RCI-POD series

BILATERAL INVESTMENT TREATIES AND FOREIGN DIRECT INVESTMENT IN ASIA

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Some methodological comments

- FDI "real" data (number of projects) capture foreign investment whatever its source of funding BUT very lumpy and noisy with lots of missing values for intensity (extensive vs. intensive margin). Hard to do a time-series analysis. What is the source country: immediate or ultimate?

- FDI "financial" data (BOP FDI) capture foreign sources of foreign investment funding, behave a bit like a stock (reinvested earnings are a function of FDI stock) BUT can miss lots of foreign activities and may be distorted by transhipping/round-tripping.

- BITs may have ben signed for a long time, may have been renegotiated or may have not been extended (or terminated). Hard to do a time-series analysis, a need to control for (or exploit!) this heterogeneity. BITs may also be endogenous.

- The cross-section estimates do not seem to control for country fixed effects.

- I do not understand the "cumulative FDI total" results. What is different?

Some economic comments

- DDR (CJE, 2018): M&A involves transfer of ownership (arising from a desire to integrate or exploit arbitrage opportunities), whereas GF relies more on a firm's own capacities (which are intrinsically linked to the origin country's attributes).

- We find that M&A investment is more responsive to barriers between the origin and destination countries, including geographical and cultural barriers. This is particularly true for contract intensive or intangible asset intensive sectors, i.e., where integration of the parent and affiliate is more critical to the functioning of the firm. In a similar way, M&A is more sensitive to the destination country's institutional quality, with this gap largest for these same sectors.

- The regressions show that the bite (ISDM) of BITs matters (the most?).

- BUT: not for M&A? Why? Is this result specific to Asia? Should we consider the interaction between BITs and governance or another FDI determinant?

- BUT access to arbitration is scarce and getting scarcer. All ado for nothing?

- Should we spend so much time thinking about BITs? What about governance or corporate taxes?

Some suggestions

- Look at Egger et al. (2011*) The Trade Effects of Endogenous Preferential Trade Agreements* for some inspiration!
- BITs may be endogenous: a selection model approach.
- Is a PTA a positive-sum or a zero-sum device? Does a PTA divert FDI from another (regional or extra-regional) country? What are the general equilibrium effects?
- What are the links between BITs and PTAs?
- Are the results driven by a specific country?
- For better identification and more relevant analysis: exploit sector-specific variation.