Does FDI Promote Political Stability? Evidence from Developing Economies

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RÉSUMÉ

Following the strong emphasis on institutional quality in comparative development, its determinants have received growing attention in recent research. This paper contributes to this research by examining the role of FDI in shaping institutions regarding political stability in the developing world. It hypothesises that FDI contributes to socio-political stability through its socio-economic externalities and political agency potentials of foreign investors. The empirical results using primary bilateral greenfield FDI flows panel data for a large sample of developing countries evidence that FDI favours institutional development in terms of political stability. Remarkably, the results are robust to a range of specifications and alternative identification strategies as well as a series of sensitivity tests. Overall, this study outlines another channel through which FDI can contribute to development: the promotion of political stability.

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