly focused on understanding and examining its impact. First, there are studies that present or test theoretical

[3] https://www.standardmedia.co.ke/news/article/2000156075/njiraini-wants-tax-incentives-to-foreign-investors-scrapped

[4] https://qz.com/africa/1301469/photos-kenya-environmentalists-protest-china-coal-plant-in-lamu

and empirical models on the politics of FDI (e.g. Lu et al., 2017; Demir and Duan, 2018; Owen, 2019). Existing research along this line shows that FDI can generally promote greater economic development through a number of channels including employment generation and technology transfers (Borensztein et al., 1998; Razin and Sadka, 2007). Others engage in empirical exercises and investigate the positive impact on economic growth through employment generation or technology transfer (e.g., Borensztein et al., 1998; Razin and Sadka, 2007). Yet others document negative impact on factors such as inequality, corruption, brain drain, environmental degradation, and even incidence of civil war (e.g., Basu and Guariglia, 2007; Barbieri and Reuveny, 2015; Zhu and Shin 2015). Moreover, at least partially due to such possible negative implications, some research documents how public may sometimes oppose FDI flows and that without such public support increasing the much needed FDI inflow for development gains can be extremely difficult (Aizenman, 2005; Robertson and Teitelbaum, 2011; Chilton et al., 2017; Pandya, 2010).

For example, the recent labor strife in India over relaxing FDI regulation in the coal mining sector results in not only direct economic losses but also social unrest (Sudarshan Varadhan and Jatindra Dash, September 24, 2019).[5] India is not exceptional. Many developing countries have experienced a surge of social protest over FDI policies in various sectors, which impede recipient countries from reaping the benefits of FDI inflow (Robertson and Teitelbaum, 2011).

However, despite the impact of foreign direct investment (FDI), we still know very little about where and why FDI projects are located. Most studies on FDI allocation focus on the supply side of FDI policies, typically examining strategic interaction at the firm level or how multinational corporations (MNCs) choose the location of their investments (e.g., Lu et al., 2017; Büthe and Milner, 2008). Conversely, research on the demand for FDI is still in its infancy. While some studies explore the socio-economic background of survey respondents who prefer certain FDI regulation policies (e.g., Chilton et al., 2017), there is much more to learn in this area. Still, other important political factors in individual preferences formation, such as trust in government, and political orientation, and its link to politicians - whether and how citizens attribute FDI decisions

[5] Sudarshan Varadhan and Jatindra Dash, September 24, 2019. "Coal India workers protest over easing foreign investment rules, output hit" Reuters. url:https://www.reuters.com/article/us-coal-india-strike/coal-india-workers-protest-over-easing-foreign-investment-rules-output-hit-idUSKBN1W91HN

to governments - have been overlooked. Hence, while small but growing research suggest a robust relationship between corruption and FDI (e.g., Zhu and Shi, 2019), no study have attempted to uncover how public perceives the link between FDI and governance. Moreover, while almost all countries have engaged in fierce competition for FDI inflow, there exist a considerable variation in FDI policies between countries and across industries within a country. Understanding of the source of such variation in FDI policy is of importance since FDI policy directly affect not only the patterns of FDI flows but also distributional consequences of FDI.

More broadly, we know that public opinion shapes and constrains foreign policy making (e.g. Baum and Potter, 2008; Tomz, 2007; Herrmann, Tetlock, and Visser, 1999; Hartley and Russett, 1992; Sobel, 2001; Kertzer and Zeitzoff, 2017; Eisensee and Stromberg, 2007). Given this logic, the surge of social protests over FDI policies in various sectors suggests that the allocation of FDI may be equally affected by demand from host country citizens as it is by supply from multinational corporations (e.g. Robertson and Teitelbaum, 2011).

What determines the public preference toward Foreign Direct Investment (FDI)? Hence, what makes a country to pursue FDI liberalization and how to explain a wide variation in FDI policies? In a globalizing world, FDI has become a major catalyst to economic growth and development and an integral part of an international economic system. To attract FDI, countries compete with each other by implementing various lucrative policies such as tax incentives, entry restrictions, and investment screening, to name a few. The choice of policy instruments, in turn, affects the patterns and types of FDI, and, hence, create different political cleavages within the recipient country. However, despite the importance of FDI in promoting development and its distributional consequences, when and how the public in the developing country context tend to support FDI inflow is unclear. In fact, while almost all countries have engaged in fierce competition for FDI inflow, there exist a considerable variation in FDI policies between countries and across industries within a country.

To identify the source of such wide variation, this project investigates public opinion toward FDI decisions and its effects, which constitute a critical piece of FDI policy formation. Using the observational cross-national data analysis with a nationally representative field survey experiment, this project aims to address these important but understudied aspects in public opinion toward FDI and, hence, shed more light on the demand side of FDI.

Our proposed research site and case – Kenya – is an excellent case with which to begin understanding the public support for FDI in the sub-Saharan African context as well as developing country context more broadly. First, Kenya ranked 5th among the sub-Saharan African countries in terms of the net FDI inflow as of 2018, following Ethiopia, Ghana, Mozambique, and Nigeria, making it a reasonably representative case with some implications for generalizability to the other countries in the region as well as those in similar average income level range. Second, Kenya, like many other developing countries, is now increasingly balancing their capital flows with a new patron - China – after being traditionally closely aligned with the developed world including the United States due to geostrategic reasons and the United Kingdom due to its colonial past. Third, the constitutional reform in 2010 and the subsequent introduction of devolution make Kenya a more representative case of institutionally rigid, but fiscally weak decentralized system common in not just sub-Saharan Africa but also in other parts of the world including Southeast Asia and Latin America. Finally, with internet penetration rate of 87.2% as of 2020 and cell phone penetration rate of 86% as of 2018 (Global Attitudes Survey 2018; 2020), Kenya provides a unique opportunity to conduct online and/or telephone survey (CAPI and/or CATI surveys) in a developing country context without having to expose the enumerators or respondents to unintended physical harm in the context of COVID-19.

Data and Research Design

In this project, we aim to identify the source of public opinion formation using public opinion surveys and survey experiments in Kenya --- a country in sub-Saharan Africa where FDI has often been identifies as one of the critical capital sources for ensuring sustained socio-economic development. We experimentally investigate the micro-foundations of the support for FDI policy in Kenya. Based on prior research mostly using large-N comparisons and relying on observational data (e.g. Pandya, 2010; Owen, 2019), we extract some of the key expectations about 1) how the interplay between FDI type and reciprocity affect public perception of the effects of FDI on economic welfare and governance, and 2) how citizens assign credit or blame attributions of FDI decision to the local and central government as well as the foreign firms involved. However, improving upon such studies which tend to suffer from selection biases and endogeneity problems due to their observational nature, we aim to provide, to our knowledge, what will be the first micro-level experimental evidence that can answer these questions about FDI support and credit attribution by conducting survey experiments of nationally representative sample Kenyan citizens.

Specifically, to better understand the demand side of FDI policies, we conducted an original survey experiment online in Kenya between October and December of 2021. We used quota sampling for age, gender, and province to recruit respondents, and the survey was implemented in both English and Swahili - the two official languages of the country. The online survey samples collection as well as the actual survey design and administration will be conducted via Qualtrics, and the role of the survey firm was to ensure the recruitment of a nationally representative sample and the overall seamless execution of the fielding of the survey. Due to the online survey's nature, with a disproportionately higher representation of younger populations, we eventually relaxed the quota on ages above 55. Thus, the survey sample cannot be considered nationally representative per se, but rather representative of the online population, with a natural impact on the distribution of SES and ethnicity. The final sample consisted of 1,518 adults after removing inattentive respondents. The questionnaire captured various aspects of respondent backgrounds, economic evaluations, foreign sentiments, knowledge about FDI or trade, and ethnic and political affiliations.

There were three survey experimental studies embedded in the survey. First, in Study 1, we employ a vignette survey experiment design to examine whether the level of entry barrier in an industry where a foreign company would operate and information on potential benefits of the firm’s entry affects public support for the FDI project and expectations of corruption. All respondents were provided with a hypothetical scenario in which a firm preparing to enter into a Kenyan industry. Our experimental treatments follow a 2x2 factorial design, which randomly flips the following two dimensions: (1) whether the firm is domestic or foreign and (2) the level of entry barrier (i.e., high / low). Specifically, the exact treatment information provided to respondents using the experimental conditions is as follows:

"A ***[Kenyan/Foreign]*** *company is preparing to expand its operations in a Kenyan domestic industry* ***[in which a small number of firms operate due to its high level of entry barriers / in which a large number of firms operate due to its low level of entry barriers.]***

Typically, some general examples of entry barriers include technology, differentiation of products, sufficient capital, or government screening, approval or licensing."

Then, respondents are asked to answer the following questions: (1) How much do you support or oppose this foreign company's entry? (on a 7 scale – from strongly oppose to strongly support) (2) how much do you think this foreign company's entry will affect the economic condition of Kenya, your own economic condition, national public officials, local public officials, respectively (on a 5 scale from hurt a lot to help a lot) (3) How much do you think this foreign company's entry may affect corruption involving president, governor, local elected politicians, civil servants, and police, respectively (on a 5 scale from hurt a lot to help a lot) and (4) How much do you think this foreign company's entry may affect the upcoming elections for president, governor, senator, MP, and ward councilor, respectively (on a 5 scale from hurt a lot to help a lot).

In Study 2, to identify which firm-level characteristics (i.e., entry mode, expected job creation etc) affect public support for the FDI project, we employ a conjoint design, in which we simultaneously randomize key attributes (or "treatments") of two hypothetical foreign companies which are considering making foreign direct investment in Kenya to produce reliable estimates of each attribute as well as potential interactions between attributes. After being presented with the characteristics of two hypothetical foreign companies which are considering to make foreign direct investment in Kenya, respondents were asked to choose which of the two foreign companies they prefer, how much they support or oppose each company making FDI in a likert scale, and their perceived impact on national and personal economic conditions and incidence of corruption. For the different characteristics, based on our close investigation of the relevant literature, we chose Size (Smaller / Similar / Larger), Magnitude of expected employment

(Lower / Similar / Higher), Wage level (Lower / Similar / High), Entry mode (Business facilities to locally produce goods and services / Joint venture / Merger and Acquisition), Local Policy Concessions (Equal treatment for taxation as Kenyan companies, Given tax breaks), Social Responsibility (Low / Average / High), and Industry (Wholesale and retail / transportation / tourism / mining and quarrying / manufacturing / infrastructure and construction / information communication and technology / financial and insurance / electricity, gas, and water / education and health / agriculture, forestry, and fishing). Below, in Table 1, we present the attributes and values in each of attribute as they were presented to the respondents, and in Figure 1 provide a detailed example of the information as it was presented to the respondent.

Table 1. Attributes and Values Assigned in the Conjoint Experiment.

Attributes	**Values**
Size	The size of this company is [smaller/similar/larger] compared to a typical foreign company in its sector operating in Kenya.
Industry	This company operates in the [Agriculture, Forestry, and Fishing / Education and Health / Electricity, Gas, and Water / Financial and Insurance / Information Communication Technology / Infrastructure and Construction / Manufacturing / Mining and Quarrying / Tourism / Transportation / Wholesale and Retail] industry.
Entry Mode	This company is expected to enter the Kenyan market [by setting up business facilities in Kenya to locally produce goods and services. / by buying a Kenyan company and its production capacity (Merger and Acquisition, M&A). / by setting up a joint venture by cooperating with a Kenyan company.]
Wage level	This company is expected to pay [less than, the same as, more than] a typical Kenyan company in its sector.
Expected Employment	This company is expected to create [less / similar amount / more] jobs compared to a typical Kenyan company in its sector.
Social responsibility?	This company has been ranked [high / average / low] on social responsibility based on attributes such as supporting good causes, environmental responsibility, and community responsibility.
Local policy concessions	This company will be [given tax breaks by the Kenyan government for its investments. / subject to equal treatment for taxation as Kenyan companies by the Kenyan government for its investment.]

Figure 1. Example Screenshot of the Conjoint Survey Treatment Implementation

In this section, you will be presented with the characteristics of two foreign companies which are considering to make foreign direct investment in Kenya.

Please carefully review the characteristics below, and answer the following questions.

	Company A	Company B
Wage level	The expected wage level of this company is **similar to** that of a typical Kenyan company in its sector.	The expected wage level of this company is **lower than** that of a typical Kenyan company in its sector.
Expected employment	The expected magnitude of job creation by this company is **higher than** what a typical Kenyan company hires in its sector.	The expected magnitude of job creation by this company is **higher than** what a typical Kenyan company hires in its sector.
Entry mode	This company is expected to enter the Kenyan market by **setting up a joint venture by cooperating with a Kenyan company.**	This company is expected to enter the Kenyan market by **buying a Kenyan company and its production capacity (Merger and Acquisition, M&A).**
Social responsibility	This company has been ranked **low** on social responsibility based on attributes such as supporting good causes, environmental responsibility, and community responsibility.	This company has been ranked **high** on social responsibility based on attributes such as supporting good causes, environmental responsibility, and community responsibility.
Local policy concessions	This company **will be given tax breaks** by the Kenyan government for its investments.	This company **will be given tax breaks** by the Kenyan government for its investments.

Which of these companies do you prefer?

Company A

Company B

Finally in Study 3, to investigate whether and how attributions of domestic investments and FDI depends on the political party in power and experts' opinions, we conduct another survey experiment, a 2x2x4 factorial design in which respondents receive a randomly selected vignette from a total of sixteen hypothetical scenarios about changes in either domestic or foreign direct investments in Kenya. The full set of vignettes is as follows:

> *"Imagine the following hypothetical situation. Imagine that during a hypothetical President* ***[Onyango/Kamau]****'s time in office, the amount of foreign investments in Kenya increased a lot. Experts say that the* ***[global economic conditions and actions taken by the Kenyan government played a major role / global economic conditions, rather than***

> ***actions taken by the Kenyan government, played a major role / actions taken by the Kenyan government, rather than the global economic conditions, played a major role / global economic conditions and the Kenyan government played a minor role]."***

Specifically, here, these treatments, consisting of different statements about who is responsible for the FDI project introduction attributed to experts, were designed after the statements attributing the credit primarily to foreign private enterprise or central or local government borrowing from the credit attribution design for local economic performance by Tilley and Hobolt (2011) and the subsequent studies.

We then ask respondents how responsible they would say the Kenyan government is for the increased [domestic investments / FDI] in Kenya. Similarly, we also ask how responsible they would say the global economic conditions are for the increased [domestic investments / FDI] in Kenya. The answers to these two questions will be on a 0-10 scale provided to respondents with 0 marked as not responsible at all and 10 is completely responsible.

Thus, to summarize the main experimentally manipulated variables, for the first vignette survey experiment about the entry barrier and public support for the firm's entry and perception about its effects on corruption, we manipulate (1) the firm's nationality (domestic or foreign) and (2) the level of entry barrier (high / low).

Second, in the conjoint experiment, we manipulated (1) size of the foreign firm (smaller / similar / larger compared to a typical foreign company in its sector operating in Kenya), (2) industry where the foreign firm operate (Agriculture, Forestry, and Fishing / Education and Health / Electricity, Gas, and Water / Financial and Insurance / Information Communication Technology / Infrastructure and Construction / Manufacturing / Mining and Quarrying / Tourism / Transportation / Wholesale and Retail), (3) entry mode (setting up business facilities to locally produce goods and services / merger and acquisition, joint venture), (4) wage level (less than / the same as / more than a typical Kenyan company in its sector), (5) expected employment (less / similar amount / more jobs compared to a typical Kenyan company in its sector), (6) social responsibility (high / average / low on social responsibility), and (7) local policy concessions (tax incentives / equal treatment).

Third, for the second vignette survey experiment about the entry barrier and public support for FDI, we manipulate (1) President in power (Onyango / Kamau), (2) type of investments (foreign direct investments / domestic investments), and (3) experts' opinions on the role of the government and global economic conditions (Kenyan government played a major role / global economic conditions played a major role / both Kenyan government and global economic conditions played a major role / both Kenyan government and global economic conditions played a minor role).

The following are the pre-registered hypotheses the studies were designed to tese:

> (Study 1: Vignette Survey 1 – Foreign versus Domestic Investment X Entry barrier)
>
> H2a: Individual support for firm's entry depend on the level of entry barriers in the industry that the firm will operate in.
>
> H2b: Individual support for firm's entry depend on whether the firm is domestic or foreign.
>
> H2c: Individual support for a foreign firm's entry depend on the level of entry barriers in the industry that the firm will operates in.
>
> H2d: Individuals are more likely to believe that corruption will increase when the foreign company enter into the industry where small number of firms is operating.
>
> (Study 2: Conjoint experiment)
>
> H1a: Individual support for a foreign direct investment (FDI) project depends on the size of the foreign company that plans to invest in.
>
> H1b: Individual support for a foreign direct investment (FDI) project depends on the industry where the foreign company would operate.

H1c: Individual support for a foreign direct investment (FDI) project depends on the entry mode the foreign company would take.

H1d: Individual support for a foreign direct investment (FDI) project depends on the expected wage level of the foreign company that plans to invest in.

H1e: Individual support for a foreign direct investment (FDI) project depends on the expected size of job creation by the foreign company that plans to invest in.

H1f: Individual support for a foreign direct investment (FDI) project depends on the foreign company's reputation as a socially responsible entity.

H1g: Individual support for a foreign direct investment (FDI) project depends on the type of local policy concessions that the foreign company is expected to receive.

(Study 3: Vignette Survey 2 – Attribution)

H3a: Individuals are more likely to attribute the Kenyan government for the increased FDI when the political party they support is in power.

H3b: Individuals are more likely to attribute the Kenyan government for the increased domestic investment when the political party they support is in power.

H3c: Individuals are more likely to attribute the global economic conditions for the increased FDI when the political party they support is not in power.

H3d: Individuals' attributions the increased FDI or domestic investment depend on the experts' opinion about the governments' roles.

Finally, for the analysis regarding the vignette surveys, we simply take the difference in means across the different treatment groups and report the marginal means. For the conjoint analysis, we estimate the linear regression models with standard errors clustered by the respondent, which is asymptotically equivalent to average marginal component effect (AMCE) estimators. The AMCE, which does not rely on functional form assumptions about the choice probabilities, captures causal average effects of each attribute value of aid projects over all possible combinations of other attributes on the probability that a foreign investment project will be supported.

Results

Turning first to the results from Study 1, Figure 2, presents the interactive impact of foreign versus domestic investments and high versus low entry barriers on three dependent variables, namely, respondent support for FDI projects and perceptions of national and personal economy. Here, the red point and whisker denotes the low entry barrier condition, and the blue point and whisker the high entry barrio condition, while the domestic versus foreign investment condition is marked in the x-axis, and the dependent variables for each of the three sub-graphs are marked in the subtitles. Starting the subfigure on the far left, we first find that there is no difference in respondents' support for FDI projects based on neither the foreign versus domestic investments nor the high versus low entry barriers treatment conditions. While we do observe that the point estimate for the investments under high entry barrier condition to have a more positive reception, the confidence intervals overlap with one another and there is no statistically significant difference. Moving to the subfigure in the middle, when it comes to the respondents' evaluation as to whether the investments will be beneficial to the Kenyan national economy, we first observe that under both the low and high entry barrier conditions, respondents show a clear preference for foreign, rather than domestic investments. Moreover, as a test for the interactive hypothesis, we further observe that, given that an investment is from a foreign company, respondents have stronger positive preference for investments in sectors with low, rather than high entry barriers. While we observe a similar pattern for the perceived benefits to the respondents' personal economy in the far right figure, the difference between foreign and domestic investments for low entry barrier condition is not statistically significant at the conventional 95% confidence level, and the difference between high and low entry barrier conditions given that the investment is foreign also overlaps. Still, we see that for the high entry barrier condition, respondents prefer foreign over domestic investments. In sum, we see that the respondents generally believe that foreign investment will be more beneficial to both the national and personal economy, but do not differentially support FDI projects based on investor nationalities. Moreover, given that the nationality of the investment is foreign, respondents have a slight preference for low entry barrier sector over high entry barrier sector.

Turning to Figure 3 on the interactive impact of foreign versus domestic investments and high versus low entry barriers on respondent perceptions of politicians' electoral rewards, we do not find any meaningful statistical difference in support of our pre-registered hypotheses that successfully inviting FDI into certain sectors will provide some electoral benefits to politicians at different levels. Across all three actors of the president, governor, senator, member of parliament, and member of county assemblies, we find no clear support for any of the prior expectations.

Figure 2: Impact of Foreign v. Domestic Investments x High v. Low Entry Barriers on Respondent Support for FDI Projects and Perceptions of National and Personal Economy

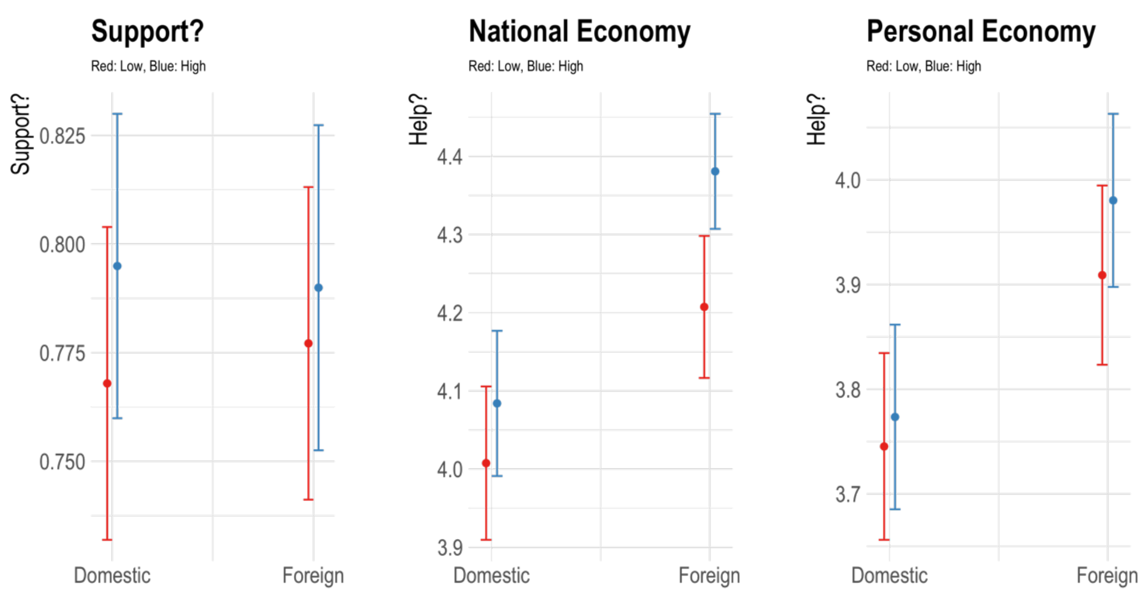


Figure 3: Impact of Foreign v. Domestic Investments x High v. Low Entry Barriers on Respondent Perceptions of Politicians' Electoral Rewards

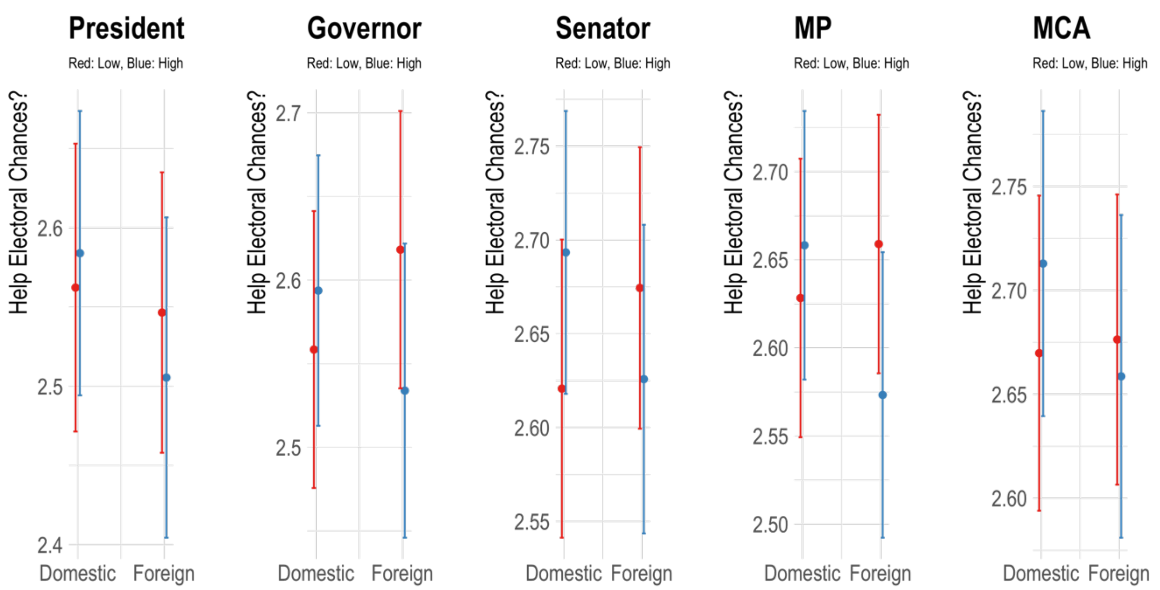
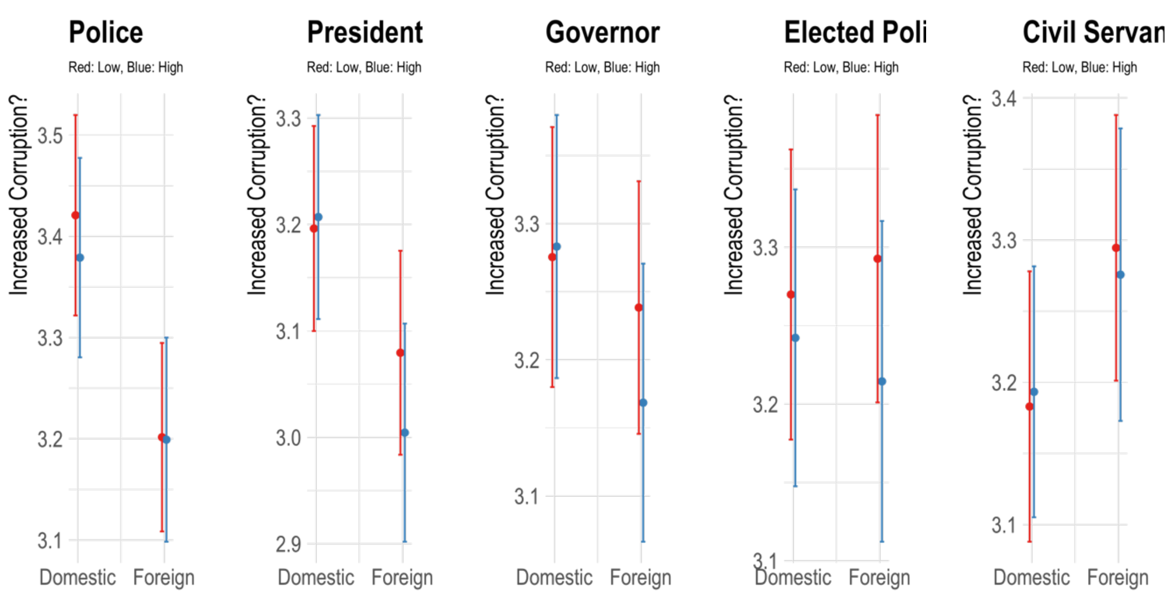
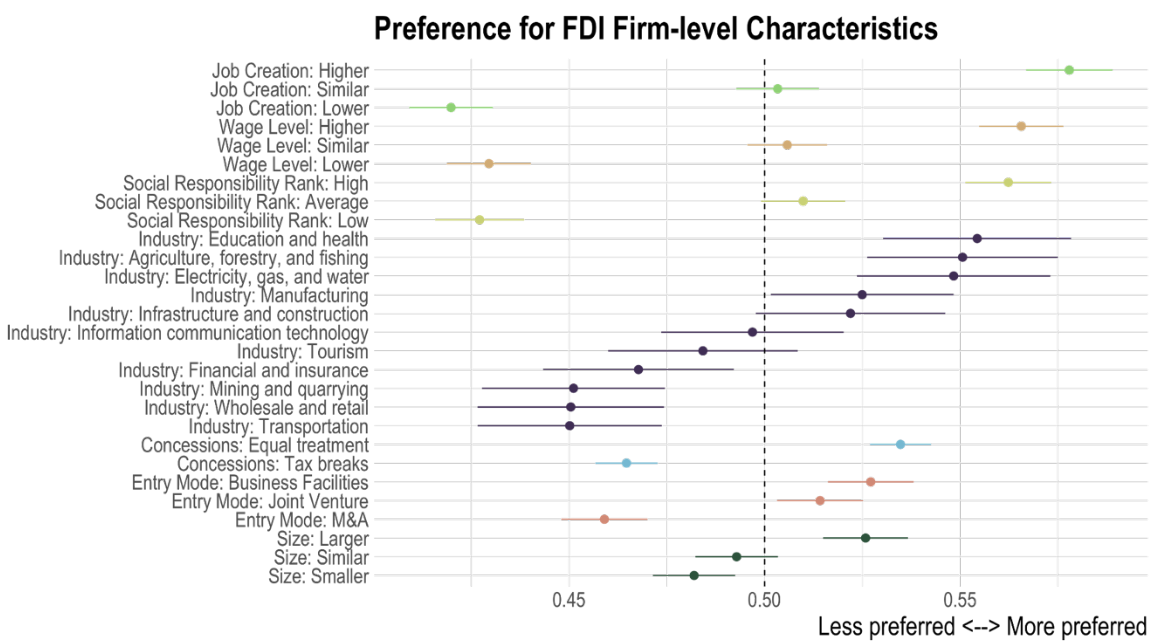


Figure 4: Impact of Foreign v. Domestic Investments x High v. Low Entry Barriers on Respondent Perceptions of Corruption



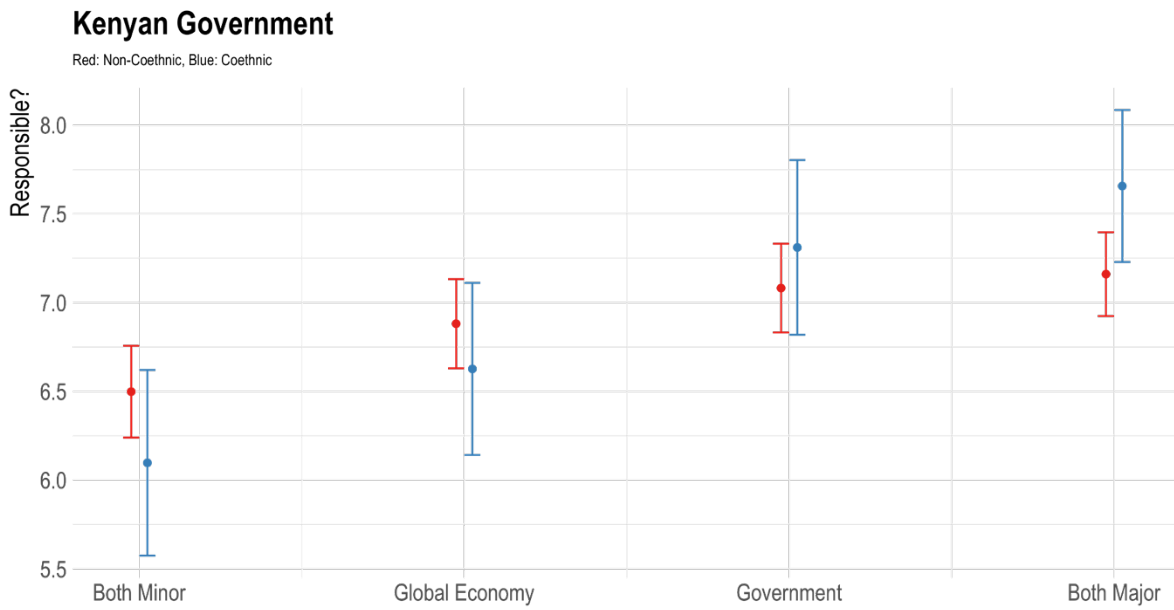
Finally, from Study 1, we investigate the impact of these interactive investment characteristics on perceptions of corruption in Figure 4. Interestingly, we see that respondents consider domestic investments regardless of entry barriers to be more closely associated with increased corruption in the case of police, the president, and governors, though the last do not show statistical significance at any conventional levels. Given that the governor, elected politicians, and civil servants are arguably ones who have more close association with decisions regarding local investment climates compared to the police or the president, this result is rather surprising. Most likely these patterns reflect the pre-existing belief about levels of corruption, as the police has been often considered as one of the most corrupt arm of the public service, rather than the reality regarding investment climate decisions.

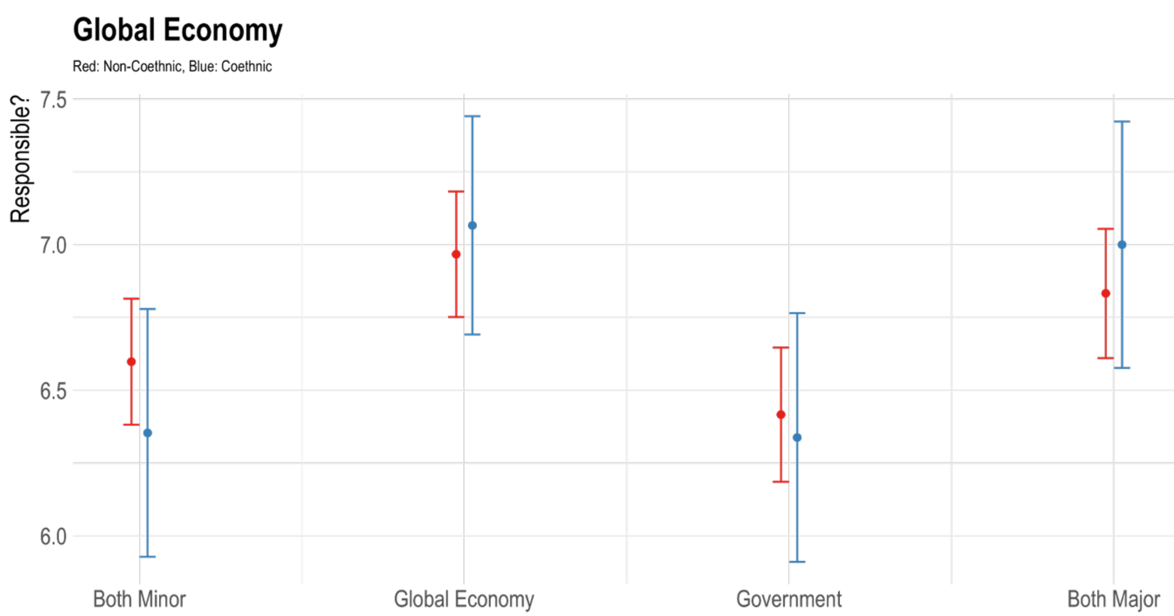
Figure 5: Preference for FDI Firm-level Characteristics



Now we turn to the results from the conjoint survey experiment in Study 2 by plotting the marginal means capturing the respondents' preference for FDI firm-level characteristics in Figure 5. Starting from the top of the figure, we notice that economic benefits, such as job creation prospects being higher compared to lower, or wage level expectations being higher or lower have the largest impact on respondents' preference for FDI firm-level characteristics in its magnitude. Surprisingly, however, whether the companies have been ranked high or low on social responsibility based on attributes such as supporting good causes, environmental responsibility, and community responsibility appears as a close third in the effect sizes. This finding highlights an important yet so far rather neglected aspect regarding the public demand for FDI: while economic benefits are surely important in shaping host country citizens' preference for foreign investments, the corporate social responsibility track records of such companies can meaningfully shape their support. Moving to the results on industry preference, we see that respondents have a more positive preference towards sectors, such as education and health, agriculture, forestry, and fishing, electricity, gas, and water, and have a more negative preference for sectors such as transportation, wholesale and retail, mining and quarrying financial and insurance. These results resonate with survey evidence that general citizens prefer greater investments in areas associated more with social and physical infrastructure for the sectors with positive preference, and also with media reporting regarding issues of environmental degradation, or labor rights abuses for the sectors with negative preference. Finally, unlike the textbook expectations, policy concessions, entry mode, or firm sizes tend to show relatively smaller influence over respondents' evaluation about foreign investment firm-level profiles.

Figure 6: Preference for FDI Firm-level Characteristics





Finally, we move to considering evidence from Study 3 regarding how much credit claiming politicians can do from increased FDI inflows in Figure 6. In the top panel, we observe two interesting patterns. First, both coethnics marked in blue and non-coethnics marked in red assign greater positive attribution to the government not when the explicit manipulation cue mentioned that actions taken by the Kenyan government, rather than the global economic conditions, played a major role, but when both the global economic conditions and actions taken by the Kenyan government played a major role. Second, coethnics respondents tend to both reward and punish their coethnic president more than the non-coethnic respondents as can be seen from the steeper slope. In fact, the statistical significance across the different treatment conditions are only present for the coethnic respondents but not non-coethnic respondents. The bottom panel, using the question on how the global economy is responsible for the increased investment documents a similar pattern overall.

Conclusion

In this study, we examined the question regarding when do citizens support foreign direct investment (FDI) in developing countries? As shown in the literature review, while most existing studies predominantly focus on the supply side of FDI policies, study on the public demand for FDI is still in infancy. Using a series of original survey experiments in Kenya, this paper considered when host country citizens prefer foreign versus domestic investments and what characteristics make foreign direct investment more desirable to host country citizens. We also investigated when and from whom governments can claim credit for increased foreign investments. We find that host country citizens generally prefer foreign over domestic firms, and the concern for corruption seems minimal. While economic factors such as job creation matter the most in determining public support for FDI, we also show that citizens emphasize social responsibility or minimal policy concessions. Finally, we find that politicians can credit claim even when they are clearly not attributable to the increased FDI inflows, but such an effect is only detectable for coethnic voters.

This study makes a number of important contributions. First, our findings shed more light on the demand side of FDI and, hence, international economic integration. Public preference underlies more aggregate phenomena including forming national FDI regulation, and facilitating or hindering international cooperation on investment. We expect that our study on the preference formation toward FDI at the individual level will be the cornerstone in building a broader theory of FDI demand and international economic liberalization. Second, our research generates new knowledge about the origins and durability of individual policy preferences. In identifying the source of public preferences toward FDI, our study accounts for not only the material self-interest but also non-material factors such as social responsibility as a main driver in shaping public opinion about FDI. The findings of our study can provide important insights on the political economy in individuals' policy preference formation as well as public opinion research. The findings of this research can also provide policy implications by uncovering which aspects of FDI and its policies drive public support or opposition, which are essential in understanding both political feasibility and possible social unrest regarding specific FDI policy implementation.

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