

Supplementary material for

“Does foreign aid increase FDI?”

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Tables A and B replicate the benchmark specification in Tables 1 and 2 in the paper, and add the level of primary schooling and the % of tropical land in the country as additional controls.

Tables C and D replicate the benchmark specification and, as in Table 3 with Political risks in the paper, add measures of Economic and Financial risks as controls. The categories are taken from the ICRG. The data are from the World Bank’s WDI.

Table A: Foreign aid and FDI—additional controls (benchmark definition of aid_A)

	GMM-SYS 1	GMM-SYS 2	GMM-SYS 3	GMM-SYS 4
aid_K	-0.84*** [0.29]	-0.82** [0.33]	-0.84*** [0.30]	-0.85*** [0.31]
aid_A^*	1.09*** [0.32]	1.09*** [0.38]	1.09*** [0.34]	1.09*** [0.35]
aid_A^* , squared	-0.0013*** [0.00031]	-0.0013*** [0.00036]	-0.0013*** [0.00032]	-0.0013*** [0.00033]
fdi , lagged	0.48*** [0.11]	0.47*** [0.12]	0.48*** [0.12]	0.49*** [0.11]
pop. growth, n	-2.39 [5.93]	-6.14 [6.69]	-2.25 [5.78]	-1.55 [6.39]
savings per capita, S	-17.0** [7.30]	-1.09 [7.65]	-17.6** [7.43]	-19.8** [8.08]
GDP per capita	8.72*** [2.99]		9.44*** [3.35]	10.1*** [3.39]
Primary schooling		0.29 [0.29]	-0.075 [0.21]	0.076 [0.26]
% tropical land				17.8 [16.5]
Observations	325	325	325	325
Number of countries (clusters)	99	99	99	99

Notes. The dependent variable is FDI per capita (fdi). All regressions are estimated by GMM-SYS, and include a full set of time dummies and a constant term. Aid variables are instrumented with their second lags and lagged differences. Robust standard errors in brackets, clustered at the country level, and including Windmeijer's (2005) small sample correction. ***, **, and * denote significance at 1, 5, and 10% levels.

Table B: *Foreign aid and FDI—additional controls (alternative definition of aid_A)*

	GMM-SYS 1	GMM-SYS 2	GMM-SYS 3	GMM-SYS 4
<i>aid_K</i>	-0.74** [0.30]	-0.68** [0.34]	-0.74** [0.30]	-0.74** [0.31]
<i>aid_A*</i>	0.94*** [0.32]	0.87** [0.36]	0.93*** [0.33]	0.93*** [0.33]
<i>aid_A*</i> , squared	-0.0012*** [0.00031]	-0.0011*** [0.00034]	-0.0011*** [0.00032]	-0.0011*** [0.00032]
<i>fdi</i> , lagged	0.46*** [0.13]	0.44*** [0.13]	0.45*** [0.13]	0.46*** [0.13]
pop. growth, <i>n</i>	-6.75 [6.23]	-13.2* [7.15]	-6.86 [5.90]	-6.51 [6.43]
savings per capita, <i>S</i>	-23.1*** [6.69]	-1.82 [9.52]	-23.3*** [7.04]	-24.6*** [8.15]
GDP per capita	12.1*** [3.25]		12.1*** [3.85]	12.5*** [4.11]
Primary schooling		0.65* [0.33]	0.076 [0.20]	0.14 [0.28]
% tropical land				8.04 [19.9]
Observations	323	323	323	323
Number of countries (clusters)	97	97	97	97

Notes. The dependent variable is FDI per capita (*fdi*). All regressions are estimated by GMM-SYS, and include a full set of time dummies and a constant term. Aid variables are instrumented with their second lags and lagged differences. Robust standard errors in brackets, clustered at the country level, and including Windmeijer's (2005) small sample correction. ***, **, and * denote significance at 1, 5, and 10% levels.

Table C. Foreign aid and FDI—Economic risks

Risk measure:	Economic risk				
	GDP per capita 1	GDP growth 2	Inflation rate 3	Budget balance 4	Curr. acc. balance 5
<i>aid_K</i>	-0.83*** [0.31]	-0.83*** [0.27]	-0.81** [0.31]	-1.09*** [0.16]	-0.81*** [0.26]
<i>aid_A</i>	1.02*** [0.37]	0.95*** [0.34]	1.02*** [0.35]	1.18*** [0.18]	1.05*** [0.29]
<i>aid_A, squared</i>	-0.0013*** [0.00033]	-0.0013*** [0.00032]	-0.0013*** [0.00034]	-0.0014*** [0.00016]	-0.0013*** [0.00031]
Risk	10.7*** [2.71]	-1.39 [1.99]	0.61 [8.22]	22.7 [91.1]	-1.82* [1.06]
<i>aid_A x Risk</i>	0.019 [0.036]	0.020*** [0.0067]	-0.27 [0.30]	-2.69*** [0.50]	-0.00088 [0.0078]
savings, <i>s</i>	-20.3*** [6.02]	-16.3** [7.38]	-15.6** [6.93]	6.26 [5.99]	-10.9 [8.45]
pop. growth, <i>n</i>	-8.98* [5.24]	-8.59* [4.58]	-6.56 [4.47]	-5.32 [4.39]	-8.09 [5.44]
<i>fdi</i> , lagged	0.47*** [0.11]	0.47*** [0.12]	0.45*** [0.12]	0.24*** [0.068]	0.48*** [0.13]
GDP per capita, <i>y</i>		10.1*** [3.05]	9.66*** [2.43]	4.01* [2.37]	8.58*** [3.24]
Observations	264	264	255	224	249
N countries (clusters)	82	82	80	72	80
N excluded instruments	74	84	84	84	84
AR(1), <i>p</i> -value	0.012	0.01	0.011	0.0051	0.0096
AR(2), <i>p</i> -value	0.15	0.28	0.19	0.23	0.11
AR(3), <i>p</i> -value	0.22	0.21	0.19	0.51	0.12
AR(4), <i>p</i> -value	0.24	0.18	0.21	0.23	0.11
Hansen overid., <i>p</i> -value	0.49	0.79	0.64	0.86	0.79
H0: <i>aid_K</i> =-1	0.17 [0.31]	0.17 [0.27]	0.19 [0.31]	-0.095 [0.16]	0.19 [0.26]
H0: <i>aid</i> >0	0.15 [0.13]	0.14 [0.051]***	0.14 [0.06]***	0.096 [0.054]**	0.19 [0.072]***
H0: <i>aid_A</i> >0	0.98 [0.34]***	0.97 [0.32]***	0.94 [0.32]***	1.19 [0.17]***	1 [0.28]***

Notes. The dependent variable is FDI per capita (*fdi*). Risk measures taken from WDI. All regressions are estimated by GMM-SYS, and include a full set of time dummies and a constant term. Aid variables are instrumented with their second lags and lagged differences. Robust standard errors in brackets, clustered at the country level, and including Windmeijer's (2005) small sample correction. ***, **, and * denote significance at 1, 5, and 10% levels.

Table D: *Foreign aid and FDI—Financial risks*

Risk measure:	Financial risks				
	Foreign debt to GDP	Foreign debt service to exp.	Curr. acc. to exports	Reserves to imp. months	Exch. Rate stability
	1	2	3	4	5
<i>aid_K</i>	-0.81*** [0.26]	-0.90*** [0.31]	-0.83** [0.32]	-0.85*** [0.28]	-0.84*** [0.30]
<i>aid_A</i>	1.38*** [0.32]	1.26*** [0.39]	1.09*** [0.35]	0.97*** [0.36]	1.06*** [0.35]
<i>aid_A, squared</i>	-0.0014*** [0.00030]	-0.0014*** [0.00034]	-0.0013*** [0.00032]	-0.0013*** [0.00034]	-0.0013*** [0.00034]
Risk	15.2** [7.07]	0.68 [0.50]	-12.8 [18.1]	-4.57*** [1.20]	7.89 [8.55]
<i>aid_A x Risk</i>	-0.38*** [0.14]	-0.0039 [0.0066]	-0.093 [0.31]	0.044 [0.031]	-0.31 [0.29]
savings, <i>s</i>	-17.7** [6.81]	-18.2*** [6.58]	-15.5** [7.35]	-16.6 [10.3]	-18.5*** [6.85]
pop. growth, <i>n</i>	-9.79 [6.30]	-4.84 [5.43]	-9.04* [5.11]	-9.27 [7.13]	-3.22 [5.56]
<i>fdi</i> , lagged	0.46*** [0.12]	0.54*** [0.15]	0.48*** [0.13]	0.46*** [0.13]	0.48*** [0.12]
GDP per capita, <i>y</i>	7.91** [3.73]	6.57 [4.30]	8.95** [3.62]	9.66** [4.09]	10.5*** [3.07]
Observations	260	246	250	245	264
N countries (clusters)	80	79	81	79	82
N excluded instruments	84	84	84	84	84
AR(1), <i>p</i> -value	0.015	0.0086	0.011	0.024	0.013
AR(2), <i>p</i> -value	0.26	0.21	0.15	0.35	0.18
AR(3), <i>p</i> -value	0.27	0.24	0.24	0.27	0.21
AR(4), <i>p</i> -value	0.21	0.093	0.11	0.095	0.21
Hansen overid., <i>p</i> -value	0.77	0.73	0.74	0.85	0.54
H0: <i>aid_K</i> =-1	0.19 [0.26]	0.1 [0.31]	0.17 [0.32]	0.15 [0.28]	0.16 [0.3]
H0: <i>aid</i> >0	0.28 [0.057]***	0.23 [0.05]***	0.22 [0.064]***	0.2 [0.049]***	0.14 [0.05]***
H0: <i>aid_A</i> >0	1.09 [0.3]***	1.13 [0.3]***	1.04 [0.3]***	1.06 [0.31]***	0.98 [0.31]***

Notes. The dependent variable is FDI per capita (*fdi*). Risk measures taken from WDI. All regressions are estimated by GMM-SYS, and include a full set of time dummies and a constant term. Aid variables are instrumented with their second lags and lagged differences. Robust standard errors in brackets, clustered at the country level, and including Windmeijer's (2005) small sample correction.***, **, and * denote significance at 1, 5, and 10% levels.