

# Improving Reputation BIT by BIT: Bilateral Investment Treaties and Foreign Accountability

**Chia-yi Lee**

*S. Rajaratnam School of International Studies (RSIS)  
Nanyang Technological University (NTU)*

**Noel P. Johnston**

*Blavatnik School of Government  
University of Oxford*

## **Abstract**

The literature on foreign direct investment (FDI) has paid an increasing interest to international institutions such as bilateral investment treaties (BITs), but whether BITs help attract FDI is an unsettled question. Building on the existing literature, this article argues that BITs can change investors' perceptions and the corresponding investment they make because signing BITs signals the involvement of another powerful country that is able to compel the host government to comply. This implies that the effect of BITs is not constant across signatory countries: BITs are more effective when they are signed with rich and influential countries. Using monadic and dyadic FDI data, this article finds that BITs signed with powerful countries (defined as the top six largest economies) lead to an increase in FDI inflows (both from these signatory countries and from other countries). BITs signed with other countries, despite in a larger quantity, have little influence on FDI inflows.

Keywords: Bilateral investment treaty; Foreign direct investment; Foreign power; OECD countries; Foreign aid; International institutions

# 1 Introduction

Recent decades have witnessed the increasingly important role of foreign direct investment (FDI) in the global economy. According to the United Nations Conference on Trade and Development (UNCTAD), in 2010, the total amount of FDI inflows in the world (in nominal terms) reached 1,243 billion dollars, almost 100 times that in 1970 (13 billion dollars).<sup>1</sup> Exploring the determinants of FDI has thus become a popular topic in the economics and political science literature. The FDI studies find that, for most investors, stable, low-risk environments are more conducive to profit maximization.<sup>2</sup> To attract these investors, many governments seek to improve the quality of domestic institutions, such as strengthening property rights protection. Domestic institutions, however, are difficult to change dramatically, and more and more countries are relying on international institutions such as bilateral investment treaties (BITs) to allure foreign capital.

While most of the existing studies indicate that BITs have the ability to help attract FDI, by counting the number of BITs a country has signed, they make the assumption that BIT-effectiveness is homogeneous across signatory countries. In this article, we argue that this may not be the case: some signatory countries have greater ability to hold the host government accountable than others. By signing BITs with powerful countries, host countries can signal their intention to attract foreign capital and their potential to enhance the investment climate to foreign investors. On the other hand, investors gain confidence in a host country when they believe that

---

<sup>1</sup> See <http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=88>

<sup>2</sup> One exception is the investment in the resource sector. Due to the extremely high profitability of natural resources, investors are willing to invest in resource rich countries even though the level of political risks is usually high (Jensen and Johnston 2011).

the government, perhaps compelled by the powerful signatory country, is more likely to commit to the treaty. This leads to our empirically testable hypothesis that BITs signed with powerful countries are more likely to increase FDI, but other types of BITs are not.

We test our hypothesis by disaggregating BITs by the signatory country and using data on FDI inflows. The results show that, while overall BITs do not stimulate inward FDI, BITs signed with powerful countries lead to increased FDI inflows. This finding is not driven by the fact that these powerful countries are the major FDI exporters: we also show, using bilateral FDI data from OECD countries, that a BIT signed with a single powerful country induces FDI from other OECD countries. This indicates the umbrella effect of BITs signed with powerful countries.

The rest of this article proceeds as follows. The next section reviews existing literature on FDI and BITs, and explores the mechanisms through which BITs help attract FDI. Section 3 explains how accountability to another country can function as a placeholder for genuine compliance to the treaty, and uses this logic to hypothesize which type of BITs is more likely to benefit the host country and how BITs affect the broader investor perceptions. Section 4 describes the data and the statistical model used to test our hypotheses, and section 5 presents the empirical results. Section 6 concludes.

## **2 Domestic Institutions, BITs, and FDI**

In the FDI literature, the domestic environment of a host country is seen as a key determinant of inward FDI. The classic “OLI” theory developed by Dunning (1981) states that a firm sets up a

subsidiary (rather than simply trading) in a foreign country when there exists ownership advantage, location advantage, and internalization advantage. These advantages help a firm to maximize its profits and minimize risk. In other words, for investors looking to enter a country, the economic conditions are the most important factor. This explains the throng of multinational corporations (MNCs) in big economies such as China.

In addition to economic concerns, domestic political institutions may largely influence the level of risks in an investment environment. Li and Resnick (2003) argue that while democratic countries may offer less favorable policies to MNCs, their commitment to property rights protection increases their attractiveness. Jensen (2003, 2008) contends that a higher level of institutional constraints on the executive makes democracies more likely to commit to their promises, thus attracting more FDI.<sup>3</sup> Bayulgen (2010), on the other hand, argues that both consolidated democracies and stable authoritarian regimes are preferred by foreign investors than hybrid regimes because the latter lacks either the institutional constraints or flexibility that is favored by foreign investors.

While making an effort to attract FDI by improving domestic environments may be time-consuming, countries can resort to international institutions to signal their commitment to external actors. Entering international institutions, such as joining an international organization or signing international treaties, can more efficiently demonstrate a country's intention to cooperate and enhance its external reputation. Simmons (2000), for example, argues that countries enter and comply with international agreements to increase their competitiveness and credibility. Büthe and Milner (2008) argue that participation in international trade institutions (like the WTO/GATT and preferential trade agreements) conveys a credible commitment towards foreign investors, allowing participant countries to attract more FDI.

---

<sup>3</sup> See also Henisz (2002).

Among various types of international institutions, BITs directly regulate issues that are related to investment, such as the protection of foreign assets and the process of dispute settlement. If signing BITs displays a host country's willingness to provide a friendly environment for foreign investors, BITs should help bring in more FDI. In the literature, a majority of empirical studies indicate a positive effect of BITs on FDI (e.g., Busse, Königer and Nunnenkamp 2010; Bütthe and Milner 2009; Desbordes and Vicard 2009; Neumayer and Spess 2005;),<sup>4</sup> but some discover no effect (Berger et al. 2011; Gallagher and Birch 2006; Hallward-Driemeier 2003; Yackee 2008;). A finding of no effect may indicate that theories overestimate the role of BITs. Yackee (2008), for example, points out that BITs are not as effective as credible commitment theorists anticipate because foreign investors may be unaware of these legal rules, because other informal rules may exist to substitute the role of BITs, or because BITs usually contain ambiguous terms.

On the other hand, the mixed finding in the literature may reflect the fact that some conditions should hold for BITs to take effect. A number of recent studies have been devoted to exploring the conditional effect of BITs. Allee and Peinhardt (2011) argue that BITs are able to increase FDI only if signatory countries are fully compliant with the treaties. Their empirical findings suggest that countries with disputes filed at the World Bank's International Centre for the Settlement of Investment Disputes (ICSID) and, to a greater extent, countries that then go on to lose their disputes, suffer reduced FDI. Desbordes and Vicard (2009) find that BITs lead to more bilateral FDI, but the effect is curtailed if signatory countries already have good political relations. Salacuse and Sullivan (2005) focus on riskier countries, arguing that ratifying a BIT

---

<sup>4</sup> However, Aisbett (2009) points out that the positive relationship may be a correlation rather than causation. That is, countries are more likely to select into a treaty if they have more capital flowing between each other. Bergstrand and Egger (2013) also find that economically similar and geographically close countries are more likely to sign BITs.

(after signing) conditions the BIT's effect. Several look at the domestic property rights architecture specifically. Tobin and Rose-Ackerman (2005) suggest that the effect of BITs is contingent on the level of political risks: BITs only help attract FDI in risky countries. Similarly, Busse, Königer and Nunnenkamp (2010) and Neumayer and Spess (2005) find that BITs have a stronger effect in countries where the constraints on the executive branch are lower. This suggests that BITs can be substitutes rather than complements for domestic institutions. Contrarily, Hallward-Driemeier (2003) finds that only governments with good institutional quality can gain by signing BITs, suggesting that BITs are complements for domestic institutions.

Moreover, while most of the empirical studies indicate the effectiveness of BITs, how BITs really work to attract FDI is still unclear. In the BIT literature, it is generally believed that BITs help signatory countries in two ways: they may carry a signaling effect as well as a commitment effect (e.g., Allee and Peinhardt 2011; Büthe and Milner 2008; Haftel 2010; Neumayer and Spess 2005). On the one hand, by signing BITs, countries may signal their willingness to offer a friendly environment for foreign investors and, more generally, their great care for foreign capital.<sup>5</sup> Thus, all foreign investors receiving this signal may change their assessment of a signatory country. For this signal to be informative, however, it must be able to differentiate between governments that are genuinely compliant with the treaty and those that are not. If an uncooperative government has sufficient incentives to misrepresent their “type,” signing a BIT will not create a separating equilibrium between “good” and “bad” countries, and investors will regard it as cheap talk.<sup>6</sup> On the other hand, by signing BITs, countries can credibly

---

<sup>5</sup> Büthe and Milner (2009), Grosse and Trevino (2005), and Salacuse (1990) argue, for example, that BITs send a signal to investors that liberal economic policies will be undertaken beyond the details of the treaty.

<sup>6</sup> For more on the signaling mechanism, see Abbott and Snidal (2000), Martin (2005), Morrow (1999), and Thompson (2006).

commit to abiding by rules, making policies, or creating environments that are favorable to foreign investors.<sup>7</sup> The commitment mechanism attempts to solve the problem that a government may not be able to signal its motivations.<sup>8</sup> Here, a credible commitment helps to convince investors that short-term interests will be less likely to influence behavior down the line.<sup>9</sup> Both mechanisms may work, but which works better remains unsettled in the literature.<sup>10</sup>

### **3 BITs, Reputation, and Foreign Accountability**

In this article, we argue that, among the variety of ways that BITs can help governments commit to better conditions for investors, the simple involvement of another country may be the most fundamental. In practice, there are a variety of benefits from BITs which gain credibility from being accountable to other countries, including lower transaction costs for investors, the promise of future benefits (that is, tax breaks), and even shifts to the domestic policy space. As Büthe and Milner (2009: 187) argue, “in short, the existence of a BIT makes it easier for foreign investors to recruit the assistance of their home governments to bring costly pressure to bear on FDI host

---

<sup>7</sup> Jandhyala et al. (2011) argue that BITs signed before the 1990s and after 2000 are primarily for the credible commitment purpose and that BITs signed between these two periods are mostly due to peer imitation.

<sup>8</sup> For more on the logic of international institutions and credible commitment, see, for example, Dai (2005), Fearon (1997), Guzman (1998), and Morrow (1999).

<sup>9</sup> Politicians may have short-term interests in FDI for a variety of reasons. Electoral time horizons, for example, may be short enough for politicians to benefit from a BIT in the short-run without bearing its long-run consequences (whether good or bad). For more on the relationship between time-horizons and BITs, see Ginsburg (2005).

<sup>10</sup> Our argument below does not pit the commitment and signaling mechanisms against each other, but rather uses both to understand the potential reputational effects of BITs.

country governments that renege on their commitments to economically liberal policies.” Accountability to other countries (that can use economic or political power as a form of coercion) may help investors believe that a BIT’s promises will be upheld. Even if this foreign involvement does not ultimately lead to improved domestic institutions, it can still convey to investors a decreased likelihood of contract breach.<sup>11</sup>

More abstractly, consider that some constraints are determined within the host country while others are determined outside. If either one changes, it can cause a shift in the host government’s behavior. Here, accountability to a foreign country (for example because of a BIT) shifts the “outside” incentives. For example, suppose the President of country A often expropriates country B’s assets because A has weak executive constraints and B’s government does not help their nationals with investment disputes. Now suppose that B passes a law mandating its government to seize A’s assets whenever an expropriation occurs. There is no shift on the domestic side, but B’s new policy may drastically reduce expropriation by A’s President (who may, for example, own those seized assets in B). And there may be positive externalities as well. Investors from a third country, C, may believe that A’s commitment to property rights protection is credible due to the reduced expropriations, even though C is not directly involved in the bilateral relations between A and B. Notice that even new economic policies in the host country may not be credible commitments unless reinforced by the threat of responses from other countries. Simply involving another country introduces new external constraints, and domestic laws need not change at all for investors to feel more protected. Furthermore, it is likely that this external shift is more politically palatable during the ratification process than the prospect of complex and costly changes to domestic institutions. Poulsen and Aisbett (2011), for example,

<sup>11</sup> For a more extreme example of this logic see Biglaiser and DeRouen Jr (2007), who argue that US military occupation of a host government may reduce investment risk for US investors. While signing a BIT may entail a less dramatic prospect of retaliation, the logic is similar.

argue that host governments do not realize the cost of signing a BIT until the first claim hits. If true, BITs may provide an example of how short time horizons of politicians may sometimes actually lead to openings for international cooperation (rather than being a hurdle).

BITs increase external costs, facilitating more constraints, in a variety of ways. For one, involving other countries creates incentives for the treaty members to collect and publicize information about each other's investment conditions. While all BITs do not have transparency clauses, some do. From Article 10, Paragraph 1, of the 2012 US Model BIT: "Each Party shall ensure that its: (a) laws, regulations, procedures, and administrative rulings of general application' and (b) adjudicatory decisions respecting any matter covered by this Treaty are promptly published or otherwise made publicly available." To lower transaction costs, Article 11, Paragraph 1 directs that: "Each Party shall designate a contact point or points to facilitate communications between the Parties on any matter covered by this Treaty." More broadly, Articles 10 and 11 seek to facilitate communication on investment-related issues, provide information about new domestic laws, and in general lower transaction costs to monitoring investment conditions. Referring to transnational arbitration, Büthe and Milner (2009: 184) argue that "BITs provide information about the nature of the commitment and about any actual occurrence of a violation--and they provide mechanisms for the enforcement of those commitments. All of this increases the costs of reneging...which in turn should raise the credibility of those commitments in the eyes of foreign investors." But even if the clauses do not explicitly foster transparency, often the increased activity between the two countries will create new incentives to better understand each other's business environment. Closer monitoring magnifies the reputational consequences of contract breach.<sup>12</sup>

<sup>12</sup> Even outside quantifiable losses, BITs may carry a normative deterrent. Elkins, Guzman and Simmons (2006: 823-824) argue that "the home government has an interest in broader principles of good-faith treaty observance. Treatment that violates a BIT qualifies as a breach of the fundamental principle of international law: *pacta sunt*

Other types of costs may impose disproportionate constraints on a country, depending on the strength of the other signatory. BITs often impose new legal constraints, for example. Referring to transnational arbitration, Elkins, Guzman and Simmons (2006) and Kerner (2009) argue that simply involving another country may increase arbitral costs. Simmons (2014) points out that while BITs may not necessarily contribute to more FDI inflows, they have led to increased litigation. But these costs may be more dramatic when powerful countries can use BIT law to serve domestic interests. Referring to international arbitration, Allee and Peinhardt (2014) find that home states' power and preferences are the main factor influencing the enforceability of BITs, which they measure by three indicators—the inclusion of preconsent clauses, the number of dispute settlement venues, and the level of arbitration institutionalization. These findings suggest that BITs signed with powerful countries may be more legally binding; that the institutions constructed by powerful countries may be facilitating higher levels of compliance.

Whether or not BITs increase arbitral costs across the board, or especially with powerful countries, once investors engage arbitration, even if not directly involved in the arbitration, the home country's power may still loom over the settlement of the dispute. Specifically, powerful countries may be able to increase the bargaining power of the investor by threatening to impose costs on the host government if compensation is either insufficient or unpaid. This increases the expected costs associated with arbitration and therefore of committing a violation, in the first place. And, with nearly half of all international arbitrations ending in compensation awards to the foreign investor (ranging from millions to billions of dollars), the home country may play a critical role. Scholars have written on, specifically, the United States intervening for investors (Einhorn 1974; Ingram 1974; Sigmund 1980; Weintraub 1982). Maurer (2013), for example, looks at over a century of investment disputes, and argues that the United States has actively and

---

servanda (treaties are to be observed).”

effectively used its power to compel compensation for violations upon American investors abroad. He explains that US threats derive credibility from the political pressure investors can impose on the US government (particularly the President).<sup>13</sup> Using data from the political risk insurance agency, Johnston (2013) argues that power matters for more than simply the United States, that home countries can threaten retaliation (specifically, the removal of foreign aid and loans) to compel compensation.

In April of 2012, for example, Argentina's President, Cristina Fernández, nationalized 51% of YPF, the former state oil company, belonging to a Spanish oil company called Repsol. It was a highly politicized expropriation, and Fernández argued that Repsol was not reinvesting enough of its earnings. Soon after, Repsol demanded \$10 billion in compensation. In late December of 2012, Repsol filed a request for arbitration with ICSID under the *Agreement for the Reciprocal Promotion and Protection of Investments between the Kingdom of Spain and the Argentine Republic* (the Argentina-Spain BIT signed in 1991).<sup>14</sup> Bloomberg reported that "the appropriation damaged Argentina's relations with Spain, its biggest investor, and put in question the future of the country's largest taxpayer. Spain vowed to retaliate against Argentina's exporters and Repsol Chief Executive Officer Antonio Brufau said he will use all legal means to win full payment for the oil producer."<sup>15</sup> The European Commission also vowed retaliation. In February of 2014, Repsol and Argentina reached a settlement agreement, whereby Argentina consented to pay \$5 billion in sovereign bonds for compensation. While this example refers to

---

<sup>13</sup> Many of these examples are from disputes that occurred before the current period of international arbitration. Maurer argues that the pressure to defend investors has decreased as investors have become more able to dispute violations through international arbitration.

<sup>14</sup> <http://www.faces-adr.org/faces-thoughts/repsol-and-argentina-appoin.html>

<sup>15</sup> *YPF Posts Record Plunge as Argentina Spurns Repsol Claim* By Eliana Raszewski & Eduardo Thomson, 18 April 2012, Bloomberg.com.

persuasion pre-ICSID award, there is another recent example of the threat to cut resources post-ICSID award. In 2012, responding to non-payment of ICSID settlement awards, President Obama threatened to suspend trade benefits (for example the waived duties that were aimed at helping to create jobs) for Argentina. The settlement awards amounted to \$400 million and the tariff losses to \$30 million. Despite being less than the awards, this threat of retaliation was a clear signal, sent between the highest levels of government, of bad tidings in the bilateral relationship. Argentina agreed to pay compensation. This is where bilateral power comes in. While investors may have more access to international arbitration under BITs, the threat of using ICSID against a host is made more credible if their home country can compel compensation, in the event of an award. In fact, most governments have faced the prospect of compensation: to date, 105 countries have undergone international arbitration. Out of the almost 400 international investment disputes, over three quarters refer directly to a BIT with the home country.<sup>16</sup> While BITs may enable all countries to engage in the dispute settlement process, BITs signed with powerful countries are more likely to lead to compliance with arbitral awards, making BITs signed with powerful countries a stronger indication for the likelihood of BIT effectiveness.<sup>17</sup>

---

<sup>16</sup> There are a variety of venues that arbitrate international investment disputes. Some venues are at international legal centers while others are ad-hoc. For each of these, there are likely even more disputes that are settled out of court. To date, of the 393 known international investment disputes (arbitrated at the ICSID, the SCC (Stockholm Chamber of Commerce), UNCITRAL (United Nations Commission on International Trade), ICC (International Criminal Court), among other venues), 304 have used a BIT between the home country and host country as the legal instrument in the arbitration.

<sup>17</sup> Note that some BITs may remove the state further from arbitration, “depolitisizing” the dispute resolution process. But even in these cases, when BITs create new channels for investors to pursue host governments, the power of the home government will still loom, as a shadow, over the arbitration process, and specifically over fulfillment of final payment of the compensation awarded by the court. Nevertheless, the extent to which BITs depolitize remains unknown, and we leave this for further consideration.

BITs impose external costs on a government, which can create new constraints, outside of domestic reforms. But some BITs may impose more costs than others. We argue that BITs signed with powerful countries will impose higher costs on a signatory (whether through stronger clauses or a higher expected cost following a dispute), will better incentivize compliance with investor protections, and thus will be more effective in attracting FDI. While existing literature does not focus on the *other* party to a BIT,<sup>18</sup> our theory indicates that the impact of a BIT will depend on the power dynamic between the signatory countries. Signatory countries are more likely to be held accountable to powerful countries after they sign BITs, and this type of BIT may have a stronger signaling effect to foreign investors. This leads to the first empirically testable hypothesis:

**Hypothesis 1:** BITs have a positive effect on FDI inflows, and this effect comes from BITs signed with powerful countries.

Notice that, since many BITs are signed between a developing country and an FDI-exporting OECD country (Egger and Pfaffermayr, 2004), increased FDI following BIT-signing may simply be a consequence of more investment from these home countries. One may thus be skeptical about the validity of our theory, even if we find empirical evidence for Hypothesis 1. But we argue that the effect of signing a BIT with a powerful country is broader: that there exists an

---

<sup>18</sup> To our knowledge, the only exceptions are Berger et al. (2011), Bütte and Milner (2009), and Yackee (2008). Yackee (2008) divides BITs into “strong” ones (that is, BITs with meaningful arbitration provisions) and “weak” ones, and Berger et al. (2011) consider BITs with binding dispute settlement and those without. Both articles suggest that BITs have little impact on FDI. Bütte and Milner (2009) weight BITs by two signatory countries’ GDP, which they call “power-weighted” BITs, and find a positive effect of both cumulative BITs and power weighted BITs on FDI.

“umbrella effect.”<sup>19</sup> In the Argentina example, the United States and Mexico, who each have a BIT with Argentina, both spoke on behalf of Repsol, adding political pressure on Argentina to pay compensation. BITs with strong countries can also signal a *willingness* to constrain itself more seriously, and to attract FDI (beyond simply the signatory) through investor-friendly policies (Henisz 2002). But investors need not interpret this shift in motivation, and they need not rely on the prospect of intervention from a third government. A key reason may not even be directly related to an investor’s awareness of the BIT. Recall the example from above, of countries A, B, and C. If A displays less risky behavior, expropriating less or compensating more, after signing a BIT with powerful country B, political risk insurers and investors may observe the newly compliant behavior and update their risk premia. Thus, even if simply driven by interactions with signatory-country investors, BIT-motivated compliance may enhance FDI flows through reduced *global* ratings of risk. But the umbrella effect may be more immediate. Investor networks (that is, investors talking with each other (for example Wellhausen 2014)) may circulate information, from those on the ground. Even if they do not trace the increased compliance to a BIT, investors may receive increasingly positive feedback about investing in the country, and update their investment prospects accordingly, compelling some to invest who otherwise would not have. Between the two—global risk analysis and investor information networks—these more indirect perceptions may drive the umbrella effect. Thus, whether foreign investors perceive a more investor-friendly motivation, expect a higher likelihood of intervention, or simply respond to lower perceived risk behavior, we expect some to shift their analysis of risk below the minimum threshold necessary to justify investment.<sup>20</sup> For these direct

<sup>19</sup> The authors thank an anonymous reviewer for this term.

<sup>20</sup> Many have described how lower levels of political risk incentivize foreign investment, including Collier and Patillo (2000), Graham, Johnston, and Kingsley (2015), Henisz (2000), Jensen (2008), Jensen and Johnston (2011), and Tomz (2007).

and indirect reasons, BITs with powerful countries may not only encourage foreign investment from the signatory countries, but also from investors in non-signatory countries. We thus expect that:

**Hypothesis 2:** BITs signed with powerful countries have a positive effect on not only FDI from the signatory country but also on FDI from other countries.

In short, foreign investors, as a whole, may update their belief of a signatory country following relationship building with another capital abundant and politically influential country. The theory suggests that, in practice, these benefits are realizable not because BITs radically alter domestic institutions, but because additional accountability (to foreign governments) changes the incentive structure of the host country, supplementing existing domestic institutions and adding credibility to smaller institutional shifts within the BIT agreement. BITs signed with influential countries are better able to prod host governments to commit; they carry different implications for FDI than BITs signed with other countries.

## **4 Research design**

To test our two hypotheses, we first analyze the effect of BITs on FDI inflows and examine, using monadic data, whether this effect is limited to BITs signed with powerful countries. We then check, using dyadic data, if the beneficial effect of BITs signed with powerful countries is solely on FDI from signatory countries or on FDI from other countries as well.

## 4.1 Monadic analyses

To test the effect of BITs on inward FDI, the first dependent variable we use is the net value of *FDI inflows* in a country in a given year (in million dollars).<sup>21</sup> The data are from the World Bank's World Development Indicators (WDI) database, which provides wide coverage of FDI flows across countries and years. The original FDI data are in current US dollars, and we convert the data into constant 2010 US dollars by dividing them by the US consumer index price. We use this measure instead of another commonly used measure—FDI as a percentage of GDP—because it directly tests how much FDI a country can gain by signing BITs and also because we control for GDP on the right hand side of the model.<sup>22</sup> We take a log transformation to correct the high right-skewness.<sup>23</sup> Our sample includes 125 developing countries from 1971 to 2006. Following the standard in the literature, we define developing countries by non-OECD members. We exclude China in our sample because China is identified as a powerful country in our analysis that has signed BITs mainly to protect their investors more than to seek investment. A list of countries included in the analysis can be seen in the Web Appendix.

To test the effect of BITs on FDI, the first independent variable *BITs* is the cumulative number of BITs a country has signed until a given year. The data are taken from Allee and

---

<sup>21</sup> While some BIT studies use dyadic data to examine the effect of BITs on FDI (for example, Haftel 2010; Hallward-Driemeier 2003), we use both monadic and dyadic data. As Büthe and Milner (2009: 189) point out, monadic analyses should be preferred to dyadic analyses when the theory predicts that BITs' effect on FDI goes beyond the signatory country, and also because the monadic data are usually of better quality.

<sup>22</sup> A similar measure appears in numerous FDI studies, for example Allee and Peinhardt (2011), Enders, Sachsidia and Sandler (2006), Lee (2015), and Li (2006), the first of which also examines the effect of BITs on FDI.

<sup>23</sup> There are some negative values in the FDI data, which cannot be dealt with by the log transformation, and we code them into zeros.

Peinhardt (2011), who collected the data based on the UNCTAD website and their own research. To distinguish between BITs signed with influential countries and those signed with other countries, we create a variable, *powerful BITs*, which is the cumulative number of BITs signed with the current top six largest economies (in terms of GDP)—the United States, the United Kingdom, Japan, Germany, France, and China. The first five countries have remained in the top six countries with largest GDP since 1971. China is a latecomer, becoming the sixth largest economy in 2000 and is now the second largest economy, so this variable counts BITs with China only after 1999. The data on BITs with these countries are coded from the UNCTAD.<sup>24</sup> Using this criterion to identify powerful countries enables us to include countries that are economically important and politically influential. This list overlaps with the top five IMF shareholders (the United States, the United Kingdom, Germany, France, and Japan) and the five United Nations Security Council permanent members except for Russia (that is, the United States, the United Kingdom, France, and China). Therefore we believe it is an appropriate criterion to determine powerful BIT signatory countries. The other variable, *other BITs*, is the number of BITs signed with powerful countries subtracted from the number of total BITs. We expect that BITs signed with powerful countries have a positive effect on FDI inflows and BITs signed with other countries do not have any effect.

In Figure 1, we graphically present the frequencies of BITs signed with six powerful countries and those signed with other countries in 2006. On average, a developing country has signed three BITs with powerful countries and around 22 BITs with other countries. The maximum number of BITs signed with other countries falls in Egypt, which had signed a total of 99 BITs with non-powerful countries until 2006. Four countries have signed BITs with all six powerful countries; they are Bangladesh, Egypt, Mongolia, and Sri Lanka.

---

<sup>24</sup> Available at: <http://investmentpolicyhub.unctad.org/IIA>

-----  
Figure 1 is here  
-----

We include a battery of control variables that are standard in the FDI literature. *Market size* is measured by the logged value of GDP. *Development* is the log of GDP per capita. *Growth* is the annual GDP growth rate. *Trade openness* is the total amount of export plus import as a percentage of GDP. All of these economic variables are expected to have a positive effect on inward FDI since foreign investors care about economic outlook. *Exchange rate volatility* is the absolute deviance from the mean of the official exchange rate (that is, the local currency per US dollar). *Population size* is the logarithm of population. The data for all these variables are from the WDI database.

In addition, *democracy* is included to measure the quality of domestic institutions that shape the investment climate. Democratic institutions are more attractive to foreign investors, and a high degree of property rights protection is the main reason (Jensen 2008; Li and Resnick 2003). The data on democracy are from the Polity database, which range from -10 to 10, with 10 being the highest level of democracy. There are other international institutions that may have similar effects on FDI, such as the preferential trade agreements (PTAs) (Büthe and Milner 2008), and therefore we include the cumulative number of *PTAs* a country has signed as a control variable. The data on PTAs are from Mansfield and Milner (2012). We also include the log of *foreign aid*, which is the total amount of bilateral official development assistance (ODA), as recent research suggests that foreign aid may also affect investor perceptions of government

trustworthiness, thus incentivizing FDI (Garriga and Phillips 2014).<sup>25</sup> Lastly, because OECD countries are the major FDI exporters, we also include a variable *OECD FDI* denoting the logged amount of FDI from OECD countries.<sup>26</sup>

The dependent variable is net FDI inflows, which is continuous. We thus use an ordinary least squares (OLS) model with country and year fixed-effects. Country fixed-effects are included to control for country heterogeneity and to help us understand how changes in the number of BITs within a country over time affect FDI inflows. Year fixed-effects are used to control for contemporaneous shocks. We also include a lagged dependent variable (LDV) to correct for autocorrelation and control for past FDI inflows.<sup>27</sup> We report classic standard errors but note that robust standard errors which correct for heteroskedasticity provide unchanged findings. All of the independent variables and control variables are lagged one year behind the dependent variable to avoid reverse relationships or simultaneity. Table 1 in the Web Appendix provides descriptive statistics.

## 4.1 Dyadic analyses

---

<sup>25</sup> The data on ODA are from the WDI database. While the result in Garriga and Phillips (2014) applies especially to post-conflict scenarios and is conditional on whether the aid is geostrategically motivated, further research can investigate the degree to which aid, on its own, constitutes an alternative hypothesis.

<sup>26</sup> OECD FDI is the sum of FDI from 21 OECD countries that provide official development aid. The data on OECD FDI are from the OECD website.

<sup>27</sup> It is well known that the inclusion of both an LDV and country fixed-effects may cause Nickell bias (Nickell 1981), but this bias is pernicious only when  $T$  is small. As Beck and Katz (2011) point out, there is nothing harmful to have both an LDV and fixed-effects when  $T$  is greater than or equal to 20. Our first sample covers 37 years and second sample covers 21 years, so the bias will be very small, if any. The results also remain the same if we drop the LDV. The inclusion of lagged FDI to control for autocorrelation is also seen in other FDI studies (Jensen 2003; Powers and Choi 2012).

While the monadic structure is straightforward to test the effect of BITs on FDI, it may not be able to distinguish between a) FDI from the signatory country, and b) FDI from other countries. If we discover a positive effect of powerful BITs on FDI, for example, it could simply be that the increased FDI comes from the powerful signatory countries, and not from investors in other countries. To test the second hypothesis, and directly examine the umbrella effect of powerful BITs on FDI from non-signatory country, we draw upon a dyadic analysis. While there is a lack of comprehensive data on bilateral FDI, fortunately the OECD provides quality data on inward and outward FDI of OECD members.<sup>28</sup> We gather OECD outward FDI data and organize the data as a dyadic structure. The unit of analysis is non-directed dyad-year, and, in a pair, country  $i$  is the FDI recipient country and country  $j$  is the powerful signatory country.

The dependent variable in the dyadic analysis is *OECD FDI minus FDI from powerful country  $j$* . OECD FDI is the sum of FDI from the 21 OECD countries that provide ODA,<sup>29</sup> and FDI from powerful country  $j$  is FDI from each of these five countries—the United States, the United Kingdom, Japan, Germany, and France. China is not an OECD member and the outward FDI data on China is unavailable, so it is excluded in this analysis. By subtracting FDI from the signatory country  $j$  from the total OECD FDI, we can examine whether a BIT with country  $j$  is able to attract FDI from other OECD countries (and thus avoid the possibility that the results capture the effect of BIT on FDI from the same country). This variable is also log transformed. The OECD FDI data are available only after 1985, so the time period under investigation for the second analysis is shorter, from 1986 to 2006.

---

<sup>28</sup> Available at: <http://www.oecd.org/statistics/>.

<sup>29</sup> Those 21 countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Italy, Japan, Korea, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

The main independent variable is a dichotomous variable equal to 1 if country  $i$  has a BIT signed with country  $j$  in existence, and 0 otherwise. Since the dependent variable excludes FDI from country  $j$ , a positive effect of BIT with country  $j$  will mean that signing BITs with a powerful country has a signaling effect to investors from non-signatory OECD countries. We also include the number of other powerful BITs (that is, the number of powerful BITs minus BIT with powerful country  $j$ ) and the number of other non-powerful BITs as the independent variables.

Because the data structure is non-directed dyadic, with only one observation for one dyad-year, and because the focus is on the effect of BITs signed on the recipient country  $i$ , we use control variables that denote country  $i$ 's characteristics, rather than country  $j$ 's. We include the same battery of control variables from the monadic analysis and add a variable, *GDP ratio*, which is the logarithm of the ratio of country  $j$ 's GDP to country  $i$ 's GDP. Countries are more likely to sign BITs when their difference in relative factor endowments (capital to unskilled labor) is larger (Bergstrand and Egger 2013). Although we do not have data on relative factor endowments, we use the GDP ratio variable to measure the asymmetric economic power between country  $j$  and country  $i$ .

We also use the OLS model in the dyadic analysis due to the continuous dependent variable. We include both dyad and year fixed-effects. An LDV is included as well.

## 5 Results

### 5.1 BITs and FDI

Table 1 presents the main results of the monadic analysis. Model 1 is the baseline model which includes the number of BITs and all other control variables. As the results show, the effect of BITs on FDI is positive, meaning that BITs may help bring in FDI, but the coefficient does not achieve statistical significance. As we argue above, the mixed finding may be due to the incorrect assumption that BITs have a monotonic effect on FDI and the inappropriate pooling of all BITs. We thus disaggregate BITs into those signed with powerful countries and those signed with other countries. In Model 2, *BITs* is replaced with these two variables. As its results show, the effect of BITs signed with powerful countries on FDI inflows is positive and statistically significant at the 95% level. Signing BITs with other countries, however, has no statistically significant effect.

In Model 3 and Model 4, *powerful BITs* and *other BITs* enter the model individually. As the results of Model 3 show, the effect of BITs signed with six powerful countries on FDI inflows is positive and statistically significant, lending support for our first hypothesis. Other things being equal, signing BIT with one of the six powerful countries leads to a 10.3% increase in inward FDI in the following year. In Model 4, the effect of BITs signed with other countries is positive but statistically insignificant, meaning that signing BITs with non-powerful countries is not very helpful. The results from Models 2 to 4 suggest that the effectiveness of attracting FDI is not homogeneous across all BITs. In fact, only BITs signed with economically important and politically influential countries help the signatory country to attract FDI.

-----  
Table 1 is here  
-----

The data structure is time-series and cross-sectional with long-term dynamics. By including the LDV in the model, we are able to estimate the long-term effect of BITs on FDI. According to the estimates from Model 2, in the long run, the effect of a BIT signed with a powerful country is 0.177,<sup>30</sup> which is almost twice the short-term effect. Figure 2 shows the yearly changes in the dependent variable (logged FDI) given one powerful BIT signed. As can be seen, in the first year after a powerful BIT is signed, the signatory country receives a substantial increase in FDI. The increase in inward FDI is larger in the second year, and even larger in the third year. After the sixth year, the increase turns **approximately constant**.

-----  
 Figure 2 is here  
 -----

In addition to BITs, Table 1 provides some results that are noteworthy. FDI from OECD countries has a significant effect, meaning that OECD countries are important exporters of FDI. Even when this variable is controlled, however, BITs signed with powerful countries have a strong effect on FDI, suggesting that powerful BITs can help attract FDI from non-OECD countries. Moreover, FDI tends to flow to countries with a higher level of economic growth or countries that are more open to trade. Countries are less likely to attract FDI when their exchange rate is volatile.

## 5.2 Dyadic BITs and FDI

---

<sup>30</sup> The long-run effect can be calculated by  $\frac{\beta}{1-\phi}$ , where  $\beta$  is the coefficient for the independent variable and  $\phi$  is the coefficient for the LDV (Enders 2004).

In the previous subsection, we show that only BITs signed with powerful countries are positively associated with FDI. While this finding indicates the effectiveness of BITs signed with powerful countries, it is likely that this is simply because foreign capital mostly comes from these rich countries. To show that BITs signed with powerful countries have a signaling effect not only to the investors from these signatory countries but also to all investors, in this subsection, we examine the effect of BITs on FDI using a dyadic analysis and classify BITs into three types—a BIT with a single powerful signatory country, BITs with other powerful countries, and BITs with other non-powerful countries.

Table 2 presents the results of the dyadic analysis. In Model 1, we only include lagged FDI and three types of BITs, without control variables. Model 2 includes control variables and therefore has fewer observations due to missing data. As the results of both models show, a BIT signed with country  $j$  has a positive and statistically significant effect on FDI from OECD countries minus FDI from country  $j$ . This suggests that signing a BIT with a powerful country not only helps bring in capital from this country but also induces capital from other countries. This also suggests that the beneficial effect of powerful BITs on FDI (that we discovered in the monadic analysis) is not limited to FDI from the signatory country. In fact, investors trust host countries that have signed BITs with powerful home countries and are thus willing to invest in their markets.

In addition, other powerful BITs have a positive and statistically significant effect, which is anticipated since the dependent variable includes FDI from these countries. Other BITs signed with non-powerful countries, contrarily, have a negative and statistically significant effect. This suggests that signing BITs with countries that have little political or economic power may not help attract FDI from OECD countries, and instead may discourage it.

-----  
Table 2 is here  
-----

In Model 3, we include only *BIT with country j* in the model. In Models 4 and 5, we allow BITs with other powerful countries and BITs with other non-powerful countries to enter the model respectively. The main result remains unchanged across three models: that a powerful BIT has a helpful effect on FDI from other OECD countries. This finding supports the second hypothesis, and indicates an umbrella effect of powerful BITs. A BIT signed with a powerful country can signal to investors outside the home country that this signatory country's investment environment is secure. According to our argument, this is because foreign investors may have higher confidence in the powerful country's ability to enforce the treaty or to maintain a low-risk investment environment. Even though the powerful signatory country may not have incentives to protect investors from other countries, these investors believe that the very existence of these BITs with powerful countries can lower the host country's tendency to violate the commitment.

In sum, our two empirical analyses, which use data in different structures, show that BITs signed with powerful countries and BITs signed with other countries have divergent impacts on FDI inflows to the signatory country. Signing BITs with powerful countries leads to increased FDI, including that from non-signatory countries. Signing BITs with other countries seems to have little effect, and if any, it may be negative. We conduct additional analyses to test the robustness of the results. First, we use matching to estimate the causal effect of powerful BITs on inward FDI, and the treatment effect we find is 0.6 and is statistically significant. Second, we divide the FDI data into two parts: FDI from OECD countries and FDI from other countries, and examine the effects of BITs on both of them. The results show that powerful BITs have a

positive effect on two sources of FDI and that other BITs have no effect. All the results are presented in the Web Appendix.

## **6 Conclusion**

The impact of BITs, and international agreements more generally, is unresolved. The debate reflects an old question in international relations (IR): what is the role of an agreement between countries and from what mechanism does it draw upon for enforcement? This article adds to the literature, deriving hypotheses about BITs and their connection to foreign power, investor perceptions, and FDI flows. Our theory builds on conventional logic but emphasizes the role of foreign accountability. At its core, it provides an example of a broader idea about how international institutions function in IR: how leaning on others with strong institutions can produce an umbrella effect.

BIT signing is a process of relation-building with another country. While the principal goal of BITs is to protect the investors from the home country, other investors can gain external benefits because, if the signatory country has the ability to coerce the host country to comply, a more hospitable and less risky investment environment may be secured. While it remains a debated question as to whether signing BITs is effective in bringing in more FDI, based on the idea of foreign accountability, we believe that BITs signed with powerful countries lead to increased FDI. Signing BITs with non-influential countries may affect the bilateral relationships with the signatory country, but may have little consequence to potential foreign investors.

Drawing upon the aggregated and disaggregated data on BITs, this article shows that BITs help attract FDI only when they are signed with powerful and rich countries, which we define as the top six largest economies. We also show that this effect is not limited to FDI flowing from these powerful countries. Powerful BITs are positively associated with FDI from other OECD countries as well. The evidence suggests that signing BITs increases the signatory country's reputation because foreign investors update their belief in the legal protection in this country after an influential country gets involved.

## **Acknowledgments**

A previous version of this paper was presented in the 2012 Midwest Political Science Association Annual Meeting. The authors would like to thank Clint Peinhardt, Jennifer Tobin, the editors of *International Interactions*, and three anonymous reviewers for their helpful comments and suggestions on this paper.

## **References**

- Abbott, Kenneth W. and Duncan Snidal. (2000) Hard and Soft Law in International Governance. *International Organization* 54(3):421–456.
- Aisbett, Emma. (2009) Bilateral Investment Treaties and Foreign Direct Investment: Correlation versus Causation. In *The Effect of Treaties on Foreign Direct Investment: Bilateral Investment Treaties, Double Taxation Treaties and Investment Flows*, edited by Karl P. Sauvant and Lisa E. Sachs. New York: Oxford University Press pp. 395–435.

- Allee, Todd and Clint Peinhardt. (2011) Contingent Credibility: The Reputational Effects of Investment Treaty Disputes on Foreign Direct Investment. *International Organization* 65(3):401–432.
- Allee, Todd and Clint Peinhardt. (2014) Evaluating Three Explanations for the Design of Bilateral Investment Treaties. *World Politics* 66(1):47–87.
- Bayulgen, Oksan. (2010) *Foreign Investment and Political Regimes*. Cambridge: Cambridge University Press.
- Beck, Nathaniel and Jonathan N. Katz. (2011) Modeling Dynamics in Time-Series–Cross-Section Political Economy Data. *Annual Review of Political Science* 14:331–352.
- Berger, Axel, Matthias Busse, Peter Nunnenkamp and Martin Roy. (2011) More Stringent BITs, Less Ambiguous Effects on FDI? Not A Bit! *Economics Letters* 112(3):270–272.
- Bergstrand, Jeffrey and Peter Egger. (2013) What Determines BITs? *Journal of International Economics* 90(1):107–122.
- Biglaiser, Glen and Karl DeRouen Jr. (2007) Following the Flag: Troop Deployment and US Foreign Direct Investment. *International Studies Quarterly* 51(4):835–854.
- Blonigen, Bruce and Miao Wang. (2005) Inappropriate Pooling of Wealthy and Poor Countries in Empirical FDI Studies. In *Does Foreign Direct Investment Promote Development?* edited by Theodore Moran, Edward Graham and Magnus Blomstrom. Washington DC: Institute for International Economics pp. 221–244.
- Busse, Matthias, Jens Königer and Peter Nunnenkamp. (2010) FDI Promotion through Bilateral Investment Treaties: More Than A Bit? *Review of World Economics* 146(1):147–177.

- Büthe, Tim and Helen V. Milner. (2008) The Politics of Foreign Direct Investment into Developing Countries: Increasing FDI through International Trade Agreements? *American Journal of Political Science* 52(4):741–762.
- Büthe, Tim and Helen V. Milner. (2009) Bilateral Investment Treaties and Foreign Direct Investment: A Political Analysis. In *The Effect of Treaties on Foreign Direct Investment: Bilateral Investment Treaties, Double Taxation Treaties, and Investment Flows*, edited by Karl P. Sauvant and Lisa E. Sachs. New York: Oxford University Press pp. 171–224.
- Collier, Paul, and Catherine Pattillo. (2000) Investment and Risk in Africa. In *Investment and Risk in Africa*, ed. P. Collier and C. Patillo. London: MacMillan Press, 3–30.
- Dai, Xinyuan. (2005) Why Comply? The Domestic Constituency Mechanism. *International Organization* 59(2):363–398.
- Desbordes, Rodolphe and Vincent Vicard. (2009) Foreign Direct Investment and Bilateral Investment Treaties: An International Political Perspective. *Journal of Comparative Economics* 37(3):372–386.
- Dunning, John H. (1981) *International Production and the Multinational Enterprise*. London: Allen & Unwin London.
- Egger, Peter and Michael Pfaffermayr. (2004) The Impact of Bilateral Investment Treaties on Foreign Direct Investment. *Journal of Comparative Economics* 32(4):788–804.
- Einhorn, Jessica. (1974) *Expropriation Politics*. Lexington, Mass: Lexington Books.
- Elkins, Zachary, Andrew T. Guzman and Beth A. Simmons. (2006) Competing for Capital: The Diffusion of Bilateral Investment Treaties, 1960–2000. *International Organization* 60(4):811–

846.

Enders, Walter. (2004) *Applied Econometric Time Series*. New York: John Wiley & Sons Inc.

Enders, Walter, Adolfo Sachsida and Todd Sandler. (2006) The Impact of Transnational Terrorism on U.S. Foreign Direct Investment. *Political Research Quarterly* 59(4):517–531.

Fearon, James D. (1997) Signaling Foreign Policy Interests: Tying Hands versus Sinking Costs. *Journal of Conflict Resolution* 41(1):68–90.

Gallagher, Kevin P. and Melissa B. L. Birch. (2006) Do Investment Agreements Attract Investment? Evidence from Latin America. *Journal of World Investment and Trade* 7(6):961–976.

Garriga, Anna C. and Brian J. Phillips. (2014) Foreign Aid as a Signal to Investors: Protecting FDI in Post-conflict Societies. *Journal of Conflict Resolution* 58(2):280–306.

Ginsburg, Tom. (2005) International Substitutes for Domestic Institutions: Bilateral Investment Treaties and Governance. *International Review of Law and Economics* (25(1):107–123.

Graham, Benjamin A.T., Noel P. Johnston, Allison F. Kingsley. (2015) Even Constrained Governments Steal: The Domestic Politics of Transfer and Expropriation Risks. *Working Paper*.

Greene, William H. (2004) The Behaviour of the Maximum Likelihood Estimator of Limited Dependent Variable Models in the Presence of Fixed Effects. *Econometrics Journal* 7:98–119.

Grosse, Robert and Len J. Trevino. (2005) New Institutional Economics and FDI Location in Central and Eastern Europe. *Management International Review* 45(2):123–145.

- Guzman, Andrew T. (1998) Why LDCs Sign Treaties that Hurt Them: Explaining the Popularity of Bilateral Investment Treaties. *Virginia Journal of International Law* 38:639–688.
- Haftel, Yoram Z. (2010) Ratification Counts: US Investment Treaties and FDI Flows into Developing Countries. *Review of International Political Economy* 17(2):348–377.
- Hallward-Driemeier, M. (2003) Do Bilateral Investment Treaties Attract Foreign Direct Investment? Only A Bit and They Could Bite. World Bank Policy Research Working Paper No. 3121.
- Henisz, Witold J. (2000) The Institutional Environment for Multinational Investment. *Journal of Law Economics and Organization* 16(2):334–364.
- Henisz, Witold J. (2002) The Institutional Environment for Infrastructure Investment. *Industrial and Corporate Change* 11(2):355–389.
- Ingram, George. (1974) *Expropriation of U.S. Property in South American: Nationalization of Oil and Copper Companies in Peru, Bolivia, and Chile*. New York: Praeger Publishers.
- Jandhyala, Srividya, Witold J. Henisz, and Edward D. Mansfield. (2011) Three Waves of BITs: The Global Diffusion of Foreign Investment Policy. *Journal of Conflict Resolution* 55(6):1047–1073.
- Jensen, Nathan M. (2003) Democratic Governance and Multinational Corporations: Political Regimes and Inflows of Foreign Direct Investment. *International Organization* 57(3):587–616.
- Jensen, Nathan M. (2008) Political Risk, Democratic Institutions, and Foreign Direct Investment. *Journal of Politics* 70(4):1042–1052.

- Jensen, Nathan M. and Daniel J. Young. (2008) A Violent Future? Political Risk Insurance Markets and Violence Forecasts. *Journal of Conflict Resolution* 52(4):527–547.
- Jensen, Nathan M. and Noel P. Johnston. (2011) Political Risk, Reputation, and the Resource Curse. *Comparative Political Studies* 44(6):662–688.
- Johnston, Noel P. (2013) The Politics of Compensation for Expropriation. PhD dissertation, Washington University in St. Louis.
- Kerner, Andrew. (2009) Why Should I Believe You? The Costs and Consequences of Bilateral Investment Treaties. *International Studies Quarterly* 53(1):73–102.
- Lee, Chia-yi. (2015) Terrorism, Counterterrorism Aid, and Foreign Direct Investment. *Foreign Policy Analysis*. DOI: 10.1111/fpa.12087.
- Li, Quan and Adam Resnick. (2003) Reversal of Fortunes: Democratic Institutions and Foreign Direct Investment Inflows to Developing Countries. *International Organization* 57(1):175–211.
- Li, Quan. (2006) Political Violence and Foreign Direct Investment, In *Research in Global Strategic Management, Regional Economic Integration*, edited by M. Fratianni and A. M. Rugman Vol. 12, pp. 225–249, Elsevier Ltd.
- Mansfield, Edward D. and Helen V. Milner. (2012) *Votes, Vetoes, and the Political Economy of International Trade Agreements*. Princeton, NJ: Princeton University Press.
- Martin, Lisa L. (2005) The President and International Commitments: Treaties as Signaling Devices. *Presidential Studies Quarterly* 35(3):440–465.
- Maurer, Noel. (2013) *The Empire Trap: The Rise and Fall of US Intervention to Protect*

- American Property Overseas, 1893-2012*. Princeton, NJ: Princeton University Press.
- Morrow, James D. (1999) The Strategic Setting of Choices: Signaling, Commitment, and Negotiation in International Politics. In *Strategic Choice and International Relations*, edited by David A. Lake and Robert Powell. Princeton, NJ: Princeton University Press pp. 77–114.
- Neumayer, Eric and Laura Spess. (2005) Do Bilateral Investment Treaties Increase Foreign Direct Investment to Developing Countries? *World Development* 33(10):1567–1585.
- Neyman, Jerzy and Elizabeth L. Scott. (1948) Consistent Estimates Based on Partially Consistent Observations. *Econometrica: Journal of the Econometric Society* 16(1):1–32.
- Nickell, Stephen. (1981) Biases in Dynamic Models with Fixed Effects. *Econometrica: Journal of the Econometric Society* 49(6):1417–1426.
- Poulsen, Lauge N. Skovgaard and Emma Aisbett. (2011) When the Claim Hits: Bounded Rationality and Bilateral Investment Treaties. *Crawford School Research Paper* (5).
- Powers, Matthew and Seung-Whan Choi. (2012) Does Transnational Terrorism Reduce Foreign Direct Investment? Business-related versus Non-business-related Terrorism. *Journal of Peace Research* 49(3):407–422.
- Salacuse, Jeswald W. (1990) BIT by BIT: The Growth of Bilateral Investment Treaties and Their Impact on Foreign Investment in Developing Countries. *The International Lawyer* 24:655–675.
- Salacuse, Jeswald W. and Nicholas P. Sullivan. (2005) Do BIT's Really Work?: An Evaluation of Bilateral Investment Treaties and Their Grand Bargain. *Harvard International Law Journal* 46(1):67–130.

- Sigmund, Paul. (1980) *Multinationals in Latin America: The Politics of Nationalization*. Madison: University of Wisconsin Press.
- Simmons, Beth A. (2000) International Law and State Behavior: Commitment and Compliance in International Monetary Affairs. *American Political Science Review* 94(4):819–835.
- Simmons, Beth A. (2014) Bargaining over BITs, Arbitrating Awards: The Regime for Protection and Promotion of International Investment. *World Politics* 66(1):12–46.
- Thompson, Alexander. (2006) Coercion through IOs: The Security Council and the Logic of Information Transmission. *International Organization* 60(1):1–34.
- Tobin, Jennifer L. and Marc L. Busch. (2010) A BIT is Better than A Lot: Bilateral Investment Treaties and Preferential Trade Agreements. *World Politics* 62(1):1–42.
- Tobin, Jennifer L. and Susan Rose-Ackerman. (2005) Foreign Direct Investment and the Business Environment in Developing Countries: The Impact of Bilateral Investment Treaties. Yale Law & Economics Research Paper No. 293.
- Tobin, Jennifer L. and Susan Rose-Ackerman. (2011) When BITs Have Some Bite: The Political-economic Environment for Bilateral Investment Treaties. *The Review of International Organizations* 6(1):1–32.
- Tomz, Michael. (2007) *Reputation and International Cooperation: Sovereign Debt across Three Centuries*. Princeton, NJ: Princeton University Press.
- Weintraub, Sidney. (1982) *Economic Coercion and U.S. Foreign Policy: Implications of Case Studies from the Johnson Administration*. Boulder, CO: Westview Press.
- Wellhausen, Rachel L. (2014) *The Shield of Nationality: When Governments Break Contracts*

*with Foreign Firms*. Cambridge University Press.

Winkelmann, Liliana, and Rainer Winkelmann. (1998) Why are the Unemployed So Unhappy? Evidence from Panel Data. *Economica* 65:1–15.

Yackee, Jason Webb. (2007) Do BITs Really Work? Revisiting the Empirical Link between Investment Treaties and Foreign Direct Investment. University of Wisconsin Legal Studies Research Paper (1054).

Yackee, Jason Webb. (2008) Bilateral Investment Treaties, Credible Commitment, and the Rule of (International) Law: Do BITs Promote Foreign Direct Investment? *Law & Society Review* 42(4):805–832.