Brewing Violence: Foreign Investment and Civil Conflict^{*}

Pablo M. Pinto^{\dagger} Boliang Zhu^{\ddagger}

Forthcoming Journal of Conflict Resolution

Abstract

Two prominent features in current world affairs are the unprecedented levels of global economic integration and the growing incidence of intrastate violence. We develop and test a novel argument linking global integration through foreign investment to intrastate armed conflict. The presence of multinational corporations in developing countries can cause market concentration, resulting in high rents. Disputes between governments and would-be challengers over the appropriation of these rents are likely to turn violent, increasing the incidence of armed conflict. State capacity mitigates this positive association between foreign investment and intrastate war. Strong states have the capacity to deter rebellions, address citizens' demands through institutionalized mechanisms, and credibly commit to the peaceful resolution of conflicts. Using data from developing countries for over four decades and addressing potential endogeneity and selection biases, we find strong support for our hypotheses. Our findings have important implications for understanding the link between economic interdependence and conflict.

Keywords: Foreign Direct Investment, Multinational Corporations, Market Concentration, Economic Rents, State Capacity, Civil Conflict, Instrumental Variables

[†]Professor and Director of the Center for Public Policy, Hobby School of Public Affairs, University of Houston; 307A McElhinney Hall, 3623 Cullen Boulevard, Houston, TX 77204; ppinto@central.uh.edu

^{*}Earlier versions of the paper were presented at the 2015 meeting of the International Political Economy Society, the 2016 annual meetings of the Midwest Political Science Association and American Political Science Association, the workshops on Economics and Security Reconsidered held at the University of Pennsylvania and American University, the Political Economy of Security Conference at University of Southern California, and the seminars at Brown University, Pennsylvania State University, and University of California, San Diego. We are grateful to Peter Andreas, Navin Bapat, Mark Blyth, Wilfred Chow, Bill Clark, Jeff Colgan, Christina Cottiero, Mark Dincecco, Johannes Fedderke, Nikhar Gaikwad, Scott Gartner, Emilie Hafner-Burton, Yoram Haftel, Miles Kahler, David Lake, David Leblang, Michael Lee, Ed Mansfield, David Mares, Bumba Mukherjee, Jim Piazza, Amy Pond, Ken Scheve, Christina Schneider, J. P. Singh, Mark Zachary Taylor, Rebecca Weitz-Shapiro, Yiqing Xu, conference and seminar participants, two anonymous reviewers, and the editor for helpful comments and suggestions. Bryan Arva, Qing Deng, Chuyu Liu, and John Schoeneman provided invaluable research assistance.

[‡]Associate Professor, Department of Political Science, Pennsylvania State University; 317 Pond Lab, University Park, PA 16802; bxz14@psu.edu

1 Introduction

A prominent feature of the international economy in the post-war era is the formation of global production networks built around multinational corporations (MNCs). Over the same period, there has been a dramatic increase in the number of countries experiencing political violence and intrastate armed conflict. The percentage of conflict-affected countries increased steadily during the second half of the twentieth century, to a peak of 20% in the early 1990s (Blattman and Miguel 2010, 4).

The relationship between globalization and conflict has become a source of contention among scholars and practitioners. Theories of commercial liberalism assert that economic integration promotes peace between states as governments internalize the losses resulting from the disruptive effect of violent conflict (e.g., Oneal and Russet 1997; Russett and Oneal 2001). Likewise, economic integration increases the opportunity costs of resorting to violence to resolve intrastate conflicts and disputes. Governments and rebel groups have incentives to avoid violence because intrastate wars disrupt cross-border economic exchanges that bring wealth and prosperity (e.g., Barbieri and Reuveny 2005; Blanton and Apodaca 2007; Bussmann and Schneider 2007; Gleditsch 2007; Hegre, Gissinger and Gleditsch 2003).

Yet, the propositions from commercial liberalism on the relationship between economic integration and intrastate conflict overlook some important features of global integration. First, commercial liberalism assumes that globalization generates benefits to the economy, and that those benefits are uniformly distributed across societal groups (Schneider 2014, 176). Global integration, however, creates winners and losers within countries; the uneven distribution of benefits and costs has the potential to exacerbate grievances, increasing incentives to rebel and fight (Bussmann and Schneider 2007; Hartzell, Hoddie and Bauer 2010; Olzak 2011). Second, there is an underlying assumption that by promoting economic development, global integration *in general* reduces rebels' incentives to fight. A body of critical scholarship suggests that the relationship between war and development is rather complicated (e.g., Cramer 2006; Gómez, Sánchez-Ayala and Vargas 2015; Maher 2015; Thomson 2011): Although war severely inhibits development and has significantly negative impacts on the victims of violence, under certain circumstances violence can be instrumental in development, particularly when development is measured as growth in GDP per capita or foreign direct investment (FDI) inflows. Finally, different forms of globalization, such as trade and FDI, may affect domestic conflict through different mechanisms. The debate is not only theoretical but also empirical. Researchers have reported positive, negative, or no relationship between global integration and civil conflict (Barbieri and Reuveny 2005; Blanton and Apodaca 2007; Bussmann and Schneider 2007; de Soysa and Fjelde 2010; Hegre, Gissinger and Gleditsch 2003).

In this article, we present a novel argument linking inward FDI and civil conflict, which helps reconcile the theoretical accounts and diverging empirical findings. We build on the insights from the conflict literature which has established that civil wars are more likely to break out when the opportunities for appropriating rents are high and the opportunity costs of engaging in violence are low (Collier and Hoeffler 1998; Fearon 2008; Olsson and Fors 2004). A vast body of theoretical and empirical work suggests that only the largest and more productive firms can engage in global production through foreign investment (e.g., Bernard et al. 2003; Caves 1996; Helpman 2006; Melitz and Trefler 2012). When these firms expand their activities into host countries, they affect market dynamics and the opportunities for rent creation. The effect of foreign investment on market dynamics depends on the ability of local firms to endure competition with multinationals. In developing countries where indigenous firms are typically smaller, less productive and have lower access to cutting-edge technology than their multinational counterparts, the entry of MNCs is likely to crowd out domestic firms, increase market concentration, and contribute to the creation of economic rents. Conflict over the control and distribution of those rents increases the incentives for rebel groups and incumbent governments to fight. Since fighting is costly, governments and rebels would prefer to bargain a settlement, which they both prefer over fighting. However, concerns over the distribution of rents that potentially alters relative power dynamics could lead to fighting due to commitment problems. Rebels and governments are more likely to clash today to avoid having to relinquish resources or face a stronger opponent tomorrow, as neither party can guarantee that they will not take advantage of the potential shifts in relative power (Fearon 1995; Powell 2006; Walter 1997, 2002).

We further contend that strong state capacity alleviates this positive association between foreign investment and conflict. Governments in strong states are able to sustain their residual claims over rents created by the change in market dynamics effected by the entry of multinationals. Moreover, controlling a share of these rents further reinforce governments' fighting capabilities. Strong states are also capable of addressing citizens' demands and grievances through other channels such as public goods provision and institutionalized mechanisms for dispute resolution, which lower citizens' incentives to join rebel groups and raise the opportunity costs of rebellion. Further, strong states are equipped with well-functioning political and legal institutions, which enable the government to credibly adhere to negotiated agreements and thus alleviate the commitment problem. We therefore expect the positive effect of inward FDI on conflict to scale down when the level of state capacity increases.

Empirically, our identification strategy relies on an instrumental variable approach which helps address potential endogeneity concerns, threats from unobserved confounders, and selection bias. Our results, based on a sample of developing countries for the period 1970–2013, provide strong support for our hypotheses.¹ We find that inward FDI has a strong positive effect on the likelihood of civil conflict.² The positive association between FDI and conflict is not solely driven by resource-seeking investment: it holds for foreign investment in the secondary and tertiary sector as well. We further examine our proposed causal mechanism and provide evidence that inward FDI causes market concentration, and that concentration increases the probability of conflict. Finally, our results suggest that state capacity plays a mitigating role; that is, the positive effect of foreign investment on civil conflict diminishes as state capacity

¹Countries drop out of our sample when they became an OECD member. We exclude Australia and New Zealand which became an OECD member in 1971 and 1973 respectively. Our results are robust and consistent if we exclude all OECD members as of 2013 from the sample.

 $^{^{2}}$ We focus on civil conflict onset as the main outcome of interest. Appendix D shows that inward investment also prolongs civil conflict and increases the number of conflicts within a country.

strengthens.

Our paper makes several important contributions to the literature on globalization and intrastate conflict. First, we highlight the importance of understanding the impact of global economic forces on market dynamics and rent creation in host countries and their implications for intrastate conflict.³ Globalization can contribute to civil conflict by creating a concentrated market environment conducive to rent creation. This link has been overlooked in earlier work.

Second, our findings suggest that global integration does not always have a pacifying effect, and that different forms of globalization affect civil violence differently. The presence of the large and highly productive MNCs is likely to alter market structure and contribute to rent creation, particularly in developing countries. This, in turn, increases the likelihood of civil conflict, especially when states are weak. Opening up to trade, in contrast, is likely to intensify market competition and dissipate the economic rents enjoyed by incumbent firms.⁴ Therefore, globalization through trade liberalization should lower the incentive to fight. Our results indeed suggest that foreign investment and trade openness have distinct effects on intrastate conflict.

Finally, we make a methodological contribution by utilizing an instrumental variable to address the potential identification threats from reverse causality and selection bias in studying the relationship between FDI and conflict.

2 Economic Interdependence and Intrastate Conflict

Commercial liberalism asserts that economic interdependence promotes peace between states (e.g., Oneal and Russet 1997; Russett and Oneal 2001). Economic integration contributes to a nation's economic growth and wealth; thus, states have the incentive to avoid conflict with a trading partner for fear of losing economic benefits (Polachek 1980). Scholars have extended this argument to intrastate conflict and contended that benefits stemming from economic integration

 $^{^{3}}$ In a classic work, Krueger (1974) shows that economic rents accruing from government restrictions on imports (e.g., licensing) induce rent-seeking activities, which can take illegal forms.

⁴Some scholars suggest that international trade may increase the likelihood of domestic conflict in certain circumstances. See discussions in the next section.

incentivize both governments and domestic groups to refrain from using violence, lowering the risk of armed conflict (e.g., Barbieri and Reuveny 2005; Blanton and Apodaca 2007; Bussmann and Schneider 2007; Gleditsch 2007; Hegre, Gissinger and Gleditsch 2003).

Empirical studies have produced considerable support for a pacifying effect of trade on intrastate conflict.⁵ Yet some scholars have also pointed out that trade shocks could lead to intrastate war. Bussmann and Schneider (2007) suggest that high trade openness reduces the risk of civil war but trade liberalization—changes in trade openness—is a destabilizing factor because it decreases the opportunity cost of using violence for losers suffering from economic reforms. Dal Bó and Dal Bó (2011) formally show that an increase in the price of capitalintensive output via trade can increase conflict by shrinking the labor-intensive sector and lowering wages—the main opportunity cost of rebellion. Garfinkel, Skaperdas and Syropoulos's (2008) model illustrates that trade openness can induce conflict by raising the value of contested natural resources when property rights are not secure. Dube and Vargas (2013) provide empirical evidence that the rise in oil prices contributes to violence in Colombia. Martin, Mayer and Thoenig (2008) suggest that international trade can be a substitute to internal trade and thus weaken economic ties between groups within a country, which increases the likelihood of conflict.

Most empirical studies operationalize economic interdependence in terms of trade openness. The relationship between foreign investment and intrastate conflict is relatively underexplored, and the empirical records are varied much more than those on trade and conflict. Barbieri and Reuveny (2005) report a strong negative relationship between FDI and civil war. Blanton and Apodaca (2007) find no negative association between FDI inflows and the probability of intrastate conflict, but report a significant drop in the intensity of conflict with higher investment inflows. Hegre, Gissinger and Gleditsch (2003) suggest that economic openness, including FDI, does not have a direct effect on the onset or duration of civil conflict; rather, openness plays an indirect pacifying role by contributing to income and political stability.

⁵See Schneider (2014) for a review of the literature.

On the other hand, Olzak (2011) finds that economic globalization significantly increases fatalities from ethnic conflicts. One recent study by Wegenast and Schneider (2017) shows that resource extraction by foreign firms in sub-Saharan Africa exacerbates grievances in local communities and increases conflict. Structuralist scholars maintain that, by raising income inequality, the influx of foreign investment causes political violence (e.g., London and Robinson 1989). Finally, critical scholars have challenged the capitalist peace thesis and contended that violence and conflict could actually be central to capitalist development (Cramer 2006). For example, in the case of Colombia, a group of scholars show that violence and conflict accompany liberalization and deregulation, and can be instrumental in development (e.g., Gómez, Sánchez-Ayala and Vargas 2015; Grajales 2011; Gutiérrez-Sanín 2009; Maher 2015; Thomson 2011).

The literature, we argue, overlooks one important mechanism through which inward FDI can be linked to internal conflict: FDI inflows affect market dynamics and rent creation in host countries, which in turn shapes the opportunity environment for rebellion. We elaborate on this mechanism in the next section.

3 FDI, Rents, and Civil Conflict

Our focus is on the conditions under which inward foreign investment alters market structures and affects the creation or dissipation of economic rents. Whether foreign investment results in rent creation or dissipation depends on the productivity difference between foreign entrants and incumbent firms (Pinto and Zhu 2016). Doing business abroad forces firms to incur fixed costs, which not all firms can afford (Helpman 2006; Melitz 2003). MNCs operating in foreign markets are more productive and larger, and hence better able to exploit endowments of labor, human capital, and natural resources. As Melitz and Trefler (2012, 100) show, when facing a fixed set-up cost, firms with higher productivity and lower marginal costs can earn higher profits by producing more and charging a higher markup, even with a lower price; the most productive firms are able to compete with high-productivity entrants, but these entrants can drive the least productive firms out of the market.⁶

Indigenous firms in developing countries are typically smaller and have more limited access to technology and capital than their multinational counterparts. The productivity gap between domestic firms in developing countries and MNCs entering those markets is large. In the presence of large productivity differences, the entry of foreign investors is likely to compete domestic firms out of the market, leading to market concentration that allows firms to extract monopoly or oligopoly rents. Indeed, empirical studies have shown that inward investment flows—and the presence of MNCs—increase market concentration and reduce competition in developing countries (e.g., Blomström 1986; Lall 1979; Newfarmer 1979; Zhu 2017). Therefore, we expect the entry of foreign investors into developing economies to crowd out domestic firms, increase market concentration, and result in the extraction of monopoly or oligopoly rents.

High rents accruing from FDI inflows have direct implications for intrastate conflict. First, higher rent creation increases the size of the spoils and thus the expected returns to appropriating those rents (see e.g., Collier and Hoeffler 2004; Fearon and Laitin 2003; Grossman 1991; Olsson and Fors 2004). As potential gains increase, rebels will have greater incentives to challenge the government. Garfinkel, Skaperdas and Syropoulos's (2008) model illustrates a similar logic in the case of international trade: free trade may intensify domestic conflict by increasing the value of contested natural resources when property rights are imperfectly enforced. Second, irrespective of the underlying motivations for rebellion, controlling rents enhances rebel groups' fighting capabilities relative to the government. Rebel groups who capture the rents created by foreign investors through extortion or taxation are better able to sustain their challenges, and more likely to prevail in a military confrontation with the government.

Since fighting is costly, both the government and rebels have incentives to reach a bargain they both would prefer over conflict. The government, for example, could potentially buy off their opposition by sharing the rents (Dal Bó and Powell 2009). However, when economic

⁶The link between productivity differentials and rents is derived formally from a monopolistic competition setup in Appendix A.

rents increase, conflict over the control of those rents can exacerbate the commitment problem faced by the government (and rebel groups), because controlling these rents is likely to shift the future balance of power (Bell and Wolford 2015). Rebels could accept concessions today that they believe to be equivalent to the expected value of fighting; yet rebel groups may worry that the rents accruing to the incumbent would result in future power shifts in favor of the government. It would then be easier for the government to renege on the settlement, keeping those rents to itself and fending off future attacks from the rebels. A similar calculation likely makes the government reluctant to transfer resources to the rebels as rents go up. In the presence of high economic rents, it is more difficult to arrange the distribution of rents and agree upon concessions, or such arrangements and agreements are more likely to break down, which results in conflict because of commitment problems (Fearon 1995; Powell 2006; Walter 1997, 2002). Therefore, we expect FDI inflows into developing countries to increase the probability of intrastate armed conflict.

Note that this effect of FDI on conflict does not depend on the motivation for investment (e.g., resource-seeking, market-seeking, and export-oriented) or sector of investment (e.g., primary, manufacturing, and service). As long as the productivity differential between foreign and domestic firms is large, FDI inflows into the resource, manufacturing, and service sectors could all result in market concentration and rent creation of varying degrees. Even for export-oriented firms, accessing foreign markets enables them to increase their markups because of gains from economies of scale.

The natural resource sector would be a *representative* case of the proposed mechanism. This sector is characterized by large capital requirements, steep upfront costs, economies of scale in production, and high costs of redeployment, which are barriers to entry that result in concentrated markets and rent creation (UNCTAD 2007; Wright and Zhu 2018). To illustrate, 74% of the world's iron ore production for export is controlled by the three largest companies, and approximately 41% of global oil and gas is produced by the largest 10 companies in the sector (UNCTAD 2007). Yet most developing countries lack financial resources, technology, and management skills to exploit the endowments of natural resources to their full extent (Shafer 1994; UNCTAD 2007, 92). MNCs bring the financial resources, technology, and know-how that allow developing countries to further extract natural resource rents. High rents accruing from resource extraction have direct implications for civil conflict. As Skaperdas (2008, 31) notes, "[t]hough foreign investments in natural resources ... are typically meant to contribute to economic development, sometimes when there are serious problems of stability they can have the unintended consequences of intensifying conflict for the capture of the resultant rents." For example, in Indonesia, the rebel group Aceh Merdeka emerged shortly before the opening of Aceh's first major natural gas facility—a joint venture between state-owned Pertamina, Mobil, and a consortium of Japanese companies (Robinson 1998, 138). "With the start of LNG [liquid natural gas] production in the mid-1970s, however, Aceh became a magnet for the greedy and the powerful, and therefore a site of economic and political contention" (Robinson 1998, 139).

The link between foreign investment and conflict is not limited to the natural resource sector. FDI into other sectors can also alter market structures and create high rents, thus increasing the incentives of rebel groups to capture the rents, enhance their relative strength, and challenge the government. The activities of Bralima—an affiliate of Heineken International in the Democratic Republic of the Congo (DRC)—is a case in point. Bralima is a brewing company, founded in 1923 which has been fully owned by Heineken International since 1987. Bralima holds a dominant position in the DRC's beverage sector, with over 60% market share (Miklian and Schouten 2013, 73). Despite the ongoing civil war in the DRC, Bralima has maintained its operations.⁷ Rebel groups in the DRC were able to forcibly extract rents from economic operations by setting up border posts and self-declared road checkpoints that collect fees from Bralima's delivery trucks (Miklian and Schouten 2013, 8). It is reported that in addition to contributing to checkpoint fees, Bralima faced heavy tax demands by the Rally for Congolese Democracy–Goma (RCD-Goma), a rebel group based in Goma during the second Congo War (1998-2003).⁸

⁷ "Brewery Hopes to Tap the Dividends of Peace," New York Times, December 23, 2005.

⁸ "Protests against Bukavu 'Deportations'," IRIN News, September 8, 2000. Available at http://www.

A related case is found in the First Liberian Civil War (1989–1997). One investigation reveals that Firestone's involvement in Liberia contributed to Charles Taylor's uprising (Jones and Miller 2014). Historically, Firestone played a dominant role in the Liberian economy, as one of the largest employers in the country, operating factories and even hospitals and schools (Anderson 1998). Firestone's post-tax profits in 1951 were approximately three times as large as the government's revenue (Miller and Jones 2014). A former BBC West Africa correspondent put it, "Firestone was huge in every way, and the revenues were absolutely crucial. So what would happen would be that the government, when financial assistance that we needed for the revolution" (Jones and Miller 2014). Charles Taylor, the leader of the Liberian rebellion, acknowledged the significance of capturing Firestone's facilities: "[Y]ou had immediately a means that would provide the needed financial assistance that we needed for the revolution" (Jones and Miller 2014).

It is important to note that armed conflict can negatively impact the incentive of MNCs to invest, and even cause capital flight. Nonetheless, not all foreign investors are deterred by conflict. Some multinationals are risk-acceptant and would not pass on opportunities for extracting rents (Driffield, Jones and Crotty 2013; Maher 2015; Skovoroda et al. 2019). For example, in Colombia in the 1990s inward FDI grew on average at an annual rate of 55%, despite high political and criminal violence; multinationals in extractive, security, financial, and service sectors were motivated by favorable contracts or concessions they could obtain "from a beleaguered state badly in need of extra income to sustain its war against a growing armed insurgency" (Richani 2005, 115). Therefore, we hypothesize:

H1: All else being equal, inward foreign investment increases the likelihood of violent conflict in developing countries.

irinnews.org/report/1978/drc-protests-against-bukavu-%E2%80%9Cdeportations%E2%80%9D. Accessed March 8, 2016.

4 Rents, State Capacity, and Civil Conflict

The vignettes from the DRC and Liberia underscore a potential mitigating role of state capacity on the relationship between foreign investment and intrastate conflict. State capacity shapes the opportunity environment faced by rebel groups when deciding to engage in violence (Tilly 1978). Fragile and weak states favor insurgency and increase the risk of civil conflict (Fearon and Laitin 2003). The governments in the DRC and Liberia have been fragile and weak, providing rebels an opportunity to appropriate rents generated by MNCs, and enhancing rebels' capabilities to mount a challenge.

One attribute of state capacity is the government's ability to collect taxes, royalties, and fees. Extractive capacity helps strengthen a government's fighting capabilities relative to other groups in the polity. States with stronger extractive capacity are in better positions to capture the rents generated from the activity of foreign firms in their territories, further bolstering state capacity. In addition, strong states are likely to be sufficiently powerful in deterring rebellions. As the odds of defeating the government decrease, rebels lose incentives to fight. Conversely, when the government weakens, rebels are more tempted to fight.

A well-functioning state is also capable of addressing the demands of its citizens through institutionalized channels such as public goods provision or redistribution, thereby lowering incentives to fight (Snyder and Bhavnani 2005; Sobek 2010; Taydas and Peksen 2012). When the government is able to convert its share over the rents generated by MNCs into public goods to address citizens' demands, incentives to rebel drop: Public goods provision increases the opportunity cost of rebellion as fighting becomes less attractive to would-be rebels. Furthermore, state capacity is associated with institutional development. States with strong political and legal institutions are capable of enforcing negotiated rent-sharing contracts with opposition factions and thus alleviate the credible commitment problem often associated with the outbreak of civil conflict (DeRouen et al. 2010; Gates et al. 2016; Skaperdas 2008). We can, thus, derive the following hypothesis: H2: The positive effect of inward FDI on civil conflict diminishes when levels of state capacity increase.

5 Empirical Analysis

To examine the hypothesis that inward foreign investment increases the risk of civil conflict in developing countries, we estimate the following model:

$$Prob(Conflict_{i,t} = 1) = \beta_0 + \beta_1 * FDI_{i,t} + X_{i,t}\xi + \varepsilon_{i,t}$$

Conflict_{*i*,*t*} is an indicator of civil conflict in country *i* in year *t*. β_0 is the constant. β_1 is the coefficient to be estimated for FDI—our main explanatory variable. $X_{i,t}$ is a matrix of covariates derived from the empirical literature on the determinants of intrastate armed conflict, and ξ is a vector of coefficients to be estimated. $\varepsilon_{i,t}$ is the error term.

5.1 Data

The dependent variable is the onset of civil conflicts with at least 25 battle deaths, obtained from the UCPD/PRIO Armed Conflict Dataset (Gleditsch et al. 2002; Themnér and Wallensteen 2014). The variable is coded 1, if there is a new onset of conflict between government forces and at least one rebel group or it has been more than two years since the last observation of the conflict. To model conflict onset and address temporal correlation, we drop the subsequent years of an ongoing conflict. Our main results focus on conflict onset as the outcome variable. Appendix D shows that FDI inflows also have a strong positive effect on the presence/duration and the number of internal conflicts within a country.

The main explanatory variable is real net inward FDI per capita.⁹ Note that *net* inward FDI is *not* the difference between inward and outward FDI in the country; it is the amount of

⁹The data are from the United Nations Conference on Trade and Development (UNCTAD) and adjusted for purchasing power parity (PPP).

total inward investment minus divestment. Net inward FDI turns negative if existing foreign investors pull out, and the total amount of divestment is larger than the total inward investment the country receives in a given year. In the main specifications we use FDI inflow per capita as the independent variable. We chose inflows over stocks for two reasons. First, inflows capture the short-term impact of investment on rent creation, which affects the calculus of conflict. The second reason is practical, as data on flows are available for a longer time period.¹⁰ Results are substantively and statistically the same if we use real FDI stock per capita as the independent variable. One issue with the per capita FDI inflow data is its skewed distribution. Since net FDI inflows data contain negative values, we take its cube root to deal with the right skewness (see Appendix F for further discussion on variable transformation).

State capacity is a multidimensional concept, which scholars operationalize in different ways. We focus on the revenue-extracting aspect of state capacity and use the Relative Political Extraction (RPE) index (Arbetman-Rabinowitz et al. 2013; Kugler and Tammen 2012). This variable measures the ratio of actual tax revenue to expected tax revenue estimated from a linear function of the economy's structure and size. It is closely related to the mechanism discussed in the theory: the extent to which the government is able to control the rents accruing from MNC activity. We use tax revenue as a percentage of GDP for robustness checks.

In the baseline model, we include a battery of standard controls identified in the civil war literature: real GDP per capita (PPP adjusted, log), economic growth rate,¹¹ population (log), level of democracy, natural resource endowments (log), ethnolinguistic and religious fractionalization, percentage of mountainous area (log), and two indicator variables for states possessing noncontiguous territories, and for the Cold War period. We obtain real GDP per capita data from *Penn World Table 9.0*. The data on population and annual economic growth rates are from the World Bank's *World Development Indicators*. Democracy is measured by standard Polity scores, ranging from -10 to 10 (Marshall and Jaggers 2010).¹² We use the

 $^{^{10}}$ FDI stock data are not available for the 1970s. The Pearson correlation between FDI inflow and stock per capita in the sample is 0.88 without transformation and 0.76 with a cube root transformation.

 $^{^{11}\}mathrm{We}$ take the cube root of this variable to deal with its skewed distribution.

 $^{^{12}}$ This variable is rescaled to vary from -1 to 1.

per capita value of oil and gas production as a measure of natural resource endowments (Ross and Mahdavi 2015). The data for ethnolinguistic and religious fractionalization, mountainous areas, and noncontiguous states come from Fearon and Laitin (2003). Finally, we include a time polynomial to account for time dependence (Carter and Signorino 2010). Our time-series cross-sectional data set includes 118 developing countries from 1970 to 2013.¹³

5.2 First Cut: A Naive Probit Model

Model 1 in Table 1 presents the results from a "naive" probit model. All time-varying covariates are lagged one year. We observe that the coefficient of FDI per capita is negative but does not achieve statistical significance. One concern is that this result may suffer from an endogeneity and selection bias. It is possible that armed conflict deters foreign investors, so we are less likely to observe FDI in violent places. This results in a downward bias in estimates. Further, scholars have documented firms' heterogeneous preferences for entering conflict zones (Barry 2018; Mihalache-O'keef and Vashchilko 2010; Skovoroda et al. 2019). To address these potential endogeneity and selection biases, our identification strategy relies on an instrumental variable (IV) estimation. The IV model also helps address potential measurement errors.¹⁴

5.3 Instrumental Variable

We use geographic remoteness as an instrumental variable for inward FDI, which is originally developed by Pinto and Zhu (2016), and extend it to a time-series cross-sectional setting. *Geographic remoteness* is a weighted geographic distance between the host country and the 20 richest economies in the world in a given year.¹⁵ The choice of remoteness is based on the empirical literature on the determinants of FDI and the gravity model of foreign investment. While the richest economies in the world supply most of the world's FDI, the amount of in-

¹³See Table L in Appendix I for a list of countries in the sample. Tables J and K present the summary statistics and correlation matrix of the main explanatory variables, respectively.

 $^{^{14}}$ See Kerner (2014) for a detailed discussion of the measurement issues in existing FDI data.

¹⁵The richest economies are selected based on real GDP per capita. We exclude small economies with a population less than six million.

vestment that host countries receive is inversely correlated with their geographic distance to source countries (Carr, Markusen and Maskus 2001; Loungani, Mody and Razin 2002; Markusen 1995). That is, all else being equal, investors favor closer destinations, and wealthier economies are more likely to supply FDI. To capture the source countries' capital endowments, the geographic distances between each host country and the 20 wealthiest economies are weighted by the latter's real GDP per capita.

We construct our instrumental variable as the summation of the weighted bilateral distances:

$$Z_{i,t} = \sum_{j=1}^{20} \frac{1}{dist_{i,j,t}} \times GDP \ per \ capita_{j,t} \tag{1}$$

where i = 1, 2, 3, ..., N, j = 1, 2, 3, ..., 20, and t = 1, 2, 3, ..., T, indexing host countries, the 20 wealthiest economies, and year, respectively. To simplify the interpretation, we use the reciprocal of geographic distance.¹⁶ Therefore, the instrumental variable measures the *closeness* of a country to the world's 20 wealthiest economies in a given year. In other words, it captures the proximity of each country to the global centers of economic activity. Note that although geographic distances used in constructing the instrument are time invariant, the list of the 20 richest economies and their real GDP per capita change over time. Therefore, our instrument captures both cross-sectional and temporal variation in inward FDI.

A valid instrumental variable requires that it has no direct effect on the dependent variable when conditioned on covariates—the IV exclusion restriction assumption. In our case, we have reason to believe that the weighted geographic distance affects civil conflict primarily through cross-border flows of foreign investment. One possible violation of the exclusion restriction is that geographic distance may correlate with the diffusion of norms and values such as democratic governance and neoliberal economic ideas, which likely have a pacifying effect

¹⁶Bilateral intercapital distances are calculated using the ArcGIS program. If the host country is one of the 20 capital source countries (i.e., when i = j), $1/distance_{i,j,t} \times GDPpercapita_{j,t} = 0$. This captures the fact that a host country receives zero FDI from itself.

on civil conflict. MNCs actually serve as an important vehicle for the diffusion of such norms and values (Kwok and Tadesse 2006; Sandholtz and Gray 2003). Even if the diffusion happens through other channels such as access to foreign media or cross-border personnel movements which tend to correlate with geographic distance, it is less of a concern for our identification strategy. This diffusion mechanism implies that geographic closeness to developed countries has a negative effect on conflict, which will result in an *underestimate* of the true coefficient of FDI. Similarly, if geographic closeness affects conflict through trade, it will bias the coefficient of FDI downward, because trade is expected to intensify market competition and reduce opportunities for rent creation, thereby decreasing the likelihood of conflict.

Another possibility is that our instrumental variable may capture major powers' geopolitical interests that are likely to influence civil conflict. Support from these major powers is supposed to strengthen the government and dampen the incentives for rebellion (Fearon and Laitin 2003). Furthermore, most capital exporting countries included in the construction of the instrument are advanced democracies. A country that is neighbored by more democratic countries should have a lower risk of civil conflict (Gleditsch 2007). If our instrument captures major powers' geopolitical interests, we would *underestimate* the positive effect of FDI on civil conflict. In any event, to block this channel in our regression models we explicitly control for capital source countries' geopolitical interests.

5.4 Results from the IV Estimator

In Model 2, we re-estimate Model 1 by instrumenting FDI per capita using geographic closeness. The F-statistic of the (excluded) instrument in the first-stag regression is 35.94, which suggests that the IV is strong.¹⁷ Compared with the results in Model 1, one noteworthy change is that the coefficient of FDI per capita turns positive and statistically significant at the 1% level.¹⁸ Substantively, when all other variables are held at their medians, a one standard deviation

¹⁷Table G in Appendix I presents the first-stage regression results.

¹⁸Our results are robust and consistent if we estimate a linear probability model or include only the most plausibly exogenous covariates in the equation. See Tables H and I in Appendix I, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
FDI per Capita (cube root)	-0.01	0.27***	0.31***	0.30***	0.27***	0.29***	
	(0.02)	(0.04)	(0.03)	(0.03)	(0.04)	(0.06)	
Nonprimary FDI (cube root)							0.41^{***}
							(0.03)
State Capacity (RPE)	0.03	0.07	0.20^{***}	0.10	0.07	-0.01	0.71^{***}
	(0.10)	(0.08)	(0.07)	(0.07)	(0.08)	(0.09)	(0.21)
GDP per Capita (log)	-0.18^{***}	-0.56^{***}	-0.57^{***}	-0.58^{***}	-0.56^{***}	-0.71^{***}	-1.24^{***}
	(0.06)	(0.06)	(0.05)	(0.06)	(0.06)	(0.11)	(0.08)
Population (log)	0.13^{***}	0.09^{***}	-0.03	0.07^{***}	0.09^{***}	0.12^{***}	-0.04
	(0.03)	(0.03)	(0.04)	(0.02)	(0.03)	(0.03)	(0.04)
Growth Rate	0.01	-0.08***	-0.09***	-0.10^{***}	-0.08***	-0.05	-0.07
	(0.03)	(0.03)	(0.02)	(0.02)	(0.03)	(0.04)	(0.04)
Polity IV	0.09	-0.03	-0.08^{*}	-0.02	-0.03	0.11	0.33^{***}
	(0.07)	(0.06)	(0.05)	(0.05)	(0.05)	(0.07)	(0.11)
Nat. Resources (log)	0.03	0.06^{***}	0.05^{***}	0.05^{***}	0.06^{***}	0.02	0.22^{***}
	(0.02)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)
Ethnic Frac.	0.49^{***}	0.39^{***}	0.34^{***}	0.36^{***}	0.39^{***}	0.30^{**}	-0.78***
	(0.17)	(0.12)	(0.12)	(0.12)	(0.12)	(0.15)	(0.28)
Religious Frac.	-0.53^{**}	-0.57^{***}	-0.57^{***}	-0.53^{***}	-0.57^{***}	-0.49^{***}	-0.29
	(0.21)	(0.14)	(0.14)	(0.15)	(0.14)	(0.17)	(0.25)
% Mountains (log)	0.00	0.03	0.03	0.02	0.03	0.03	0.07
	(0.03)	(0.02)	(0.02)	(0.02)	(0.02)	(0.03)	(0.05)
Noncontiguous	0.65^{***}	0.43^{***}	0.51^{***}	0.34^{***}	0.43^{***}	0.47^{***}	0.75^{***}
	(0.12)	(0.12)	(0.11)	(0.12)	(0.12)	(0.13)	(0.16)
Cold War	0.04	0.49^{***}	0.33***	0.57^{***}	0.49^{***}	0.45^{***}	0.67***
	(0.09)	(0.09)	(0.07)	(0.07)	(0.09)	(0.12)	(0.13)
Trade Openness (log)			-0.56***				
			(0.09)				
UN Voting Similarity				-0.99***			
				(0.22)			
Aid (log)				-0.03			
4 114				(0.03)			
Alliance				0.45			
				(0.68)			
Colonial Ties				-2.78**			
				(1.31)	0.40		
Military Interventions					0.43		
	0.01	0.04***		0 10***	(1.16)	0.00***	- 00***
Constant	-0.31	2.34***	5.05^{***}	3.10^{***}	2.33***	3.22***	7.90^{***}
7	(0.51)	(0.55)	(0.75)	(0.49)	(0.55)	(0.88)	(0.72)
	3451	3451	3328	3451	3451	2964	908
r-Statistic		35.94	14.23	18.30	35.77	45.91	35.91
(Excluded instrument) D > E		0.00	0.00	0.00	0.00	0.00	0.00
$1 \ge \Gamma$		0.00	0.00	0.00	0.00	0.00	0.00

Table 1: FDI and Civil Conflict Onset (Probit)

Note: All models include a time polynomial to account for time dependence and their coefficients are not reported. Robust standard errors in parentheses. * significant at 10%, ** significant at 5%, *** significant at 1%. Models 1-5 are estimated with the full sample. Model 6 excludes observations with more than one-third of their export revenues from fuels. Model 7 utilizes nonprimary FDI only.

increase in inward FDI per capita from its median will increase the probability of civil conflict onset by 21 percentage points. The marginal effect is significant at the 1% level. This result provides support for our hypothesis that in developing countries, inward FDI increases the likelihood of civil conflict.

Regarding the estimated coefficients on the control variables, economic development and economic growth have a strong negative effect on civil conflict onset. By contrast, countries with larger populations and noncontiguous territory, abundant natural resources, and higher levels of ethnolinguistic fractionalization are significantly more likely to experience civil conflict onset. State capacity measured by Relative Political Extraction does not seem to have an independent effect on civil conflict onset. Religious fractionalization and the post-Cold War period correlate with lower probability of violence onset.

In Model 3, we control for trade openness (imports and exports as a percentage of GDP).¹⁹ The results show that trade openness has a strong negative effect on civil conflict onset. This is consistent with the expectation that trade, unlike inward FDI, increases market competition and dissipates economic rents, thereby reducing the risk of conflict.

In model 4 we address the concern that our instrument may capture major powers' geopolitical interests, which can directly affect civil conflict. We include four different measures of source countries' geopolitical interests: the host's UN voting similarity to the twenty capital sources, total foreign aid received from those countries, and alliance relationships and colonial ties.²⁰ The results show that two of the four measures—UN voting similarity and colonial ties— correlate negatively and significantly with civil conflict onset. Consistent with our expectation, after controlling for major powers' geopolitical interests, the coefficient of FDI becomes slightly larger compared with the one in Model 2. It remains significant beyond conventional levels. In Model 5, we use an alternative measure of international military intervention to capture major powers' influence on civil conflict.²¹ We lag this variable one time period to address

¹⁹The data come from the World Bank's World Development Indicators.

 $^{^{20}}$ The UN voting similarity scores, alliance relationships, and colonial ties between a host and the capital source countries are weighted by the latter's share of real GDP per capita among the top 20 countries.

 $^{^{21}}$ The data come from Pickering and Kisangani (2009).

endogeneity. Again, our main results hold. In robustness checks, we differentiate the direction of intervention and further control for U.S. covert operations during the Cold War and obtain the same results (see Appendix G).

Another potential concern about the results in Model 2 is that the positive relationship between FDI inflows and civil conflict onset could be driven by resource-rich countries. Our theory suggests that the positive effect of FDI on internal conflict exists in non-resource sectors as well. To check whether the results are solely driven by resource-rich countries, we re-estimate Model 2 by excluding countries with large resource endowments. We classify resource-rich countries as those receiving more than one-third of their export revenues from fuels (Fearon and Laitin 2003). As shown in Model 6, after dropping resource-rich countries, we still find a positive and significant effect of inward FDI on civil conflict onset.

One may still be concerned that even in resource-poor countries, FDI into the primary sector could be the driving force. To address this concern, we experiment with sectoral FDI data obtained from UNCTAD. We focus on FDI in the manufacturing and service sector only, excluding investment in the agricultural and extractive industries.²² We normalize non-primary FDI by population and take the cube root of the variable to deal with the skewed distribution. Model 7 shows that non-primary FDI has a strong positive effect on civil conflict onset. The results in Models 6 and 7 give us confidence that the positive relationship between FDI and conflict is not driven solely by foreign investment in the primary sector. In Appendix B, we further disaggregate FDI in the primary, secondary, and tertiary sector and find that all have a strong positive effect on intrastate conflict.

5.5 FDI, Market Concentration, and Civil Conflict

In this section, we examine the underlying causal mechanism. Two critical questions remain: Does inward FDI indeed increase market concentration in developing countries, and does market

 $^{^{22}}$ One caveat with this strategy is that the coverage of sectoral FDI data is fairly poor. The sample contains 61 developing countries for the period 1980 to 2013. The number of observations within each country varies from 1 to 33.

concentration correlate with a high probability of conflict onset? To answer the first question, we need detailed firm-level data for all developing countries over the entire time period of our study to construct measures of market concentration. Such data, however, are extremely difficult to come by. Yet we are able to construct cross-sectional measures of market concentration using data from the World Bank Enterprise Surveys (WBES).

The WBES project has conducted establishment surveys in 148 countries since 2002. It does not implement the survey every year in each country, and the number of completed surveys varies by country. We use the standardized data set compiled by the World Bank, which contains surveys completed between 2006 and 2016.²³ To construct measures of market concentration, we rely on the data on firm-level full-time employees.²⁴ For each survey, we divide firms into three sectors: manufacturing, retail and wholesale, and other sectors (predominantly service industries). We then calculate the employment ratio of the top four firms (four-firm concentration ratio, CR4) and the Herfindahl-Hirschman Index (HHI) of employment in each sector, respectively.²⁵ We weight sectoral-level concentration ratios by each sector's employment share in the country and then aggregate them to obtain a national-level measure of market concentration.

We rely on the cross-sectional variation in the WBES data to examine the relationship between inward FDI and market concentration by averaging the measures for each country if multiple surveys are available. Since the World Bank surveys firms in different years for different countries, we average all covariates over a 20-year span prior to the latest survey year in each country.²⁶ Table 2 presents the IV two-stage least squares (2SLS) results. FDI

 $^{^{23}}$ The standardized version matches all possible variables to the latest standardized questionnaire. Results are consistent if we include surveys conducted before 2006.

 $^{^{24}}$ The WBES also reports firms' sales data. We chose employees over sales data because the former has much better coverage than the latter. 15,532 of out 117,480 (13%) observations have missing values in the sales variable, but only 817 (0.7%) are missing in the employees variable.

²⁵Ideally we would like to calculate market concentration at the two-digit level. However, the number of observations at this level is too small for any meaningful calculation. The broad classification of manufacturing, retail and wholesale, and other sectors follows the WBES's sampling strategy: all industries are stratified into several manufacturing industries, two services industries (retail and wholesale) and a residual. See the WBES's implementation note.

 $^{^{26}}$ The number of completed surveys for each country varies from one to three. The maximum time interval between the first and last survey is 11 years. Averaging covariates over a 20-year span maximizes the number

	(1)	(2)
	CR4	HHI
FDI per Capita (cube root)	0.03^{**}	0.21^{***}
	(0.01)	(0.08)
State Capacity (PRE)	0.04	0.12
	(0.04)	(0.22)
GDP (log)	-0.03***	-0.18***
	(0.01)	(0.06)
Growth Rate	-0.04*	-0.38**
	(0.02)	(0.19)
Polity IV	-0.04	-0.31^{*}
	(0.03)	(0.17)
Natural Resources	-0.01	-0.05
	(0.01)	(0.05)
Constant	0.15^{*}	-3.94***
	(0.08)	(0.57)
N	105	105
F-Statistic	22.79	00.79
(Excluded Instrument)	22.10	22.18
P > F	0.00	0.00

Table 2: FDI and Market Concentration (2SLS)

inflows are positively and strongly associated with both measures of market concentration. Substantively, in Model 1 for example, a one standard deviation increase in real FDI per capita (in cube root transformation) will raise market concentration by 0.08 units—approximately 71% of the standard deviation of the four-firm concentration ratio. The effect is substantively large. Note that we may *underestimate* the positive effect of FDI on market concentration in developing countries because our measures of market concentration are based on firms mostly in non-primary sectors.²⁷ The primary sector is typically dominated by multinationals and tends be more concentrated due to large capital requirements and high fixed costs (UNCTAD 2007; Wright and Zhu 2018).

To address the second question whether market concentration increases the odds of

Note: Robust standard errors in parentheses. * significant at 10%, ** significant at 5%; *** significant at 1%.

of observations in the regression.

²⁷In the vast majority of countries, the WBES project does not survey firms in the primary sector.

	(1)	(2)
	CR4	HHI
Concentration	15.83^{*}	2.02^{*}
	(8.25)	(1.18)
GDP per Capita (log)	-1.53^{*}	-1.66^{*}
	(0.92)	(0.92)
State Capacity (PRE)	-3.56^{*}	-3.23^{*}
	(1.95)	(1.80)
Population (log)	0.58	0.42
	(0.41)	(0.40)
Growth Rate	1.30	1.42
	(1.24)	(1.26)
Natural Resources	0.71^{**}	0.68^{**}
	(0.28)	(0.27)
Constant	5.72	18.41^{**}
	(9.49)	(8.96)
N	103	103
R^2	0.21	0.19

Table 3: Market Concentration and Civil Conflict Onset (OLS)

conflict onset, we again leverage the cross-sectional variation and use the frequency of conflict onset over the period 2000–2013 as the dependent variable. All time-variant covariates are averaged over the same period.²⁸ We estimate an OLS model and present the results in Table $3.^{29}$ We see that both measures of market concentration correlate positively with a high rate of conflict onset and their coefficients are significant at the 10% level.³⁰ Take Model 1 for example. Substantively, all else being equal, a one standard division increase of market concentration will raise the frequency of conflict onset by 1.64 (approximately 57% of the mean level in the sample).

Note: Robust standard errors in parentheses. * significant at 10%, ** significant at 5%; *** significant at 1%.

 $^{^{28}}$ We estimate a pared-down version of the model to maximize the sample size. The results are consistent if we introduce other covariates included in the baseline model.

²⁹Two countries, India and Myanmar, have the highest number of conflict onsets over the 14-year period (five and six onsets, respectively), and exert a large influence on the results. India's FDI per capita and market concentration are both well below the sample means. India's frequent civil conflict onsets in this period were driven by secessionist movements in Assam and Kashmir. Myanmar also experienced frequent separatist wars, and its FDI per capita and market concentration are far below the sample means. Funding for rebels groups in Myanmar comes from looting of timber and gemstones and from opium production (see Ross 2004). We exclude these two observations in the regression.

³⁰The results are consistent if we use the total number of onsets over the time period as the dependent variable and estimate a negative binomial model.

This marginal effect is substantially large. Altogether results in this section provide evidence supportive of the proposed mechanism.

5.6 State Capacity and Conflict Onset

This section examines the role of state capacity in mitigating the positive effect of FDI on conflict onset. We again use geographic closeness to instrument FDI so as to deal with the endogeneity and selection bias. Since FDI is endogenous, its interaction term with state capacity is also endogenous. We purge the interaction term by utilizing the product terms of state capacity with both the included and excluded instruments in the equation predicting FDI (Achen 1986; Kelejian 1971). Given the strong assumption of the jointly normal distribution of the error terms from the two stages of regression in an IV probit model (Wooldridge 2010, 585) and the complexity of interpreting an interaction term in binary probit models (Ai and Norton 2003; Berry, DeMeritt and Esarey 2010), we estimate a linear probability model (LPM), which provides a good estimate of the average effect (Wooldridge 2010, 585). In Appendix H, we discuss the linear interaction effect assumption and common support in the models (Hainmueller, Mummolo and Xu 2019).

Model 1 in Table 4 shows the results where FDI interacts with Relative Political Extraction (RPE). The coefficient of FDI is positive and that of the interaction term is negative. Both coefficients are statistically significant at the 1% level. These results lend support to our hypothesis that state capacity attenuates the positive effect of FDI on conflict onset. The top-left panel of Figure 1 visualizes the marginal effects of FDI on civil conflict onset along the level of RPE. When RPE reaches 1.73 (approximately Belarus's in 1991 in our sample), FDI no longer has a significant impact on civil conflict onset. In Model 2, we utilize an alternative measure—tax revenue as a percentage of GDP $(\log)^{31}$ —and obtain consistent results. The topright panel of Figure 1 shows that the marginal effect of FDI remains positive and significant within the range of the tax revenue variable in the sample.

³¹It is lagged one year to mitigate potential endogeneity concerns.

	(1)	(2)	(3)
	RPE	Tax/GDP	Enroll.
FDI per Capita (cube root)	0.04^{***}	0.05***	0.03***
	(0.01)	(0.01)	(0.01)
FDI*State Capacity	-0.01***	-0.01**	-0.02^{*}
	(0.00)	(0.00)	(0.01)
State Capacity	0.05^{**}	0.02^{*}	-0.01
	(0.02)	(0.01)	(0.03)
GDP per Capita (log)	-0.07^{***}	-0.09***	-0.06***
	(0.02)	(0.02)	(0.02)
Population (log)	0.02^{***}	0.02^{***}	0.02^{***}
	(0.00)	(0.00)	(0.00)
Growth Rate	-0.01^{***}	-0.01^{***}	-0.01^{***}
	(0.00)	(0.00)	(0.00)
Polity IV	-0.00	-0.01	-0.00
	(0.01)	(0.01)	(0.01)
Nat. Resources (log)	0.01^{***}	0.01^{***}	0.00^{***}
	(0.00)	(0.00)	(0.00)
Ethnic Frac.	0.08^{***}	0.08^{***}	0.06^{***}
	(0.02)	(0.02)	(0.02)
Religious Frac.	-0.11^{***}	-0.10^{***}	-0.08***
	(0.02)	(0.02)	(0.02)
% Mountains (log)	0.00	0.00	0.00
	(0.00)	(0.00)	(0.00)
Noncontiguous	0.14^{***}	0.14^{***}	0.13^{***}
	(0.02)	(0.02)	(0.02)
Cold War	0.07^{***}	0.08^{***}	0.06^{***}
	(0.02)	(0.02)	(0.02)
Constant	0.50^{***}	0.55^{***}	0.39^{***}
	(0.09)	(0.10)	(0.09)
N	3451	3472	3050
R^2	0.09	0.09	0.09

Table 4: FDI, State Capacity, and Civil Conflict Onset (LPM)

Note: All models include a time polynomial to account for time dependence and their coefficients are not reported. Bootstrapped standard errors in parentheses. * significant at 10%, ** significant at 5%; *** significant at 1%.

In Model 3, we examine one of the proposed functions of state capacity in our argument the ability to deliver public goods. To measure public goods provision, we use primary school enrollment rate as a proxy. Enrollment rates are an outcome variable and serve as a good proxy for the government's ability to deliver the public goods (Thyne 2006, 736). The results in Model 3 are consistent with our expectation: the coefficient of FDI is positive whereas the interaction term between FDI and primary school enrollment rate is negative, and both are statistically significant. In the bottom panel of Figure 1, we graph the simulated marginal effects of FDI



Figure 1: Marginal Effects of FDI per Capita on Civil Conflict Onset

Note: Plots of marginal effects of FDI on civil conflict onset. The shadowed areas indicate the 95% confidence intervals, obtained from 1,000 simulations.

on conflict onset along the level of primary school enrollment rates. Note that, in both Models 1 and 2, the coefficient of state capacity is positive, which suggests that when the level of FDI inflows is low, high extraction capacity of the state increases the probability of civil conflict. It may be because the grievances generated by the state's excessive revenue extraction outweigh the deterrence power that the state acquires from the extracted revenue when total rents are low and the economy is poor as indicated by low FDI inflows. When we use school enrollment rate as a proxy for state capacity, its coefficient becomes negative. In sum, the results in Table 4 support our hypothesis that state capacity attenuates the positive effect of FDI on internal conflict.

5.7 Conflict Duration and Additional Robustness Checks

So far, we have focused on civil conflict onset as the outcome variable. We expect rents accruing from MNC activity to increase the duration of conflict and the number of conflicts within a country as well. High rents generated by FDI inflows increase the incentive of different groups to rebel. If economic rents persist, the incentive for rebellion will continue. Moreover, capturing the rents through extortion or taxation contributes to rebel groups' financial viability, which alters the relative strength in favor of rebel groups and enables them to keep challenging the government, regardless of their motivations for rebellion. Results in Appendix D show that FDI inflows indeed have a strong positive effect on the presence/duration of conflict as well as the number of armed conflicts within a country. We also perform a series of additional robustness checks. First, we examine whether our results are sensitive to how we code civil conflict onset (Appendix E). Second, we show that our results are robust to different measures of the FDI variable (Appendix F). Third, we experiment with disaggregating internal conflict and the results show that inward FDI correlates positively with both conflict over the control of territory and conflict over the control of government (Appendix C).

6 Conclusion

The current era of globalization is characterized by the formation of global production networks built around multinationals. Global integration through foreign investment is believed to be a boon: foreign investment is expected to generate positive economic outcomes, such as employment, exports, and economic growth. Yet foreign investment may also generate unintended economic and political consequences. In this paper, we examine the relationship between inward investment and intrastate armed conflict. We argue that the entry and presence of highly productive foreign firms in developing countries causes market concentration and leads to high rent creation; high rents, in turn, increase rebel groups' incentives to challenge the government or to control these rents for instrumental purposes, thereby increasing the probability of internal conflict.

Testing the empirical content of this link is complicated by endogeneity and selection biases. We use an instrumental variable for FDI—geographic closeness, which is derived from the gravity model of investment—to address the endogeneity and selection issue. We find that inward FDI correlates positively and strongly with a high probability of civil conflict. This relationship holds for FDI in the primary, secondary, and tertiary sector. In addition, we show that inward FDI increases the probability of civil conflict through causing market concentration and leading to high rent extraction. State capacity, on the other hand, attenuates the positive effect of FDI on internal conflict.

It should be noted that one limitation of our study is that we do not explore the relationship between FDI and conflict at a more disaggregated level. The advantage of a country-level study is that we are able to cover a large number of countries over a long time period. Further, such a research design allows us to directly examine the underlying mechanism that FDI inflows lead to market concentration and rent creation, which in turn increases the likelihood of civil conflict. Yet, civil conflicts are often region-specific and foreign investment can be geographically concentrated. Our research is thus not able to explore how international businesses interact with local communities and the implications of these interactions for violence and conflict. This remains a fruitful area for future research especially given that geo-coded FDI project data has become increasingly available (e.g., the fDi Markets data).

Future studies can also explore further the heterogeneity of MNCs and its impact on intrastate armed conflict. For example, capital-intensive foreign investment may have a stronger effect on internal conflict than labor-intensive foreign investment. This is because the former is more likely than the latter to cause market concentration and lead to monopoly rent extraction due to large capital requirements and high sunk costs associated with these investments; further, the immobility of capital-intensive investment makes it a relatively easy target for rebel groups to extract resources.

References

- Achen, Christopher H. 1986. The Statistical Analysis of Quasi-Experiments. Berkeley, CA: University of California Press.
- Ai, Chunrong and Edward C. Norton. 2003. "Interaction Terms in Logit and Probit Models." Economics Letters 80(1):123–129.
- Anderson, Jon Lee. 1998. "The Devil They Know." New Yorker. July 27.
- Arbetman-Rabinowitz, Marina, Ali Fisunoglu, Jacek Kugler, Mark Abdollahian, Kristin Johnson, Kyungkook Kang and Zining Yang. 2013. "Replication Data For: Relative Political Capacity Dataset.". Harvard Dataverse.
- Barbieri, Katherine and Rafael Reuveny. 2005. "Economic Globalization and Civil War." Journal of Politics 67(4):1228–1247.
- Barry, Colin M. 2018. "Peace and conflict at different stages of the FDI lifecycle." *Review of International Political Economy* 25(2):270–292.
- Bell, Curtis and Scott Wolford. 2015. "Oil Discoveries, Shifting Power, and Civil Conflict." International Studies Quarterly 59(3):517–530.
- Bernard, Andrew B., Jonathan Eaton, J. Bradford Jensen and Samuel Kortum. 2003. "Plants and Productivity in International Trade." *American Economic Review* 93(4):1268–1290.
- Berry, William D., Jacqueline H. R. DeMeritt and Justin Esarey. 2010. "Testing for Interaction in Binary Logit and Probit Models: Is a Product Term Essential?" American Journal of Political Science 54(1):248–266.
- Blanton, Robert G. and Clair Apodaca. 2007. "Economic Globalization and Violent Civil Conflict: Is Openness a Pathway to Peace?" *The Social Science Journal* 44:599–619.
- Blattman, Christopher and Edward Miguel. 2010. "Civil War." Journal of Economic Literature 48(1):3–57.
- Blomström, Magnus. 1986. "Multinationals and Market Structure in Mexico." World Development 14(4):523–530.
- Bussmann, Margit and Gerald Schneider. 2007. "When Globalization Discontent Turns Violent: Foreign Economic Liberalization and Internal War." *International Studies Quarterly* 51(1):79–97.
- Carr, David L., James R. Markusen and Keith E. Maskus. 2001. "Estimating the Knowledge-Capital Model of the Multinational Enterprise." *American Economic Review* 91(3):693–708.
- Carter, David B. and Curtis S. Signorino. 2010. "Back to the Future: Modeling Time Dependence in Binary Data." *Political Analysis* 18(3):271–292.

- Caves, Richard E. 1996. *Multinational enterprise and economic analysis*. Cambridge, UK: Cambridge University Press.
- Collier, Paul and Anke Hoeffler. 1998. "On Economic Causes of Civil War." Oxford Economic Papers 50(4):563–573.
- Collier, Paul and Anke Hoeffler. 2004. "Greed and Grievance in Civil War." Oxford Economic Papers 56(4):563–595.
- Cramer, Christopher. 2006. Civil war is not a stupid thing: accounting for violence in developing countries. London: Hurst & Co.
- Dal Bó, Ernesto and Pedro Dal Bó. 2011. "Workers, Warriors and Criminals: Social Conflict in General Equilibrium." *Journal of the European Economic Association* 9(4):646–677.
- Dal Bó, Ernesto and Robert Powell. 2009. "A Model of Spoils Politics." American Journal of Political Science 53(1):207–222.
- de Soysa, Indra and Hanne Fjelde. 2010. "Is the Hidden Hand an Iron Fist? Capitalism and Civil Peace, 1970-2005." Journal of Peace Research 47(3):287–298.
- DeRouen, Karl, Mark J Ferguson, Samuel Norton, Young Hwan Park, Jenna Lea and Ashley Streat-Bartlett. 2010. "Civil War Peace Agreement Implementation and State Capacity." *Journal of Peace Research* 47(3):333–346.
- Driffield, Nigel, Chris Jones and Jo Crotty. 2013. "International business research and risky investments, an analysis of FDI in conflict zones." *International Business Review* 22(1):140–155.
- Dube, Oeindrila and Juan F. Vargas. 2013. "Commodity Price Shocks and Civil Conflict: Evidence from Colombia." *The Review of Economic Studies* 80(4):1384–1421.
- Fearon, James D. 1995. "Rationalist Explanations for War." International Organization 49(3):379–414.
- Fearon, James D. 2008. Economic Development, Insurgency, and Civil War. In Institutions and Economic Performance, ed. Elhanan Helpman. Harvard University Press pp. 292–328.
- Fearon, James D. and David D. Laitin. 2003. "Ethnicity, Insurgency, and Civil War." American Political Science Review 97(01):75–90.
- Garfinkel, Michelle R., Stergios Skaperdas and Constantinos Syropoulos. 2008. "Globalization and Domestic Conflict." *Journal of International Economics* 76(2):296–308.
- Gates, Scott, Benjamin A. T. Graham, Yonatan Lupu, Håvard Strand and Kaare W. Strøm. 2016. "Power Sharing, Protection, and Peace." *The Journal of Politics* 78(2):512–526.
- Gleditsch, Kristian Skrede. 2007. "Transnational Dimensions of Civil War." Journal of Peace Research 44(3):293–309.

- Gleditsch, Nils Petter, Peter Wallensteen, Mikael Eriksson, Margareta Sollenberg and Håvard Strand. 2002. "Armed Conflict 1946-2001: A New Dataset." *Journal of Peace Research* 39(5):615–637.
- Gómez, Carlos J. L., Luis Sánchez-Ayala and Gonzalo A. Vargas. 2015. "Armed conflict, land grabs and primitive accumulation in Colombia: micro processes, macro trends and the puzzles in between." *The Journal of Peasant Studies* 42(2):255–274.
- Grajales, Jacobo. 2011. "The rifle and the title: paramilitary violence, land grab and land control in Colombia." *The Journal of Peasant Studies* 38(4):771–792.
- Grossman, Herschell I. 1991. "A General Equilibrium Model of Insurrections." *The American Economic Review* 81(4):912–921.
- Gutiérrez-Sanín, Francisco. 2009. "Stupid and expensive?: a critique of the costs-of-violence literature." Crisis States Research Centre working papers series 2 (48). URL: http://eprints.lse.ac.uk/id/eprint/28496
- Hainmueller, Jens, Jonathan Mummolo and Yiqing Xu. 2019. "How Much Should We Trust Estimates from Multiplicative Interaction Models? Simple Tools to Improve Empirical Practice." *Political Analysis* 27(2):163–192.
- Hartzell, Caroline A., Matthew Hoddie and Molly Bauer. 2010. "Economic Liberalization via IMF Structural Adjustment: Sowing the Seeds of Civil War?" International Organization 64(02):339–356.
- Hegre, Håvard, Ranveig Gissinger and Nils Petter Gleditsch. 2003. Globalization and Internal Conflict. In *Globalization and Armed Conflict*, ed. Gerald Schneider, Katherine Barbieri and Nils Petter Gleditsch. Lanham, MD: Rowman & Littlefield Publishers, Inc. pp. 251—276.
- Helpman, Elhanan. 2006. "Trade, FDI, and the Organization of Firms." Journal of Economic Literature 44(3):589–630.
- Jones, Jonathan and Christian Miller. 2014. "Firestone and the Warlord.". Film Transcript. http://www.pbs.org/wgbh/frontline/film/firestone-and-thewarlord/transcript/, Accessed January 24, 2017.
- Kelejian, Harry H. 1971. "Two-Stage Least Squares and Econometric Systems Linear in Parameters but Nonlinear in the Endogenous Variables." Journal of the American Statistical Association 66(334):373–374.
- Kerner, Andrew. 2014. "What We Talk About When We Talk About Foreign Direct Investment." International Studies Quarterly 58(4):804–815.
- Krueger, Anne O. 1974. "The Political Economy of the Rent-Seeking Society." The American Economic Review 64(3):291–303.
- Kugler, Jacek and Ronald L. Tammen. 2012. *The Performance of Nations*. Lanham: Rowman & Littlefield Publishers, Inc.

- Kwok, Chuck C. Y. and Solomon Tadesse. 2006. "The MNC as an Agent of Change for Host-Country Institutions: FDI and Corruption." Journal of International Business Studies 37(6):767–785.
- Lall, Sanjaya. 1979. "Multinationals and Market Structure in an Open Developing Economy: The Case of Malaysia." Weltwirtschaftliches Archiv 115(2):325–350.
- London, Bruce and Thomas D. Robinson. 1989. "The Effect of International Dependence on Income Inequality and Political Violence." *American Sociological Review* 54(2):305–308.
- Loungani, Prakash, Ashoka Mody and Assaf Razin. 2002. "The Global Disconnect: The Role of Transactional Distance and Scale Economies in Gravity Equations." Scottish Journal of Political Economy 49(5):526–543. Blackwell Publishers Ltd.
- Maher, David. 2015. "The Fatal Attraction of Civil War Economies: Foreign Direct Investment and Political Violence, A Case Study of Colombia." *International Studies Review* 17(2):217–248.
- Markusen, James R. 1995. "The Boundaries of Multinational Enterprises and the Theory of International Trade." *The Journal of Economic Perspectives* 9(2):169–189.
- Marshall, Monty G. and Keith Jaggers. 2010. "Polity IV Project: Political Regime Characteristics and Transitions, 1800-2008.". Integrated Network for Societal Conflict Research.
- Martin, Philippe, Thierry Mayer and Mathias Thoenig. 2008. "Civil Wars and International Trade." Journal of the European Economic Association 6(2-3):541–550.
- Melitz, Marc. 2003. "The impact of Trade on Intra-industry Reallocations and Aggregate Industry Productivity." *Econometrica* 71(6):1695–1725.
- Melitz, Marc J. and Daniel Trefler. 2012. "Gains from Trade when Firms Matter." Journal of Economic Perspectives 26(2):91–118.
- Mihalache-O'keef, Andreea and Tatiana Vashchilko. 2010. "Chapter Seven: Foreign Direct Investors in Conflict Zones." *Adelphi Series* 50(412-413):137–156.
- Miklian, Jason and Peer Schouten. 2013. "Fluid Markets: Deep in Congo's Violent East, the Business of Beer Meets the Ugliness of War." *Foreign Policy*. September 3.
- Miller, T. Christian and Jonathan Jones. 2014. "Firestone and the Warlord: The Untold Story of Firestone, Charles Taylor and the Tragedy of Liberia." *PBS*. https://www.pbs.org/wgbh/frontline/article/firestone-and-the-warlord/, Accessed January 24, 2017.
- Newfarmer, Richard. 1979. "Oligopolistic Tactics to Control Markets and the Growth of TNCs in Brazil's Electrical Industry." *The Journal of Development Studies* 15(3):108–140.
- Olsson, Ola and Heather Congdon Fors. 2004. "Congo: The Prize of Predation." Journal of Peace Research 41(3):321–336.

- Olzak, Susan. 2011. "Does Globalization Breed Ethnic Discontent?" Journal of Conflict Resolution 55(1):3–32.
- Oneal, John R. and Bruce M. Russet. 1997. "The Classical Liberals Were Right: Democracy, Interdependence, and Conflict, 1950–1985." International Studies Quarterly 41(2):267–294.
- Pickering, Jeffrey and Emizet F. Kisangani. 2009. "The International Military Intervention Dataset: An Updated Resource for Conflict Scholars." Journal of Peace Research 46(4):589– 599.
- Pinto, Pablo M. and Boliang Zhu. 2016. "Fortune or Evil? The Effect of Inward Foreign Direct Investment on Corruption." International Studies Quarterly 60(4):693–705.
- Polachek, Solomon William. 1980. "Conflict and Trade." Journal of Conflict Resolution 24(1):55–78.
- Powell, Robert. 2006. "War as a Commitment Problem." International Organization 60(1):169–203.
- Richani, Nazih. 2005. "Multinational Corporations, Rentier Capitalism, and the War System in Colombia." Latin American Politics and Society 47(3):113–144.
- Robinson, Geoffrey. 1998. "Rawan Is as Rawan Does: The Origins of Disorder in New Order Aceh." Indonesia (66):127–157.
- Ross, Michael L. 2004. "How Do Natural Resources Influence Civil War? Evidence from Thirteen Cases." *International Organization* 58(01):35–67.
- Ross, Michael and Paasha Mahdavi. 2015. "Oil and Gas Data, 1932-2014.". Harvard Dataverse.
- Russett, Bruce and John Oneal. 2001. Triangular Peace: Democracy, Interdependence, and International Organizations. New York: W. W. Norton.
- Sandholtz, Wayne and Mark M. Gray. 2003. "International Integration and National Corruption." International Organization 57(04):761–800.
- Schneider, Gerald. 2014. "Peace Through Globalization and Capitalism? Prospects of Two Liberal Propositions." Journal of Peace Research 51(2):173–183.
- Shafer, D. Michael. 1994. Winners and Losers : How Sectors Shape the Developmental Prospects of States. Ithaca: Cornell University Press.
- Skaperdas, Stergios. 2008. "An Economic Approach to Analyzing Civil Wars." Economics of Governance 9(1):25–44.
- Skovoroda, Rodion, Shaun Goldfinch, Karl DeRouen and Trevor Buck. 2019. "The Attraction of FDI to Conflicted States: The Counter-Intuitive Case of US Oil and Gas." *Management International Review* 59(2):229–251.

- Snyder, Richard and Ravi Bhavnani. 2005. "Diamonds, Blood, and Taxes: A Revenue-Centered Framework for Explaining Political Order." *Journal of Conflict Resolution* 49(4):563–597.
- Sobek, David. 2010. "Masters of Their Domains: The Role of State Capacity in Civil Wars." Journal of Peace Research 47(3):267–271.
- Taydas, Zeynep and Dursun Peksen. 2012. "Can States Buy Peace? Social Welfare Spending and Civil Conflicts." Journal of Peace Research 49(2):273–287.
- Themnér, Lotta and Peter Wallensteen. 2014. "Armed conflicts, 1946-2013." Journal of Peace Research 51(4):541–554.
- Thomson, Frances. 2011. "The Agrarian Question and Violence in Colombia: Conflict and Development." Journal of Agrarian Change 11(3):321–356.
- Thyne, Clayton L. 2006. "ABC's, 123's, and the Golden Rule: The Pacifying Effect of Education on Civil War, 1980–1999." International Studies Quarterly 50(4):733–754.
- Tilly, Charles. 1978. From Mobilization to Revolution. Reading, MA: Addison-Wesley Pub. Co.
- UNCTAD. 2007. World Investment Report 2007: Transnational Corporations, Extractive Industries and Development. New York: United Nations.
- Walter, Barbara F. 1997. "The Critical Barrier to Civil War Settlement." International Organization 51(3):335–364.
- Walter, Barbara F. 2002. Committing to Peace: The Successful Settlement of Civil Wars. Princeton, N.J.: Princeton University Press.
- Wegenast, Tim and Gerald Schneider. 2017. "Ownership Natters: Natural Resources Property Rights and Social Conflict in Sub-Saharan Africa." *Political Geography* 61:110–122.
- Wooldridge, Jeffrey M. 2010. Econometric Analysis of Cross Section and Panel Data. Vol. 1 Cambridge, MA: MIT Press.
- Wright, Joseph and Boliang Zhu. 2018. "Monopoly Rents and Foreign Direct Investment in Fixed Assets." International Studies Quarterly 62(2):341–356.
- Zhu, Boliang. 2017. "MNCs, Rents, and Corruption: Evidence from China." American Journal of Political Science 61(1):84–99.

Brewing Violence: Foreign Investment and Civil Conflict

Online Appendix

Appendix A Entry, Productivity, and Profits

Consider a (duopolistic) market with domestic (d) and foreign (m) firms, facing prices (P = a - Q) and output ($Q = q^d + q^m$), where foreign firms m produce q^m and domestic firms d produce q^d . MNCs (m) and domestic firms (d) differ in their marginal costs (c^i), with $c^m < c^d$. When active domestic (d) and foreign (m) firms have profits: $\pi^d = [a - (q^d + q^m) - c^d]q^d$, and $\pi^m = [a - (q^d + q^m) - c^m]q^m$, respectively. Entry by m can affect economic rents/profits. Assume that firms are in Cournot competition, choosing an output conditional on the behavior of other market participants:

$$\begin{split} &\frac{\partial \pi^d}{\partial q^d} = a - 2q^d - q^m - c^d = 0 \Rightarrow q^d = \frac{a - q^m - c^d}{2}.\\ &\frac{\partial \pi^m}{\partial q^m} = 0 \Rightarrow q^m = \frac{a - q^d - c^m}{2}.\\ &\text{Replacing } q^m \text{ and } q^d \text{: } q^d = \frac{(a - 2c^d + c^m)}{3}, q^m = \frac{(a - 2c^m + c^d)}{3}2.\\ &\text{Output and prices are, respectively: } Q = \frac{(2a - c^d - c^m)}{3} \text{ and } P = \frac{(a + c^d + c^m)}{3}. \end{split}$$

Let $\Delta = c^d - c^m$ be the differential in marginal costs. We can show that the effect *m*'s entry on profits depends on Δ :

$$\pi^d = \frac{(a-c^d-\Delta)^2}{9}, \ \pi^m = \frac{(a-c^m+\Delta)^2}{9}.$$

Appendix B Sectoral FDI and Conflict

To explore the heterogeneity of foreign investment, we disaggregate FDI into the primary, secondary, and tertiary sector. Models 1-3 of Table A show the results from a probit model for each type of FDI. We see that primary and tertiary FDI are positively while secondary FDI is negatively associated with civil conflict onset. None of the coefficients achieves statistical significance. Models 4-6 re-estimate Models 1-3 by using geographic closeness as an instrument for sectoral FDI. After accounting for the endogeneity bias, we see that all three types of FDI have a strong positive effect on civil conflict. One caveat is that our instrument variable geographic closeness—is a much stronger predictor of secondary and tertiary FDI than primary FDI, as indicated by the *F*-statistics in Models 4-6. This also suggests that the results from the IV estimator reported in the paper are mainly driven by FDI in the secondary and tertiary sectors.

		Probit			IV Probit	
	(1)	(2)	(3)	(4)	(5)	(6)
	Pri.	Sec.	Ter.	Pri.	Sec.	Ter.
FDI per Capita (cube root)	0.06	-0.05	0.03	0.45^{***}	0.45^{***}	0.42^{***}
	(0.04)	(0.04)	(0.06)	(0.02)	(0.03)	(0.03)
State Capacity (RPE)	0.99^{***}	1.03^{***}	0.98^{***}	-0.59^{***}	0.16	0.77^{***}
	(0.34)	(0.34)	(0.34)	(0.16)	(0.19)	(0.21)
GDP per Capita (log)	-0.30**	-0.27^{*}	-0.35^{**}	0.20^{***}	-0.64^{***}	-1.16^{***}
	(0.15)	(0.15)	(0.17)	(0.05)	(0.12)	(0.09)
Population (log)	0.27^{***}	0.22^{***}	0.21^{***}	0.27^{***}	-0.09^{***}	-0.01
	(0.07)	(0.07)	(0.07)	(0.03)	(0.03)	(0.04)
Growth Rate	-0.01	0.01	-0.00	-0.09**	0.02	-0.11**
	(0.08)	(0.08)	(0.08)	(0.04)	(0.04)	(0.04)
Polity IV	0.21	0.19	0.18	-0.12^{*}	0.18^{*}	0.31^{***}
	(0.17)	(0.18)	(0.18)	(0.07)	(0.11)	(0.12)
Nat. Resources (log)	0.07	0.10^{**}	0.11^{**}	-0.23***	0.10^{***}	0.23^{***}
	(0.05)	(0.05)	(0.04)	(0.02)	(0.03)	(0.02)
Ethnic Frac.	0.28	0.27	0.24	0.10	-0.10	-0.91^{***}
	(0.54)	(0.55)	(0.55)	(0.15)	(0.24)	(0.28)
Religious Frac.	-0.23	-0.18	-0.24	0.02	-0.11	-0.21
	(0.51)	(0.51)	(0.51)	(0.21)	(0.19)	(0.25)
% Mountains (log)	0.04	0.03	0.02	0.05	0.04	0.07
	(0.09)	(0.09)	(0.09)	(0.03)	(0.05)	(0.05)
Noncontiguous	0.66^{***}	0.76^{***}	0.77^{***}	-0.41^{***}	0.20	0.79^{***}
	(0.24)	(0.24)	(0.24)	(0.14)	(0.13)	(0.16)
Cold War	0.19	0.04	0.14	0.54^{***}	0.27^{***}	0.76^{***}
	(0.26)	(0.25)	(0.28)	(0.10)	(0.10)	(0.13)
Constant	-0.55	-0.45	0.11	-3.37***	3.84^{***}	7.39^{***}
	(1.31)	(1.29)	(1.38)	(0.46)	(0.87)	(0.72)
N	908	908	908	908	908	908
Pseudo R^2	0.28	0.28	0.28			
F-Statistic				0.27	10.59	34.97
(Excluded Instrument)						
P > F'				0.60	0.00	0.00

Table A: Sectoral FDI and Civil Conflict Onset (Probit)

Standard errors in parentheses

* p < 0.10, ** p < 0.05, *** p < 0.01

Note: All models include a time polynomial to account for time dependence and their coefficients are not reported. Robust standard errors in parentheses. * significant at 10%, ** significant at 5%; *** significant at 1%.

Appendix C FDI and Conflict Type

In this section, we report results on FDI and different types of internal conflict. We have argued that in developing countries inward FDI results in market concentration and high rents, which in turn increase rebels' incentive to challenge the government or to capture the rents to enhance their fighting capabilities, regardless of their motivations. Therefore, we expect the positive effect of FDI to hold for different types of intrastate armed conflict. The UCDP/PRIO armed conflict data set reports three types of incompatibility between a government and rebels: incompatible concerns about government, territory, or both. We code an onset of conflict as a government conflict if the conflict in that year is over government or both government and territory are contested, and as a territory conflict if the conflict is over territory or both government and territory are contested. We use two intermittent peace years to treat a recurrence of the conflict as a new onset and drop the subsequent years of an ongoing conflict in the regression. Models 1 and 2 in Table B present the results on the onset of conflict over government and territory, respectively. Consistent with our expectation, both coefficients of FDI per capita are positive and statistically significant.

	(1)	(2)
	Govt.	Terr.
FDI per Capita (cube root)	0.22^{***}	0.31^{***}
	(0.07)	(0.02)
State Capacity (RPE)	0.06	0.08
	(0.09)	(0.08)
GDP per Capita (log)	-0.56***	-0.57***
	(0.10)	(0.06)
Population (log)	0.09***	0.12***
_ 、 _/	(0.03)	(0.03)
Growth Rate	-0.09***	-0.10***
	(0.03)	(0.02)
Polity IV	-0.01	-0.02
	(0.07)	(0.05)
Nat. Resources (log)	0.07***	0.06***
· -/	(0.02)	(0.02)
Ethnic Frac.	0.54^{***}	0.45^{***}
	(0.17)	(0.14)
Religious Frac.	-0.45***	-0.68***
	(0.17)	(0.15)
% Mountains (log)	0.04	0.02
	(0.02)	(0.02)
Noncontiguous	0.43^{***}	0.35^{***}
	(0.14)	(0.13)
Cold War	0.43^{***}	0.43^{***}
	(0.14)	(0.09)
Constant	1.70^{*}	2.40^{***}
	(0.87)	(0.56)
N	3401	3375
F-Statistic	24.45	40.50
(Excluded Instrument)	04.40	40.00
P > F	0.00	0.00

Table B: FDI and Civil Conflict Type (IV Probit)

Note: All models include a time polynomial to account for time dependence and their coefficients are not reported. Robust standard errors in parentheses. * significant at 10%, ** significant at 5%; *** significant at 1%.

Appendix D Conflict Duration and Total Number of Conflicts

This section examines the effect of FDI on the presence/duration of civil conflict and the number of conflicts within a country. To model the presence/duration of civil conflict, we use conflict incidence as the dependent variable, which is coded 1 if there is at least one active conflict in a country-year and 0 if otherwise. Model 1 in Table C presents results from an IV probit model. FDI per capita has a strong positive effect on conflict incidence. Model 2 estimates an IV logit model with time dependence, which is equivalent to a duration model (Beck, Katz and Tucker 1998). We use the two-stage residual inclusion (2SRI) estimator in which the first-stage residuals are included as additional regressors as opposed to the two-stage predictor substitution (2SPS) estimator, because for nonlinear models the former produces consistent estimates but the latter does not (Terza, Basu and Rathouz 2008). Standard errors are bootstrapped. Model 2 shows that the coefficient of FDI is positive and significant at the 5% level, which suggests that inward FDI prolongs the duration of conflict. Model 3 uses the number of active conflicts in a country-year as the dependent variable and estimates a 2SLS model. The results show that FDI inflows increase the number of conflicts as well.

	Conflict	Duration	Total Conflicts
	(1)	(2)	(3)
	Probit	Logit	2SLS
FDI per Capita (cube root)	0.25^{***}	0.59^{**}	0.16^{***}
	(0.05)	(0.23)	(0.04)
State Capacity (RPE)	-0.05	-0.17	0.01
	(0.07)	(0.16)	(0.03)
GDP per Capita (log)	-0.42^{***}	-0.95^{**}	-0.22***
	(0.09)	(0.38)	(0.06)
Population (log)	0.11^{***}	0.27^{***}	0.09^{***}
	(0.02)	(0.05)	(0.01)
Growth Rate	-0.07**	-0.15^{*}	-0.04***
	(0.03)	(0.08)	(0.01)
Polity IV	-0.03	-0.08	-0.03*
	(0.05)	(0.14)	(0.02)
Nat. Resources (log)	0.02	0.04	0.00
	(0.01)	(0.04)	(0.01)
Ethnic Frac.	0.20^{*}	0.48^{*}	0.32^{***}
	(0.11)	(0.25)	(0.04)
Religious Frac.	-0.28^{**}	-0.58	-0.28***
	(0.14)	(0.38)	(0.06)
% Mountains (log)	0.06^{***}	0.15^{***}	0.01
	(0.02)	(0.05)	(0.01)
Noncontiguous	0.10	0.26	0.32^{***}
	(0.08)	(0.18)	(0.05)
Cold War	0.61^{***}	1.47^{***}	0.33^{***}
	(0.08)	(0.41)	(0.07)
First-Stage Residual		-0.61^{***}	
		(0.23)	
Constant	2.34^{***}	5.15^{**}	1.56^{***}
	(0.55)	(2.22)	(0.37)
N	4114	4114	4114
F-Statistic (Excluded Instrument)	35.48	35.35	35.35
P > F	0.00	0.00	0.00

Table C: Conflict Presence/Duration and Number of Conflicts

Note: All models include a time polynomial to account for time dependence and their coefficients are not reported. Robust standard errors in Models 1 and 3 and bootstrapped standard errors in Model 2. * significant at 10%, ** significant at 5%; *** significant at 1%.

Appendix E Coding Civil Conflict Onset

In the paper, the civil conflict onset variable is coded 1 if this is a new onset or it has been at least two years since the last observation of the conflict, and the subsequent years of an ongoing conflict are dropped to model onset. In this section, we examine whether our results are sensitive to how the civil conflict onset variable is coded. In Model 1 of Table D, we include the subsequent years of an ongoing conflict. In Models 2–5, we use different numbers of intermittent years—2, 5, 8, and 20—to treat a recurrence of the conflict as a new onset and drop the subsequent years of an ongoing conflict. Finally, Model 6 utilizes only completely new onsets of civil conflict. We see from Table D that the empirical results are robust and consistent. FDI inflows correlate positively and strongly with civil conflict onset regardless of how we code it.

	(1)	(2)	(3)	(4)	(5)	(6)
	Onset2	Onset1	Onset5	Onset8	Onset20	New
FDI per Capita (cube root)	0.26***	0.25***	0.27***	0.27***	0.26***	0.27***
	(0.06)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
State Capacity (RPE)	0.09	0.02	0.13	0.13	0.15^{*}	0.16^{*}
	(0.07)	(0.08)	(0.08)	(0.08)	(0.09)	(0.09)
GDP per Capita (log)	-0.56***	-0.54^{***}	-0.58***	-0.59^{***}	-0.55***	-0.54^{***}
	(0.07)	(0.07)	(0.06)	(0.06)	(0.07)	(0.07)
Population (log)	0.08^{***}	0.10^{***}	0.10^{***}	0.10^{***}	0.10^{***}	0.09^{***}
	(0.02)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Growth Rate	-0.07**	-0.07**	-0.11***	-0.11***	-0.11***	-0.12^{***}
	(0.03)	(0.03)	(0.02)	(0.02)	(0.02)	(0.02)
Polity IV	-0.04	-0.04	0.02	0.02	-0.01	-0.00
	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.07)
Nat. Resources (log)	0.06***	0.05^{***}	0.06***	0.06***	0.05^{***}	0.05^{***}
	(0.01)	(0.02)	(0.01)	(0.02)	(0.02)	(0.02)
Ethnic Frac.	0.27^{**}	0.47^{***}	0.23^{**}	0.24^{**}	0.30^{**}	0.28^{**}
	(0.12)	(0.13)	(0.12)	(0.12)	(0.13)	(0.13)
Religious Frac.	-0.45^{***}	-0.52^{***}	-0.55***	-0.49^{***}	-0.62***	-0.66***
	(0.14)	(0.14)	(0.15)	(0.15)	(0.17)	(0.17)
% Mountains (log)	0.02	0.03	0.02	0.02	0.01	-0.01
	(0.02)	(0.02)	(0.02)	(0.02)	(0.03)	(0.03)
Noncontiguous	0.26^{**}	0.41^{***}	0.44^{***}	0.40^{***}	0.48^{***}	0.49^{***}
	(0.11)	(0.12)	(0.13)	(0.12)	(0.15)	(0.15)
Cold War	0.46^{***}	0.43^{***}	0.56^{***}	0.58^{***}	0.56^{***}	0.61^{***}
	(0.11)	(0.10)	(0.07)	(0.07)	(0.08)	(0.07)
Constant	2.14^{***}	2.25^{***}	2.29^{***}	2.34^{***}	2.09^{***}	2.10^{***}
	(0.67)	(0.58)	(0.57)	(0.56)	(0.64)	(0.65)
N	4114	3485	3406	3396	3375	3364
F-Statistic (Excluded Instrument)	33.50	36.68	36.56	36.44	41.21	40.76
P > F	0.00	0.00	0.00	0.00	0.00	0.00

Table D: FDI and Civil Conflict Onset: Different Intermittent Years (IV Probit)

Note: All models include a time polynomial to account for time dependence and their coefficients are not reported. Robust standard errors in parentheses. * significant at 10%, ** significant at 5%; *** significant at 1%.

Appendix F Different Transformations and Measures of the Independent Variable

FDI per capita data exhibit a highly skewed distribution, as shown in the left panel of Figure A. A skewed distribution may make regression results sensitive to outliers or extreme values. In the main model specifications, we take the cube root of the real FDI per capita variable to address its skewness. The advantages of the cube root transformation are twofold: first, it yields an approximately normal distribution (see the middle panel in Figure A); second, it works for negative values.

Figure A: Distribution of Untransformed and Transformed FDI Variables



Another commonly used transformation to deal with skewness is to take the natural logarithm. Since FDI inflow data contain negative values, a common practice is to add a minimum positive constant to make all values positive, then do the log transformation. There are two concerns with this approach. First, adding a positive constant changes the substantive meaning of negative values because negative FDI inflows (i.e., where divestment is larger than investment) typically signal worsening business environments. Second, it actually makes the distribution even more skewed (see the right panel in Figure A). We suggest that scholars should consider using the root transformation to deal with the skewed distribution of variables that contain negative values. We want to make sure our empirical results are not a product of the specific variable transformation or measure we use. In Model 1 of Table Appendix F, we use the untransformed FDI per capita variable and obtain consistent results. Note that our IV is not a strong predictor of the untransformed FDI per capita variable due to its highly skewed distribution, and thus the results should be interpreted cautiously. Models 2 and 3 replace FDI per capita with the FDI/GDP ratio and its cube root transformation, respectively. The results hold the same. Model 4 presents the regression results using real FDI stock per capita as the independent variable. We see that the results are consistent with those obtained when FDI inflow per capita is used as the independent variable. FDI stock per capita has a strong positive effect on civil conflict onset.

	(1)	(2)	(3)	(4)
FDI per Capita	1.22***			()
	(0.11)			
FDI/GDP	()	0.17^{***}		
,		(0.02)		
FDI/GDP (cube root)		()	1.12^{***}	
			(0.18)	
FDI Stock per Capita (cube root)			()	0.21^{***}
, , ,				(0.02)
State Capacity (RPE)	0.21^{***}	-0.11	-0.05	0.17^{**}
- • • • •	(0.04)	(0.09)	(0.07)	(0.07)
GDP per Capita (log)	-0.50***	-0.10*	-0.19***	-0.89***
	(0.03)	(0.06)	(0.05)	(0.06)
Population (log)	0.02	0.14^{***}	0.11^{***}	0.13^{***}
	(0.03)	(0.02)	(0.03)	(0.03)
Growth Rate	-0.04^{***}	-0.08***	-0.09^{***}	-0.04^{*}
	(0.01)	(0.02)	(0.03)	(0.02)
Polity IV	0.17^{***}	-0.05	-0.13**	0.02
	(0.03)	(0.04)	(0.06)	(0.05)
Nat. Resources (log)	0.08^{***}	0.01	0.04^{**}	0.05^{***}
	(0.01)	(0.01)	(0.01)	(0.02)
Ethnic Frac.	0.05	0.15	0.28^{**}	0.02
	(0.10)	(0.12)	(0.13)	(0.16)
Religious Frac.	-0.42^{***}	-0.43^{***}	-0.40**	-0.41^{***}
	(0.11)	(0.16)	(0.17)	(0.14)
% Mountains (log)	0.06^{***}	0.03^{*}	0.03^{*}	0.06^{***}
	(0.01)	(0.02)	(0.02)	(0.02)
Noncontiguous	0.20^{**}	0.24^{*}	0.36^{***}	0.27^{*}
	(0.10)	(0.13)	(0.13)	(0.14)
Cold War	0.27^{***}	0.42^{***}	0.51^{***}	0.56^{***}
	(0.03)	(0.07)	(0.10)	(0.07)
Constant	3.18^{***}	-0.69*	-0.76*	4.53^{***}
	(0.31)	(0.39)	(0.40)	(0.56)
N 	3451	3476	3476	2774
F-Statistic	2.68	21.50	30.58	14.73
(Excluded Instrument)				
P > F	0.10	0.00	0.00	0.00

Table E: Different Transformations and Measures of the Independent Variable (IV Probit)

Note: All models include a time polynomial to account for time dependence and their coefficients are not reported. Robust standard errors in parentheses. * significant at 10%, ** significant at 5%; *** significant at 1%.

Appendix G Military Interventions and U.S. Covert Operations

In the paper, we control for international military interventions to address the concern that our instrumental variable may capture major powers' geopolitical interests. The correlation between our instrument and the weighted military intervention variable is -0.02 in the sample. As shown in Model 5 of Table 1, our main findings remain robust and consistent when we add this variable to the model. In that model, we treat all military interventions the same and do not distinguish the direction of intervention. To further check the robustness of our findings, in Models 1–3 of Table F, we consider different types of military interventions from the 20 capital source countries in a given year: non-neutral, favoring the government, or favoring rebels. We weight the interventions by the capital source countries' share of GDP per capita among the 20 economies and lag the intervention variables one year to address endogeneity. Adding these variables does not substantively affect the results of the first-state stage regression. The secondstage results show that the military intervention variables do not have a significant effect on the onset of civil conflict. The coefficient of real FDI per capita remains positive and significant.

In Model 4, we further control for U.S. covert operations during the Cold War.¹ The data are from Berger et al. (2013). This variable is lagged to deal with potential endogeneity. The correlation between U.S. covert operations and the instrument is -0.22 in our sample, significant at the 1% level. The results show that U.S. covert operations do not significantly affect conflict onset, though the coefficient is positive. Our main finding regarding inward FDI and conflict remains the same.

 $^{^{1}}$ The Soviet Union is not among the 20 wealthiest economies included in the construction of the instrumental variable.

	(1)	(0)	(\mathbf{a})	(1)
	(1)	(2)	(3)	(4)
FDI per Capita (cube root)	0.27***	0.27***	0.27***	0.27***
	(0.04)	(0.04)	(0.04)	(0.04)
State Capacity (RPE)	0.07	0.07	0.08	0.08
	(0.08)	(0.08)	(0.08)	(0.08)
GDP per Capita (log)	-0.56^{***}	-0.56^{***}	-0.56^{***}	-0.57^{***}
	(0.06)	(0.06)	(0.06)	(0.06)
Population (log)	0.09^{***}	0.09^{***}	0.09^{***}	0.09^{***}
	(0.03)	(0.03)	(0.03)	(0.03)
Growth Rate	-0.08***	-0.08***	-0.08***	-0.08***
	(0.03)	(0.03)	(0.03)	(0.03)
Polity IV	-0.03	-0.03	-0.03	-0.03
	(0.06)	(0.06)	(0.06)	(0.06)
Nat. Resources (log)	0.06***	0.06***	0.06***	0.06***
	(0.01)	(0.01)	(0.01)	(0.01)
Ethnic Frac.	0.39***	0.39***	0.41***	0.41***
	(0.12)	(0.12)	(0.13)	(0.12)
Religious Frac.	-0.57***	-0.57***	-0.57***	-0.54***
0	(0.14)	(0.14)	(0.14)	(0.14)
% Mountains (log)	0.03^{-1}	0.03^{-1}	0.03^{-1}	0.03
	(0.02)	(0.02)	(0.02)	(0.02)
Noncontiguous	0.43***	0.43***	0.43***	0.41***
0.000	(0.12)	(0.12)	(0.12)	(0.12)
Cold War	0.49***	0.49***	0.49***	0.46***
0.000	(0.09)	(0.09)	(0.09)	(0.09)
Interventions (Nonneutral)	0.88	(0.00)	(0.00)	(0.00)
	(1.06)			
Interventions (Favor Gov.)	(1.00)	0.19		
		(1.31)		
Interventions (Favor Reb.)		(1.01)	7 77	
			(5.30)	
U.S. Covert Operations			(0.00)	0.20
0.5. Covert Operations				(0.13)
Constant	9 2/***	9 2/***	9 21***	(0.13) 2 28***
Constant	(0.55)	(0.55)	(0.56)	(0.52)
Ν	2451	2451	2451	2204
IV E Statistic	9491	0401	9491	0094
F-StaulStic	35.68	35.67	35.96	35.90
(Excluded Instrument) D > E	0.00	0.00	0.00	0.00
$\Gamma > \Gamma$	0.00	0.00	0.00	0.00

Table F: Interventions and Civil Conflict Onset (IV Probit)

Note: All models include a time polynomial to account for time dependence and their coefficients are not reported. Robust standard errors in parentheses. * significant at 10%, ** significant at 5%; *** significant at 1%.

Appendix H Linearity Assumption and Common Support in Interaction Models

We examine the linear interaction effect (LIE) assumption and common support in the models reported in Table 4 in the paper. We conduct three steps of diagnostics (Hainmueller, Mummolo and Xu 2019): first, we present a visual diagnostic with partial regression plots;² second, we estimate a three-bin model and compare the results with those from the linear interaction model; third, we relax the LIE assumption and fit a kernel regression.

Figure B presents the partial regression plots of conflict onset and FDI for low, medium, and high values of RPE, respectively. We see that the linear regression lines (blue) and the LOESS lines overlap, suggesting that the relationship between conflict onset and FDI is reasonably linear in the three groups. The figure also shows that all three slopes are positive; the first and second slopes are larger than the third one, which suggests a negative interaction effect. Finally, we do not see a lack of common support in the three groups. There are a sufficient number of observations and sufficient variation on the FDI variable at low, medium and high values of the moderator—RPE.

We further estimate a three-bin model. The left-panel of Figure C plots the results. The Wald test rejects the null hypothesis that the linear interaction model is equivalent to the threebin model. In other words, the marginal effects along the level of RPE are not strictly linear. To further check how the marginal effect of FDI changes along the level of RPE, we utilize the kernel estimator that does not assume a linear interaction effect. The kernel estimator is a semi-parametric approach, allowing researchers to flexibly estimate the function form of the marginal effect across the values of the moderator (Hainmueller, Mummolo and Xu 2019). The right-panel in Figure C plots the results from the kernel estimator. We see that the marginal effect of FDI on conflict onset decreases when the value of the RPE increases.

We repeat the diagnostics for the tax/GDP variable. Figure D shows the scatterplots

 $^{^{2}}$ The correlations between the dependent variable and covariates are partialed out.



Figure B: Partial Regression Plots (RPE)

Figure C: Conditional Marginal Effects from Binning and Kernel Estimator (RPE)



Marginal Effects from the Binning Estimator Marginal Effects from the Kernel Estimator

for low, medium, and high values of tax/GDP. We see a very similar pattern as that in Figure B. The left-panel of Figure E plots the results from the three-bin model. The Wald test rejects the null hypothesis that the linear interaction model is equivalent to the three-bin model. The right-panel of Figure E presents the results from the kernel estimator. The marginal effect of FDI on conflict onset decreases when the value of tax/GDP increases.

Finally, we examine the LIE and common support for the primary school enrollment rate moderator. The scatterplots in Figure F show that the relationship between conflict onset and



Figure D: Partial Regression Plots (Tax/GDP)

Figure E: Conditional Marginal Effects from Binning and Kernel Estimator (Tax/GDP)



Marginal Effects from the Binning Estimator Marginal Effects from the Kernel Estimator

FDI is reasonably linear in the three groups. The three slopes are all positive. The magnitude of the slope decreases across the three groups, suggesting a negative interaction effect. Moreover, the figure does not indicate a lack of common support.

The left-panel in Figure G plots the marginal effects from the binning estimator. The Wald test cannot reject the null hypothesis that the linear interaction model is equivalent to the three-bin model. The results from the kernel estimator show that the marginal effect decreases along the level of primary school enrollment rates, as shown in the right panel of Figure G.



Figure F: Partial Regression Plots (Enrollment Rate)

Figure G: Conditional Marginal Effects from Binning and Kernel Estimator (Enrollment Rate)



In sum, our diagnostics do not suggest an issue of lack of common support in the three interaction models reported in Table 4 of the paper. In all three models, the results from the kernel estimator show that the marginal effect of FDI on conflict onset decreases along the level

of the moderator, which is consistent with our theoretical expectation.

Appendix I Other Supplementary Information

	(1)	(2)	(3)	(4)	(5)	(6)
Geographic Closeness (log)	0.62***	0.41***	0.52***	0.62***	0.65***	0.94***
	(0.10)	(0.11)	(0.12)	(0.10)	(0.10)	(0.16)
State Capacity (RPE)	-0.25	-0.57***	-0.24	-0.25	0.09	-1.10***
	(0.16)	(0.16)	(0.16)	(0.16)	(0.12)	(0.36)
GDP per Capita (log)	1.61***	1.49***	1.56***	1.61***	1.90***	2.53***
1 1 (0)	(0.10)	(0.09)	(0.12)	(0.10)	(0.10)	(0.18)
Population (log)	-0.09**	0.24***	-0.07*	-0.09**	-0.10***	0.28***
1 (0)	(0.04)	(0.05)	(0.04)	(0.04)	(0.04)	(0.06)
Growth Rate	0.33***	0.29***	0.34***	0.32***	0.34***	0.12^{*}
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.07)
Polity IV	0.39***	0.43***	0.30***	0.38***	0.07	-0.24
v	(0.10)	(0.09)	(0.09)	(0.10)	(0.10)	(0.21)
Nat. Resources (log)	-0.15***	-0.11***	-0.13***	-0.15***	-0.06*	-0.39***
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.04)
Ethnic Frac.	-0.07	-0.09	-0.11	-0.08	0.30^{*}	2.13***
	(0.19)	(0.19)	(0.20)	(0.19)	(0.18)	(0.47)
Religious Frac.	0.99***	1.00***	0.95***	0.99***	0.56***	0.71^{*}
-	(0.22)	(0.23)	(0.26)	(0.22)	(0.20)	(0.38)
% Mountains (log)	-0.06*	-0.05	-0.06*	-0.06*	-0.08**	-0.01
(- <i>i</i>	(0.04)	(0.03)	(0.03)	(0.04)	(0.03)	(0.08)
Noncontiguous	-0.04	-0.58***	0.00	-0.05	-0.09	-1.26***
	(0.21)	(0.22)	(0.22)	(0.21)	(0.16)	(0.28)
Cold War	-1.26***	-0.83***	-1.41***	-1.26***	-1.00***	-1.12***
	(0.14)	(0.14)	(0.14)	(0.14)	(0.13)	(0.19)
Trade Openness (log)		1.65^{***}				
		(0.14)				
UN Voting Similarity			1.76^{***}			
			(0.40)			
Aid (log)			-0.00			
			(0.06)			
Alliance			-0.04			
			(1.41)			
Colonial Ties			4.04			
			(2.58)			
Military Interventions				-2.24		
				(1.37)		
Constant	-12.05^{***}	-17.70^{***}	-11.98^{***}	-12.02^{***}	-14.64^{***}	-23.23***
	(0.83)	(0.99)	(0.93)	(0.83)	(0.80)	(1.75)
N	3451	3328	3451	3451	2964	908
F-Statistic	$35 \ 94$	14 23	18.30	$35 \ 77$	45 91	35 91
(Excluded Instrument)	00.01	11.40	10.00	00.11	10.01	00.01
P > F	0.00	0.00	0.00	0.00	0.00	0.00

Table G: First-Stage Regressions of Models 2-7 in Table 1 (OLS)	Table G: First-Stage	Regressions	of Models	2-7 in	Table 1	(OLS)
---	----------------------	-------------	-----------	--------	---------	-------

Note: All models include a time polynomial and their coefficients are not reported. Robust standard errors in parentheses. * significant at 10%, ** significant at 5%; *** significant at 1%.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
FDI per Capita (cube root)	-0.00	0.04***	0.06***	0.06***	0.04***	0.03***	
	(0.00)	(0.01)	(0.02)	(0.02)	(0.01)	(0.01)	
Nonprimary FDI (cube root)							0.05***
	0.01	0.01	0 0 1**	0.00	0.01	0.00	(0.02)
State Capacity (RPE)	(0.01)	(0.01)	0.04^{**}	0.02	(0.01)	-0.00	0.10^{***}
CDD = c C c c t (1 - c)	(0.01)	(0.01)	(0.02)	(0.01)	(0.01)	(0.01)	(0.03)
GDP per Capita (log)	-0.01	-0.07	-0.10	-0.10	-0.07	-0.08	-0.15
Population (log)	0.01	(0.02) 0.02***	-0.00	(0.03) 0.02***	(0.02) 0.02***	(0.02) 0.02***	(0.04)
	(0.01)	(0.02)	(0.01)	(0.02)	(0.02)	(0.02)	(0.01)
Growth Rate	0.00	-0.01**	-0.01**	-0.02**	-0.01**	-0.01	-0.01
	(0.00)	(0.00)	(0.01)	(0.01)	(0.00)	(0.00)	(0.01)
Polity IV	0.01	-0.00	-0.01	-0.00	-0.00	0.02**	0.05***
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)
Nat. Resources (log)	0.00	0.01^{***}	0.01^{**}	0.01^{***}	0.01^{***}	-0.00	0.02^{***}
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)
Ethnic Frac.	0.06^{***}	0.08^{***}	0.09^{***}	0.09***	0.08^{***}	0.06^{***}	-0.03
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.05)
Religious Frac.	-0.07^{***}	-0.11***	-0.14***	-0.13***	-0.11***	-0.09***	-0.08*
V Mountaing (lag)	(0.02)	(0.03)	(0.03)	(0.03)	(0.03)	(0.02)	(0.05)
% Mountains (log)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	-0.00
Noncontiguous	(0.00) 0 14***	(0.00) 0 14***	0.18***	(0.00) 0 14***	(0.00) 0 14***	0.13***	0.19***
Toncontiguous	(0.02)	(0.02)	(0.03)	(0.03)	(0.02)	(0.03)	(0.05)
Cold War	0.00	0.06***	0.06**	0.11^{***}	0.06^{***}	0.05***	0.09**
	(0.01)	(0.02)	(0.03)	(0.03)	(0.02)	(0.02)	(0.04)
Trade Openness (log)	()	()	-0.10***			()	
			(0.04)				
UN Voting Similarity				-0.19^{***}			
				(0.06)			
Aid (log)				-0.01			
A 11.				(0.01)			
Alliance				(0.02)			
Colorial Tion				(0.12)			
Colonial Ties				(0.25)			
Military Interventions				(0.20)	0.04		
Winter y miler ventions					(0.12)		
Constant	0.14^{***}	0.48^{***}	1.10^{***}	0.76^{***}	0.48^{***}	0.56^{***}	1.08^{***}
	(0.05)	(0.12)	(0.36)	(0.22)	(0.12)	(0.13)	(0.33)
N	3451	3451	3328	3451	3451	2964	908
F-Statistic		35 70	14 16	18 20	<u> 25 61</u>	15 67	25 20
(Excluded Instrument)		99.19	14.10	10.20	00.01	40.07	00.04
P > F		0.00	0.00	0.00	0.00	0.00	0.00
	OLS	2SLS	2SLS	2SLS	2SLS	2SLS	2SLS

Table H: FDI and Civil Conflict Onset (Linear Probability Model)

Note: All models include a time polynomial to account for time dependence and their coefficients are not reported. Robust standard errors in parentheses. * significant at 10%, ** significant at 5%; *** significant at 1%. Models 1-5 are estimated with the full sample. Model 6 excludes observations with more than one-third of their export revenues from fuels. Model 7 utilizes nonprimary FDI only.

	(1)	(2)	(3)
FDI per Capita (cube root)	0.16^{***}	0.17^{***}	
	(0.05)	(0.06)	
Nonprimary FDI (cube root)			0.31^{***}
			(0.03)
Population (log)	0.17^{***}	0.16^{***}	0.13^{***}
	(0.02)	(0.02)	(0.04)
Ethnic Frac.	0.87^{***}	0.91^{***}	0.70^{***}
	(0.14)	(0.16)	(0.18)
Religious Frac.	-0.33**	-0.34^{*}	-0.48**
	(0.17)	(0.19)	(0.23)
% Mountains (log)	0.05^{**}	0.06**	0.01
	(0.03)	(0.03)	(0.05)
Noncontiguous	0.33^{**}	0.23	0.33***
	(0.14)	(0.16)	(0.12)
Cold War	0.44***	0.37^{**}	0.74^{***}
	(0.14)	(0.15)	(0.12)
Constant	-2.43^{***}	-2.45^{***}	-2.28^{***}
	(0.17)	(0.22)	(0.30)
N	3642	3125	917
F-Statistic	09 97	97 19	10 55
(Excluded Instrument)	09.91	01.40	19.99
P > F	0.00	0.00	0.00

Table I: FDI and Civil Conflict Onset: Reduced Form Regression with Most Exogenous Covariates (IV Probit)

Note: All models include a time polynomial to account for time dependence and their coefficients are not reported. Robust standard errors in parentheses. * significant at 10%, ** significant at 5%; *** significant at 1%. Models 1-5 are estimated with the full sample. Model 6 excludes observations with more than one-third of their export revenues from fuels. Model 7 utilizes nonprimary FDI only.

Variable	Obs	Mean	Std. Dev.	Min	Max
FDI per Capita (cube root)	4,114	3.92	3.55	-20.24	25.66
FDI Stock per Capita (cube root)	$3,\!320$	9.60	6.07	0	58.89
Geo. Closeness	4,114	4.74	0.62	3.40	7.10
RPE	4,114	-0.03	0.43	-0.93	2.47
Tax/GDP	4,114	-0.01	0.52	-2.69	1.66
Enrollment (Primary)	$3,\!550$	0.00	0.24	-0.90	0.73
GDP per Capita (log)	4,114	8.23	1.07	4.96	12.31
Population (log)	4,114	2.19	1.55	-0.98	7.21
Growth Rate	4,114	1.18	1.27	-3.71	4.74
Polity IV	4,114	0.00	0.69	-1	1
Nat. Resources (log)	4,114	2.41	2.96	0	10.91
Ethnic Frac.	4,114	0.53	0.25	0	0.92
Religious Frac.	4,114	0.38	0.21	0	0.78
% Mountains (log)	4,114	2.01	1.46	0	4.56
Noncontiguous	4,114	0.10	0.30	0	1
Cold War	4,114	0.40	0.49	0	1
Voting Similarity	4,114	0.34	0.13	-0.19	0.88
Aid (log)	4,114	1.26	1.03	0	5.30
Alliance	4,114	0.04	0.05	0	0.16
Colonial Ties	4,114	0.04	0.02	0	0.12
Military Interventions	4,114	0.00	0.02	0	0.69

Table J: Descriptive Statistics of Main Explanatory Variables

$\begin{array}{c cccc} cap & cap \\ \hline FDI/cap & 1.00 \\ FDI Stock/cap & 0.76 & 1.00 \\ Geo. Closeness & 0.34 & 0.31 \\ RPE & -0.04 & -0.06 \\ Tax/GDP & 0.23 & 0.29 \\ Enrollment (Primary) & 0.27 & 0.29 \\ GDP/cap & 0.51 & 0.69 \\ Pop & -0.13 & -0.24 \\ Growth & 0.15 & 0.09 \\ Polity & 0.26 & 0.19 \\ Nat. Res. & 0.13 & 0.25 \\ Ethnic Frac. & -0.16 & -0.18 \\ Relig. Frac. & -0.03 & -0.04 \\ Mountains & -0.09 & -0.18 \\ Noncontig. & -0.01 & -0.02 \\ Cold War & -0.33 & -0.25 \\ UN Voting & 0.18 & 0.21 \\ Aid & -0.28 & -0.45 \\ \end{array}$	Close. 1.00 0.01 0.16 0.07 0.31 0.04 0.05 0.10 0.22 -0.24 -0.09 -0.06 -0.07 -0.53 0.18 -0.15 -0.20	$\begin{array}{c} 1.00\\ 0.76\\ -0.11\\ -0.05\\ -0.10\\ -0.03\\ -0.05\\ -0.05\\ 0.02\\ 0.10\\ -0.12\\ 0.01\\ 0.06\\ 0.06\end{array}$	GDP 1.00 0.19 0.40 -0.12 0.02 0.13 0.18 -0.15 -0.02 -0.15 0.07 -0.06 -0.16	$\begin{array}{c} 1.00\\ 0.39\\ 0.13\\ 0.07\\ 0.26\\ -0.18\\ -0.06\\ 0.18\\ 0.08\\ -0.24\\ \end{array}$	cap 1.00 -0.15 0.04 0.18 0.51 -0.29 -0.17 -0.10 0.03
$\begin{array}{llllllllllllllllllllllllllllllllllll$	$\begin{array}{c} 1.00\\ 0.01\\ 0.16\\ 0.07\\ 0.31\\ 0.04\\ 0.05\\ 0.10\\ 0.22\\ -0.24\\ -0.09\\ -0.06\\ -0.07\\ -0.53\\ 0.18\\ -0.15\\ -0.20\end{array}$	$\begin{array}{c} 1.00\\ 0.76\\ -0.11\\ -0.05\\ -0.10\\ -0.03\\ -0.05\\ -0.05\\ 0.02\\ 0.10\\ -0.12\\ 0.01\\ 0.06\\ 0.06\end{array}$	$\begin{array}{c} 1.00\\ 0.19\\ 0.40\\ -0.12\\ 0.02\\ 0.13\\ 0.18\\ -0.15\\ -0.02\\ -0.15\\ 0.07\\ -0.06\\ 0.07\\ \end{array}$	$\begin{array}{c} 1.00\\ 0.39\\ 0.13\\ 0.07\\ 0.26\\ 0.26\\ -0.18\\ -0.06\\ 0.18\\ 0.08\\ -0.24 \end{array}$	1.00 -0.15 0.04 0.18 0.51 -0.29 -0.17 -0.10 0.03
FDI Stock/cap 0.76 1.00 Geo. Closeness 0.34 0.31 RPE -0.04 -0.06 Tax/GDP 0.23 0.29 Enrollment (Primary) 0.27 0.29 GDP/cap 0.51 0.69 Pop -0.13 -0.24 Growth 0.15 0.09 Polity 0.26 0.19 Nat. Res. 0.13 0.25 Ethnic Frac. -0.06 -0.18 Relig. Frac. -0.03 -0.04 Mountains -0.09 -0.18 Noncontig. -0.01 -0.02 Cold War -0.33 -0.25 UN Voting 0.18 0.21 Aid -0.28 -0.45	$\begin{array}{c} 1.00\\ 0.01\\ 0.16\\ 0.07\\ 0.31\\ 0.04\\ 0.05\\ 0.10\\ 0.22\\ -0.24\\ -0.09\\ -0.06\\ -0.07\\ -0.53\\ 0.18\\ -0.15\\ -0.20\end{array}$	$\begin{array}{c} 1.00\\ 0.76\\ -0.11\\ -0.05\\ -0.10\\ -0.03\\ -0.05\\ -0.05\\ 0.02\\ 0.10\\ -0.12\\ 0.01\\ 0.06\\ 0.06\end{array}$	$\begin{array}{c} 1.00\\ 0.19\\ 0.40\\ -0.12\\ 0.02\\ 0.13\\ 0.18\\ -0.15\\ -0.02\\ -0.15\\ 0.07\\ -0.06\\ 0.07\\ -0.06\end{array}$	$\begin{array}{c} 1.00\\ 0.39\\ 0.13\\ 0.07\\ 0.26\\ 0.26\\ -0.18\\ -0.06\\ 0.18\\ 0.08\\ -0.24 \end{array}$	$\begin{array}{c} 1.00 \\ -0.15 \\ 0.04 \\ 0.18 \\ 0.51 \\ -0.29 \\ -0.17 \\ -0.10 \\ 0.03 \end{array}$
Geo. Closeness 0.34 0.31 RPE -0.04 -0.06 Tax/GDP 0.23 0.29 Enrollment (Primary) 0.27 0.29 GDP/cap 0.51 0.69 Pop -0.13 -0.24 Growth 0.15 0.09 Polity 0.26 0.19 Nat. Res. 0.13 0.25 Ethnic Frac. -0.16 -0.18 Relig. Frac. -0.03 -0.04 Mountains -0.09 -0.18 Noncontig. -0.01 -0.02 Cold War -0.33 -0.25 UN Voting 0.18 0.21 Aid -0.28 -0.45	$\begin{array}{c} 1.00\\ 0.01\\ 0.16\\ 0.07\\ 0.31\\ 0.04\\ 0.05\\ 0.10\\ 0.22\\ -0.24\\ -0.09\\ -0.06\\ -0.07\\ -0.53\\ 0.18\\ -0.15\\ -0.20\end{array}$	$\begin{array}{c} 1.00\\ 0.76\\ -0.11\\ -0.05\\ -0.10\\ -0.03\\ -0.05\\ -0.05\\ 0.02\\ 0.10\\ -0.12\\ 0.01\\ 0.06\\ 0.06\end{array}$	$\begin{array}{c} 1.00\\ 0.19\\ 0.40\\ -0.12\\ 0.02\\ 0.13\\ 0.18\\ -0.15\\ -0.02\\ -0.15\\ 0.07\\ -0.06\\ 0.07\\ \end{array}$	$\begin{array}{c} 1.00\\ 0.39\\ 0.13\\ 0.07\\ 0.26\\ 0.26\\ -0.18\\ -0.06\\ 0.18\\ 0.08\\ -0.24 \end{array}$	$\begin{array}{c} 1.00 \\ -0.15 \\ 0.04 \\ 0.18 \\ 0.51 \\ -0.29 \\ -0.17 \\ -0.10 \\ 0.03 \end{array}$
RPE -0.04 -0.06 Tax/GDP 0.23 0.29 Enrollment (Primary) 0.27 0.29 GDP/cap 0.51 0.69 Pop -0.13 -0.24 Growth 0.15 0.09 Polity 0.26 0.19 Nat. Res. 0.13 0.25 Ethnic Frac. -0.16 -0.18 Relig. Frac. -0.03 -0.04 Mountains -0.09 -0.18 Noncontig. -0.01 -0.02 Cold War -0.33 -0.25 UN Voting 0.18 0.21 Aid -0.28 -0.45	$\begin{array}{c} 0.01\\ 0.16\\ 0.07\\ 0.31\\ 0.04\\ 0.05\\ 0.10\\ 0.22\\ -0.24\\ -0.09\\ -0.06\\ -0.07\\ -0.53\\ 0.18\\ -0.15\\ -0.20\end{array}$	$\begin{array}{c} 1.00\\ 0.76\\ -0.11\\ -0.05\\ -0.10\\ -0.03\\ -0.05\\ -0.05\\ 0.02\\ 0.10\\ -0.12\\ 0.01\\ 0.06\\ 0.06\end{array}$	$\begin{array}{c} 1.00\\ 0.19\\ 0.40\\ -0.12\\ 0.02\\ 0.13\\ 0.18\\ -0.15\\ -0.02\\ -0.15\\ 0.07\\ -0.06\\ 0.16\end{array}$	$\begin{array}{c} 1.00\\ 0.39\\ 0.13\\ 0.07\\ 0.26\\ 0.26\\ -0.18\\ -0.06\\ 0.18\\ 0.08\\ -0.24 \end{array}$	$\begin{array}{c} 1.00\\ -0.15\\ 0.04\\ 0.18\\ 0.51\\ -0.29\\ -0.17\\ -0.10\\ 0.03 \end{array}$
Tax/GDP 0.23 0.29 Enrollment (Primary) 0.27 0.29 GDP/cap 0.51 0.69 Pop -0.13 -0.24 Growth 0.15 0.09 Polity 0.26 0.19 Nat. Res. 0.13 0.25 Ethnic Frac. -0.16 -0.18 Relig. Frac. -0.03 -0.04 Mountains -0.09 -0.18 Noncontig. -0.01 -0.02 Cold War -0.33 -0.25 UN Voting 0.18 0.21 Aid -0.28 -0.45	$\begin{array}{c} 0.16\\ 0.07\\ 0.31\\ 0.04\\ 0.05\\ 0.10\\ 0.22\\ -0.24\\ -0.09\\ -0.06\\ -0.07\\ -0.53\\ 0.18\\ -0.15\\ -0.20\end{array}$	$\begin{array}{c} 0.76 \\ -0.11 \\ -0.05 \\ -0.10 \\ -0.03 \\ -0.05 \\ -0.05 \\ 0.02 \\ 0.10 \\ -0.12 \\ 0.01 \\ 0.06 \\ 0.06 \end{array}$	$\begin{array}{c} 1.00\\ 0.19\\ 0.40\\ -0.12\\ 0.02\\ 0.13\\ 0.18\\ -0.15\\ -0.02\\ -0.15\\ 0.07\\ -0.06\\ 0.16\end{array}$	$\begin{array}{c} 1.00\\ 0.39\\ 0.13\\ 0.07\\ 0.26\\ 0.26\\ -0.18\\ -0.06\\ 0.18\\ 0.08\\ -0.24 \end{array}$	$\begin{array}{c} 1.00 \\ -0.15 \\ 0.04 \\ 0.18 \\ 0.51 \\ -0.29 \\ -0.17 \\ -0.10 \\ 0.03 \end{array}$
Enrollment (Primary) 0.27 0.29 GDP/cap 0.51 0.69 Pop -0.13 -0.24 Growth 0.15 0.09 Polity 0.26 0.19 Nat. Res. 0.13 0.25 Ethnic Frac. -0.16 -0.18 Relig. Frac. -0.03 -0.04 Mountains -0.09 -0.18 Noncontig. -0.01 -0.02 Cold War -0.33 -0.25 UN Voting 0.18 0.21 Aid -0.28 -0.45	$\begin{array}{c} 0.07\\ 0.31\\ 0.04\\ 0.05\\ 0.10\\ 0.22\\ -0.24\\ -0.09\\ -0.06\\ -0.07\\ -0.53\\ 0.18\\ -0.15\\ -0.20\end{array}$	$\begin{array}{c} -0.11\\ -0.05\\ -0.10\\ -0.03\\ -0.05\\ -0.05\\ 0.02\\ 0.10\\ -0.12\\ 0.01\\ 0.06\\ 0.06\end{array}$	$\begin{array}{c} 0.19\\ 0.40\\ -0.12\\ 0.02\\ 0.13\\ 0.18\\ -0.15\\ -0.02\\ -0.15\\ 0.07\\ -0.06\\ 0.16\end{array}$	$\begin{array}{c} 1.00\\ 0.39\\ 0.13\\ 0.07\\ 0.26\\ 0.26\\ -0.18\\ -0.06\\ 0.18\\ 0.08\\ -0.24 \end{array}$	$\begin{array}{c} 1.00\\ -0.15\\ 0.04\\ 0.18\\ 0.51\\ -0.29\\ -0.17\\ -0.10\\ 0.03 \end{array}$
$\begin{array}{llllllllllllllllllllllllllllllllllll$	$\begin{array}{c} 0.31 \\ 0.04 \\ 0.05 \\ 0.10 \\ 0.22 \\ -0.24 \\ -0.09 \\ -0.06 \\ -0.07 \\ -0.53 \\ 0.18 \\ -0.15 \\ -0.20 \end{array}$	$\begin{array}{c} -0.05\\ -0.10\\ -0.03\\ -0.05\\ -0.05\\ 0.02\\ 0.10\\ -0.12\\ 0.01\\ 0.06\\ 0.06\end{array}$	$\begin{array}{c} 0.40 \\ -0.12 \\ 0.02 \\ 0.13 \\ 0.18 \\ -0.15 \\ -0.02 \\ -0.15 \\ 0.07 \\ -0.06 \\ 0.06 \\ 0.16 \end{array}$	$\begin{array}{c} 0.39 \\ 0.13 \\ 0.07 \\ 0.26 \\ 0.26 \\ -0.18 \\ -0.06 \\ 0.18 \\ 0.08 \\ -0.24 \end{array}$	$\begin{array}{c} 1.00 \\ -0.15 \\ 0.04 \\ 0.18 \\ 0.51 \\ -0.29 \\ -0.17 \\ -0.10 \\ 0.03 \end{array}$
Pop -0.13 -0.24 Growth 0.15 0.09 Polity 0.26 0.19 Nat. Res. 0.13 0.25 Ethnic Frac. -0.16 -0.18 Relig. Frac. -0.03 -0.04 Mountains -0.09 -0.18 Noncontig. -0.01 -0.02 Cold War -0.33 -0.25 UN Voting 0.18 0.21 Aid -0.28 -0.45	$\begin{array}{c} 0.04 \\ 0.05 \\ 0.10 \\ 0.22 \\ -0.24 \\ -0.09 \\ -0.06 \\ -0.07 \\ -0.53 \\ 0.18 \\ -0.15 \\ -0.20 \end{array}$	$\begin{array}{c} -0.10\\ -0.03\\ -0.05\\ -0.05\\ 0.02\\ 0.10\\ -0.12\\ 0.01\\ 0.06\\ 0.06\end{array}$	-0.12 0.02 0.13 0.18 -0.15 -0.02 -0.15 0.07 -0.06	$\begin{array}{c} 0.13 \\ 0.07 \\ 0.26 \\ 0.26 \\ -0.18 \\ -0.06 \\ 0.18 \\ 0.08 \\ -0.24 \end{array}$	$\begin{array}{c} -0.15 \\ 0.04 \\ 0.18 \\ 0.51 \\ -0.29 \\ -0.17 \\ -0.10 \\ 0.03 \end{array}$
Growth 0.15 0.09 Polity 0.26 0.19 Nat. Res. 0.13 0.25 Ethnic Frac. -0.16 -0.18 Relig. Frac. -0.03 -0.04 Mountains -0.09 -0.18 Noncontig. -0.01 -0.02 Cold War -0.33 -0.25 UN Voting 0.18 0.21 Aid -0.28 -0.45	$\begin{array}{c} 0.05 \\ 0.10 \\ 0.22 \\ -0.24 \\ -0.09 \\ -0.06 \\ -0.07 \\ -0.53 \\ 0.18 \\ -0.15 \\ -0.20 \end{array}$	$\begin{array}{c} -0.03 \\ -0.05 \\ -0.05 \\ 0.02 \\ 0.10 \\ -0.12 \\ 0.01 \\ 0.06 \\ 0.06 \end{array}$	$\begin{array}{c} 0.02 \\ 0.13 \\ 0.18 \\ -0.15 \\ -0.02 \\ -0.15 \\ 0.07 \\ -0.06 \\ 0.06 \end{array}$	$\begin{array}{c} 0.07 \\ 0.26 \\ 0.26 \\ -0.18 \\ -0.06 \\ 0.18 \\ 0.08 \\ -0.24 \end{array}$	$\begin{array}{c} 0.04 \\ 0.18 \\ 0.51 \\ -0.29 \\ -0.17 \\ -0.10 \\ 0.03 \end{array}$
Polity 0.26 0.19 Nat. Res. 0.13 0.25 Ethnic Frac. -0.16 -0.18 Relig. Frac. -0.03 -0.04 Mountains -0.09 -0.18 Noncontig. -0.01 -0.02 Cold War -0.33 -0.25 UN Voting 0.18 0.21 Aid -0.28 -0.45	$\begin{array}{c} 0.10\\ 0.22\\ -0.24\\ -0.09\\ -0.06\\ -0.07\\ -0.53\\ 0.18\\ -0.15\\ -0.20\end{array}$	$\begin{array}{c} -0.05 \\ -0.05 \\ 0.02 \\ 0.10 \\ -0.12 \\ 0.01 \\ 0.06 \\ 0.06 \end{array}$	$\begin{array}{c} 0.13 \\ 0.18 \\ -0.15 \\ -0.02 \\ -0.15 \\ 0.07 \\ -0.06 \\ \end{array}$	$\begin{array}{c} 0.26 \\ 0.26 \\ -0.18 \\ -0.06 \\ 0.18 \\ 0.08 \\ -0.24 \end{array}$	$\begin{array}{c} 0.18 \\ 0.51 \\ -0.29 \\ -0.17 \\ -0.10 \\ 0.03 \end{array}$
Nat. Res. 0.13 0.25 Ethnic Frac. -0.16 -0.18 Relig. Frac. -0.03 -0.04 Mountains -0.09 -0.18 Noncontig. -0.01 -0.02 Cold War -0.33 -0.25 UN Voting 0.18 0.21 Aid -0.28 -0.45	$\begin{array}{c} 0.22 \\ -0.24 \\ -0.09 \\ -0.06 \\ -0.07 \\ -0.53 \\ 0.18 \\ -0.15 \\ -0.20 \end{array}$	$\begin{array}{c} -0.05\\ 0.02\\ 0.10\\ -0.12\\ 0.01\\ 0.06\\ 0.06\end{array}$	$\begin{array}{c} 0.18 \\ -0.15 \\ -0.02 \\ -0.15 \\ 0.07 \\ -0.06 \\ 0.16 \end{array}$	$\begin{array}{c} 0.26 \\ -0.18 \\ -0.06 \\ 0.18 \\ 0.08 \\ -0.24 \end{array}$	0.51 -0.29 -0.17 -0.10 0.03
Ethnic Frac. -0.16 -0.18 Relig. Frac. -0.03 -0.04 Mountains -0.09 -0.18 Noncontig. -0.01 -0.02 Cold War -0.33 -0.25 UN Voting 0.18 0.21 Aid -0.28 -0.45	-0.24 -0.09 -0.06 -0.07 -0.53 0.18 -0.15 -0.20	$\begin{array}{c} 0.02 \\ 0.10 \\ -0.12 \\ 0.01 \\ 0.06 \\ 0.06 \end{array}$	-0.15 -0.02 -0.15 0.07 -0.06	-0.18 -0.06 0.18 0.08 -0.24	-0.29 -0.17 -0.10 0.03
Relig. Frac. -0.03 -0.04 Mountains -0.09 -0.18 Noncontig. -0.01 -0.02 Cold War -0.33 -0.25 UN Voting 0.18 0.21 Aid -0.28 -0.45	-0.09 -0.06 -0.07 -0.53 0.18 -0.15 -0.20	$\begin{array}{c} 0.10 \\ -0.12 \\ 0.01 \\ 0.06 \\ 0.06 \end{array}$	-0.02 -0.15 0.07 -0.06	-0.06 0.18 0.08 -0.24	-0.17 -0.10 0.03
Mountains -0.09 -0.18 Noncontig. -0.01 -0.02 Cold War -0.33 -0.25 UN Voting 0.18 0.21 Aid -0.28 -0.45	-0.06 -0.07 -0.53 0.18 -0.15 -0.20	-0.12 0.01 0.06 0.06	-0.15 0.07 -0.06	0.18 0.08 -0.24	-0.10 0.03
Noncontig. -0.01 -0.02 Cold War -0.33 -0.25 UN Voting 0.18 0.21 Aid -0.28 -0.45	-0.07 -0.53 0.18 -0.15 -0.20	$\begin{array}{c} 0.01 \\ 0.06 \\ 0.06 \end{array}$	0.07 -0.06	$0.08 \\ -0.24$	0.03
Cold War -0.33 -0.25 UN Voting 0.18 0.21 Aid -0.28 -0.45	-0.53 0.18 -0.15 -0.20	$\begin{array}{c} 0.06 \\ 0.06 \end{array}$	-0.06	-0.24	
UN Voting 0.18 0.21 Aid -0.28 -0.45	0.18 -0.15 -0.20	0.06	0.10	··	-0.13
Aid -0.28 -0.45	-0.15 -0.20		0.12	0.01	0.18
A 11: 0.000 0.11	-0.20	0.15	-0.15	-0.32	-0.61
Alliance $0.06 0.14$	-0.40	-0.25	-0.07	0.25	0.26
Colony -0.07 -0.02	-0.20	-0.10	-0.10	-0.10	-0.07
Mili. Interventions -0.06 -0.03	-0.02	-0.01	-0.05	-0.09	-0.03
Pop Growth	Polity	Nat.	Ethnic	Relig.	Mount.
Pop 1.00		Res.	Frac.	Frac.	
Growth 0.08 1.00					
Polity 0.02 0.03	1.00				
Nat. Res. 0.21 0.01	-0.17	1.00			
Ethnic Frac. 0.06 -0.07	0.00	-0.09	1.00		
Relig. Frac0.09 -0.04	-0.04	-0.11	0.39	1.00	
Mountains 0.34 0.07	0.00	0.02	-0.11	-0.20	1.00
Noncontig. 0.33 0.07	0.10	0.15	0.10	0.07	0.16
Cold War -0.11 -0.05	-0.35	-0.04	0.03	-0.02	-0.02
UN Voting -0.19 -0.04	0.19	-0.04	-0.13	-0.04	-0.01
Aid -0.19 -0.04	-0.11	-0.43	0.16	0.09	-0.05
Alliance 0.00 0.00	0.13	0.20	-0.21	-0.36	0.21
Colony -0.01 0.00	0.03	-0.14	0.25	0.07	-0.20
Mili. Interventions 0.00 -0.07	-0.06	0.02	0.00	0.00	0.01
Nonctor Cold	UN	Aid	Alli	Colony	Mili
War	Voting	mu	71111.	Colony	Inter.
Noncontig. 1.00					
Cold War 0.00 1.00					
UN Voting -0.08 0.03	1.00				
Aid -0.11 0.07	-0.11	1.00			
Alliance -0.01 0.17	0.09	-0.23	1.00		
Colony 0.15 0.16	-0.21	0.11	0.11	1.00	
Mili. Interventions -0.01 0.04	0.00	0.02	-0.01	-0.03	1.00

Table K: Correlation Matrix: Main Explanatory Variables

Country	N	Start	End	Country	N	Start	End	Country	N	Start	End
Albania	18	1996	2013	Georgia	16	1998	2013	Oman	43	1971	2013
Algeria	44	1970	2013	Ghana	44	1970	2013	Pakistan	44	1970	2013
Angola	27	1987	2013	Guatemala	44	1970	2013	Panama	44	1970	2013
Argentina	44	1970	2013	Guinea	26	1988	2013	Paraguay	44	1970	2013
Armenia	22	1992	2013	Guinea-Bissau	39	1975	2013	Peru	44	1970	2013
Azerbaijan	22	1992	2013	Haiti	14	2000	2013	Philippines	44	1970	2013
Bahrain	32	1982	2013	Honduras	44	1970	2013	Poland	4	1992	1995
Bangladesh	41	1973	2013	Hungary	3	1993	1995	Moldova	22	1992	2013
Belarus	22	1992	2013	India	44	1970	2013	Romania	23	1991	2013
Benin	44	1970	2013	Indonesia	44	1970	2013	Russia	21	1993	2013
Bhutan	32	1982	2013	Iran	42	1970	2013	Rwanda	44	1970	2013
Bolivia	44	1970	2013	Iraq	23	1971	2013	Saudi Arabia	43	1971	2013
Botswana	44	1970	2013	Israel	40	1970	2009	Senegal	44	1970	2013
Brazil	44	1970	2013	Jamaica	39	1970	2013	Sierra Leone	44	1970	2013
Bulgaria	22	1992	2013	Jordan	37	1977	2013	Singapore	44	1970	2013
Burkina Faso	44	1970	2013	Kazakhstan	22	1992	2013	Slovakia	6	1994	1999
Burundi	44	1970	2013	Kenya	44	1970	2013	Slovenia	13	1997	2009
Cambodia	15	1999	2013	South Korea	26	1970	1995	South Africa	44	1970	2013
Cameroon	44	1970	2013	Kuwait	40	1971	2013	Sri Lanka	44	1970	2013
CAR	44	1970	2013	Kyrgyzstan	22	1992	2013	Sudan	43	1971	2013
Chad	44	1970	2013	Laos	17	1997	2013	Swaziland	42	1972	2013
Chile	40	1970	2009	Latvia	22	1992	2013	Syria	38	1970	2007
China	44	1970	2013	Lebanon	9	1990	2013	Macedonia	16	1998	2013
Colombia	44	1970	2013	Lesotho	44	1970	2013	Tajikistan	15	1999	2013
Congo	44	1970	2013	Liberia	44	1970	2013	Thailand	44	1970	2013
Costa Rica	44	1970	2013	Lithuania	22	1992	2013	Togo	44	1970	2013
Croatia	17	1997	2013	Madagascar	44	1970	2013	TTO	44	1970	2013
Cyprus	37	1977	2013	Malawi	44	1970	2013	Tunisia	42	1970	2011
Czech	1	1994	1994	Malaysia	44	1970	2013	Uganda	30	1984	2013
DRC	44	1970	2013	Mali	33	1981	2013	Ukraine	22	1992	2013
Djibouti	22	1992	2013	Mauritania	44	1970	2013	UAE	37	1977	2013
Dominica	44	1970	2013	Mauritius	36	1978	2013	Tanzania	24	1990	2013
Ecuador	44	1970	2013	Mexico	24	1970	1993	Uruguay	44	1970	2013
Egypt	43	1970	2012	Mongolia	22	1992	2013	Uzbekistan	22	1992	2013
El Salvador	44	1970	2013	Morocco	44	1970	2013	Venezuela	44	1970	2013
Estonia	13	1997	2009	Mozambique	32	1982	2013	Viet Nam	28	1986	2013
Ethiopia	20	1994	2013	Nepal	44	1970	2013	Yemen	22	1992	2013
Fiji	43	1971	2013	Nicaragua	44	1970	2013	Zambia	44	1970	2013
Gabon	44	1970	2013	Niger	44	1970	2013	Zimbabwe	43	1971	2013
Gambia	44	1970	2013	Nigeria	44	1970	2013				

Table L: List of Countries in the Sample

References

- Beck, Nathaniel, Jonathan N. Katz and Richard Tucker. 1998. "Taking Time Seriously: Time-Series-Cross-Section Analysis with a Binary Dependent Variable." American Journal of Political Science 42(4):1260–1288.
- Berger, Daniel, Alejandro Corvalan, William Easterly and Shanker Satyanath. 2013. "Do Superpower Interventions Have Short and Long Term Consequences for Democracy?" *Journal of Comparative Economics* 41(1):22–34.
- Hainmueller, Jens, Jonathan Mummolo and Yiqing Xu. 2019. "How Much Should We Trust Estimates from Multiplicative Interaction Models? Simple Tools to Improve Empirical Practice." *Political Analysis* 27(2):163–192.
- Terza, Joseph V., Anirban Basu and Paul J. Rathouz. 2008. "Two-Stage Residual Inclusion Estimation: Addressing Endogeneity in Health Econometric Modeling." Journal of Health Economics 27(3):531–543.