

# Being nice makes you attractive: the FDI - international political relationships nexus

Rodolphe Desbordes\*    Vincent Vicard†  
TEAM-University of Paris I Panthéon-Sorbonne

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## Abstract

This paper investigates whether diplomatic relations have an impact on the location of foreign direct investment (FDI). This causality may be bidirectional since the conflict resolution literature has argued that globalisation exerts a pacifying effect on political conflicts and their more serious form, wars. The possibility of simultaneity between FDI and diplomatic relations is tested using a new political events dataset and a dynamic panel data model, which resolves the potential endogeneity bias and explicitly models the self-reinforcing nature of FDI. Econometrics results confirm that FDI and diplomatic relations are endogenous and indicate that interstate political interactions and the existence of an armed conflict on a host country territory strongly affect the location choices of multinational companies.

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\*Address: Maison des sciences économiques, 106-112 Bld de l'Hôpital, 75647 Paris Cédex 13, France. Tel and Fax numbers: (0033) (1) 144 078 266/267. E-mail: rodolphe.desbordes@univ-paris1.fr.

†Address: Maison des sciences économiques, 106-112 Bld de l'Hôpital, 75647 Paris Cédex 13, France. Tel and Fax numbers: (0033) (1) 144 078 266/267. E-mail: vincent.vicard@malix.univ-paris1.fr.