# Implementation of Transitional Justice Does Not Attract Foreign Direct Investment to Post-Conflict Countries

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18.08.2021

(Prepared for Midway Evaluation on September 1, 2021)

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**Note to the readers:** Thank you all in advance for reading and commenting on this paper! I would like to get feedback especially on these issues. Theory part: what should I call the relationship between TJ, ED and FDI? Methodology: please share your thoughts on the methodology, especially on the possibility of bias/reverse causality and such. Is there a better way to check the robustness then presented in the paper? What do you think about the follow-up qualitative analysis and the preliminary case? Any other feedback is also welcome! Looking forward to your feedback/comments.

## Abstract

Foreign direct investment (FDI) is potentially a powerful tool for stability and economic development in post-conflict countries. However, foreign investors face several political and economic risks. Several recent studies argue that post-conflict countries may use TJ to signal to international investors that their country is a safe post-conflict zone for investment. The aim of this paper is to first answer whether post-conflict countries attract more FDI if they implement TJ and whether this depends on the ED levels of the country. Using a panel data regression analysis, this paper first examines the relationship between TJ and FDI, then it examines the potential effect of level of ED with TJ on attracting FDI to post-conflict countries between 1970-2006. Despite what the literature suggests, statistical tests confirm a negative relationship between TJ and FDI. Post-conflict countries that implement TJ attract less FDI. Also, the tests partially support that level of ED has an impact on the TJ-FDI relationship. Post-conflict countries with TJ and higher levels of ED attracts less FDI, while counties with lower levels of ED attracts more FDI.

## 1. Introduction

The aftermath of conflicts presents many challenges for countries recovering from economic and institutional damage caused by it. These include the lack of adequate funds to repair and maintain the vital infrastructure like schools, industries, telecommunication, bridges, railways, and water supplies, as well as depleted human capital, and weak legal and governmental structures (United Nations & World Bank, 2018). Foreign direct investment (FDI) is one of the ways that provide funds for post-conflict countries to get back on their feet. Despite political and economic risks, implementation of transitional justice (TJ) is one of the ways post-conflict countries provide incentives to improve the investment climate by respecting human rights (HRs). Based on this, the aim of this paper is to explore the impact of TJ on post-conflict countries' ability to attract FDI. However, previous research indicates that a country's ability to attract FDI may be contingent on existing level of economic development (ED) (OECD, 2002), so that using TJ to increase FDI may not be an option for all countries. Therefore, my research question is "Do post-conflict countries attract more FDI if they implement TJ and does this depend on the ED levels of the country?".

In this paper, I argue that there is a loop relationship between TJ, ED and FDI, and that this should be considered when exploring the impact of TJ on FDI. Some studies suggest that respect for HRs or addressing past abuses through TJ mechanisms conduce countries to attract more FDI (Blanton & Blanton, 2007; Appel & Loyle, 2012; Blume & Voigt, 2007). Relatedly, as the cost of HRs abuse increases and the global investment market becomes more diversified, one may expect the direct influence of respect for HRs on FDI. On the one hand, others show that a certain level of ED is required for attracting more FDI (Büthe & Milner, 2008; Li & Resnick, 2003). On the other hand, past research in the field of economics assert that the increase in FDI improves ED in countries (OECD, 2002). Therefore, indirectly, respect for HRs may have an indirect impact on FDI by promoting economic benefits and development of human capital (Blanton & Blanton, 2007; Jensen N. , 2003; Kucera, 2002; Mankiw, Romer, & Weil, 1992). Furthermore, TJ contributes to ED by making more legitimate, inclusive, and trustworthy institutions (ICTJ Report, 2019) and many scholars advocate those institutions are significant when predicting the level of development of countries (Acemoglu et al., 2005; Hall & Jones, 1999). Therefore, I argue that there is a positive feedback loop relationship between ED, TJ and FDI, with both direct and indirect associations. However, to my knowledge, few studies connect these theoretically closely related concepts. I elaborate on these arguments in the subsequent section.

Past research suggests that respect for HRs may help countries attract more FDI; however, only a limited number of studies address the role of TJ. Therefore, with this paper I add the relationship between TJ and FDI to the existing literature while taking into account the potential effect of different ED strata. This paper contributes to the literature in three ways. First, my theoretical framework is the first to connect TJ, FDI and ED concepts and present the loop relationship within them. Second, in terms of theory, I present both foreign investors' and host countries' perspectives and touch upon the opportunity cost of implementing TJ in post-conflict countries. Third, this paper presents a more comprehensive approach to TJ by including all types of mechanisms (trials, truth commissions, reparations, amnesties, purges, and exiles) in its methodology.

To test whether TJ mechanisms attract more FDI in post-conflict countries, this paper first estimates a series of fixed effects panel data OLS regression models. The time period of the study covers the period between 1970 and 2006. Then, the paper investigates the TJ-FDI relationship at different ED strata. The findings of this study suggests that post-conflict countries that have implemented TJ attracts less FDI. The negative relationship between FDI and TJ presents a new dynamic in the existing literature. Also, findings show that post-conflict countries with TJ and higher levels of ED attracts less FDI, while counties with lower levels of ED attracts more FDI. To further investigate this relationship a qualitative analysis might be conducted on a specific country case[1].

The remainder of the paper is organized as follows. First, I introduce a theoretical framework on the loop relationship between ED, TJ and FDI; present economic and political factors in attracting FDI from the perspectives of investors and host countries; touch upon the opportunity cost of implementing TJ to attract FDI. Second, I present my research design where I give detailed information on the methods of investigation and the variables of interest. Third, I review the empirical results. Fourth, I conclude the paper with a discussion of the results and remarks on future lines of research.

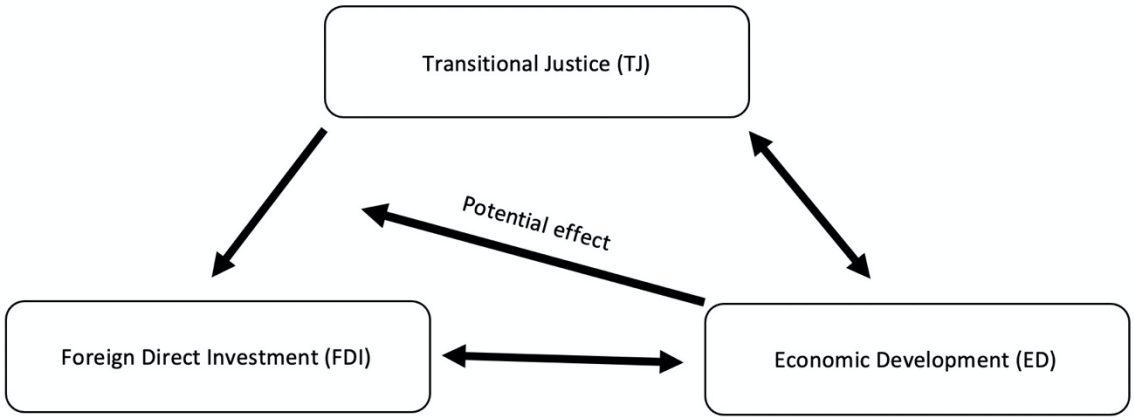
## 2.Theory

### 2.1 The Loop Relationship Between FDI, TJ and ED

[1] The preliminary case country is Morocco. Further details on why I have chosen Morocco can be found in Appendix E. Please feel free to suggest other countries.

In the theory of this paper, I argue that there is a loop relationship[2] between ED, TJ and FDI (Figure 1). The theoretical connection between TJ and ED goes both ways. On the one hand, TJ contributes to sustainable development goals such as the establishment of rule of law, access to justice, institution building, reduction of poverty and inequality (ICTJ Report, 2019).

**Figure 1:** *The Loop Relationship*




*Note.* This figure shows the relationship between three concepts that are TJ, ED and FDI. It also shows the direction of the relationships including the possible effect of different ED strata on the relationship between TJ and FDI.

On the other hand, countries need a certain level of ED to be able to implement TJ because such mechanisms are costly (de Greiff, 2009). Therefore, Howard-Hassmann (2005) asserts that wealthier countries are more likely to implement TJ to protect human rights compared to the poorer ones.

ED has a two-way relationship with FDI as well. Especially in developing countries, FDI may enhance enterprise development, trigger technology overflow, contribute to international trade, assist human capital, and create a competitive business environment (OECD, 2002). In return, these may "contribute to higher economic growth, which is the most potent tool for alleviating poverty" and improve economic development in developing countries (OECD, 2002, p. 5). However, studies also have shown that FDI inflows increase if the state has larger economy, higher growth rates and better economic development (Appel & Loyle, 2012).

In this loop relationship, theoretically only TJ and FDI has a one-way relationship. By implementing TJ mechanisms, post-conflict governments signal to investors the stability and

[2] I have doubts about the term used here. I have thought of using 'positive feedback loop', 'loops of independent relationships' (Shalaer & Lang, 1996), and 'circular causality'. You can find a figure representing 'loops of independent relationships' in Appendix D. I would like to discuss the terms that could describe this theory structure the best.

low risk of conflict recurrence by implementing TJ mechanisms (Appel & Loyle, 2012). Farber (2002) argues that investors may interpret a country's respect for HRs as a signal that shows the seriousness of the government to respect other rights like property and civil rights. A country's respect for HRs signals its creditworthiness, thus increasing the amount of FDI attracted compared to the countries with less or no respect for HRs (Blume & Voigt, 2007). However, in the literature there is no argument suggesting that FDI changes countries' incentives to implement TJ.

### 2.2 The opportunity cost of implementing TJ

The previous sections presented the foreign investor perspective in investing to post-conflict countries and host country perspective in attracting FDI. However, in this section I give special attention to the issue of opportunity cost of investing resources to TJ processes in post-conflict countries to attract FDI.

The majority of TJ literature focuses more on political costs rather than economic costs (Olsen et al., 2010). The advocates of justice for past abuses discount the trade-off between economic situation of a country and legal obligations to hold perpetrators accountable (Lutz & Sikkink, 2001; Olsen, Payne, & Reiter, 2010). Implementing TJ is financially costly because post-conflict countries often have limited resources to cover the cost and it is politically costly because once the process fails, it may lead to party infighting and fractionalization (Appel & Loyle, 2012). Rather than political economy constraints, international norms and pressure may also lead to adapt TJ mechanisms (Olsen, Payne, & Reiter, 2010).

In terms of costly nature of TJ, some studies suggest that it diverts resources away from ED (Duthie, 2009; Boettke & Coyne, 2007; Cobban, 2006). Also, Boettke & Coyne (2007) assert that "it is important to realize that investing resources in the administration of justice means that those resources are diverted away from other transition activities that can also yield a future stream of benefits." (p. 57). Generally, the countries that have been exposed to violations are not very developed and yet have limited economic power to be able to successfully address past abuses (de Greiff & Duthie, 2009; Cobian & Reategui, 2009; Olsen, Payne, & Reiter, 2010), therefore, implementing a costly TJ mechanism may not be the best choice in return.

In addition to other costs, also reputational concerns play a significant role in host countries that are choosing to implement TJ mechanisms. Post-conflict countries create an opportunity for international investors to monitor and assess their credibility by choosing to

address past abuses through TJ. Thus, TJ signals to the international community that the state has address the past abuses and eliminated the risk of recurrence, and therefore open to receive economic benefits of that new status (Subotic, 2009). As a result of that, those countries which successfully implement TJ, develop a positive reputation, and therefore may receive greater FDI (Appel & Loyle, 2012). For transitional countries, failing to address past abuses may result in a more expensive situation than implementing TJ mechanisms (Elster, 2006), for example, investors might view such countries as unreliable partners (Appel & Loyle, 2012). One argument suggests that implementing TJ mechanisms, regardless of the economic status of the post-conflict country, sends a positive signal to the international community while another argument suggests that post-conflict countries send a weak signal to the international community when they implement TJ with limited resources, which results in decreased credibility (Boettke & Coyne, 2007).

With the loop relationship and opportunity cost, I argue that implementation of TJ may attract FDI because it shows that the post-conflict country addresses past abuses, respect HRs, improves political and economic environment, have better institutions, and therefore protects property and civil rights. Also, the concern of the opportunity cost demonstrates that a post-conflict country may implement TJ mechanisms, despite the costs, to be able to attract FDI and to have a good reputation among the international community. Likewise, foreign investors may take the implementation of TJ into consideration when deciding their host country to eliminate reputational costs themselves or to increase their profit. However, in the next section I will expand more on these. According to the three-way relationship and the opportunity cost I hypothesize that implementing TJ will attract more FDI, therefore the first hypothesis (H1) is:

> **Hypothesis 1:** *Post-conflict countries that implement TJ mechanisms attract more FDI.*

### 2.3 What attracts FDI: host country and foreign investor perspectives

The traditional view is that developing countries desire FDI due to its economic benefits since such countries are low on capital, and therefore supply it either through development aid or FDI. However, investors take into account not only economic factors but also political factors during the decision-making process. There are different firm strategies when deciding the location of the investment. To be more comprehensive, I present not only the economic and political factors that investors take into account before they invest in a country, but also economic and political factors that host countries consider. Having both the investor and the

host country perspectives, help us to understand the possible impact of TJ on FDI and how the level of ED might play a role in this.

### *2.3.1 Economic and political factors from the perspective of the foreign investors*

Joshi & Quinn (2020)listed the important economic factors for attracting FDI as: i) having a greater market size (Bevan & Estrin, 2004; Büthe & Milner, 2008; Neumayer & Spess, 2005), ii) having greater economic development (Büthe & Milner, 2008; Li & Resnick, 2003), iii) greater economic growth (Jensen N. , 2003; Li & Liu, 2005), iv) having greater trade openness (Jensen N. , 2003), v) having greater human capital (Alsan, Bloom, & Canning, 2006; Cleeve, Debrah, & Yiheyis, 2015), vi) greater resource endowments (Asiedu, 2002), and vii) infrastructure investment (Globerman & Shapiro, 2002).

Foreign investors may move their production process abroad to reduce costs, while increasing competitiveness in the market (Blanton & Blanton, 2009), therefore they take into account the presence of cheap labor or very skilled labor (Blanton & Blanton, 2009). According to Appel and Loyle (2012), education, human capital and size of the labor force influence the decisions as well. OECD Report of FDI for Development argues that while making investment decisions, investors consider risk factors such as "macroeconomic instability, loss of assets due to non-enforceability and physical destruction caused by armed conflicts" (OECD, 2002, p. 8). This indicates that all things equal, post-conflict countries may be less attractive locations.

Investors consider not only economic factors but also political factors during the decision-making process. In terms of political factors, some scholars suggest that investors are more drawn to countries that respect HRs (Blanton & Blanton, 2007; Appel & Loyle, 2012; Kucera, 2002; Neumayer & de Soysa, 2006). Political and legal institutions can encourage investment by protecting property rights and reducing uncertainty about the policy environment (Beazer & Blake, 2018; Jensen N. M., 2006; Li & Resnick, 2003). The political environment of a host country may affect the decision-making process of FDI paradigm (Blanton & Blanton, 2007). To evaluate if a post-conflict country respect HRs and have a more stable economic and political environment, investors may look for implemented TJ mechanisms. Accordingly, Appel and Loyle (2012) found out that TJ mechanisms such as reparations and truth commissions attract more FDI. However, we know little about whether implementation of other TJ mechanisms have an impact on FDI or not.

### *2.3.2 The Host Country Perspective*

There are different reasons why a post-conflict country may wish to be a host country to potential FDI. OECD Report of FDI for Development suggests that in a host country with appropriate policies and a certain level of development, FDI may enhance ED, trigger technology spillovers, contribute to international trade, assist human capital, and create competitive business environment (OECD, 2002). In return, these may "contribute to higher economic growth, which is the most potent tool for alleviating poverty in developing countries" (OECD, 2002, p. 5). However, FDI has a smaller effect on growth in the least developed countries, which indicates that developing countries should reach a certain level of development in different fields such as infrastructure, technology, health, and education before enjoying the benefits of FDI (OECD, 2002). This again takes us to the loop relationship mentioned above.

*2.3.3 The moderating role of ED*

The theory and literature show that FDI and its relationship with HRs or specifically with TJ have some connection to ED. Therefore, in this section I present the moderating role of ED. The traditional assumption suggests that a country may be more attractive to potential investors if the country repress HRs (Blanton & Blanton, 2007). The reasoning behind this is that such countries reduce the risk for FDI and uncertainty by repressing protests and opposition. On the contrary, a country can attract more FDI if it respects HRs and one way to do it is to in implement TJ mechanisms. Blanton & Blanton (2007) suggest that "respect for human rights can directly reduce risk to FDI by enhancing political stability and predictability and decreasing the vulnerability of investors to the 'audience costs' posed by public sensitivity to human rights abuse" (p. 144). Therefore, the absence of HRs may increase the probability of violent protest and lead to instability, which may further decrease investment (Blume & Voigt, 2007). Respect for HRs enhances opportunities for education and training in host countries which in turn increase economic effectiveness and efficiency (Blanton & Blanton, 2007). Relatedly, Isham et al., (1997) suggest that respect for HRs improves economic performance of a country. Also, better rates of education of females and reduced infant mortality are associated with greater respect for HR (World Bank, 1991). Indirectly, respect for HRs may have an impact on FDI by promoting economic benefits and development of human capital (Blanton & Blanton, 2007; Jensen N. , 2003; Kucera, 2002; Mankiw, Romer, & Weil, 1992) which lead me to theorize that ED might have an impact on the relationship between FDI and TJ. Therefore, the second hypothesis (H2) is:

**Hypothesis 2:** *The effect of implementing TJ on the ability to attract FDI is stronger with higher level of ED in post-conflict countries.*

## 3. Research Design

The paper uses data from the Post-Conflict Justice (PCJ) dataset (Binningsbø et al., 2012) to test the theoretical expectations. The dataset includes post conflict justice process related to all kinds of armed conflict (extrasystemic, internationalized internal and internal) with at least 25 annual battle-related deaths which is coded by the UCDP/PROP ACD (Lacina & Gleditsch, 2005). The paper focuses on all post-conflict countries from 1970 to 2006. To examine the potential impact of TJ mechanisms on FDI stock and to explore this relationship at ED strata, I estimate a series of fixed effects panel data OLS models. To explore whether the relationship between FDI and TJ is different in countries with different levels of ED, I use stratification where I divide the counties into strata by income level. The level of ED is measured by the income level of countries. I use the World Bank's country classification for this variable: "Low-income economies are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of $1,035 or less in 2019; lower middle-income economies are those with a GNI per capita between $1,036 and $4,045; upper middle-income economies are those with a GNI per capita between $4,046 and $12,535; high-income economies are those with a GNI per capita of $12,536 or more" (The World Bank, 2021). This variable will range between 1 (low-income economies) and 4 (high- income economies). When stratified, the number of upper middle income and high-income countries with TJ are smaller than the number of countries with low or lower middle income (Table 2).

### *Dependent Variable: Foreign Direct Investment*

Different studies that have FDI as their dependent variable choose different measures of it: i) FDI inflows as a percentage of total GDP (Blanton & Blanton, 2007; Büthe & Milner, 2008); FDI in stock (Blanton & Blanton, 2009); average investment in percent of GDP (Blume & Voigt, 2007); FDI measured as the natural log of net flows in 2005 US dollars (Garriga, 2016); FDI net inflows (Li & Resnick, 2003; Appel & Loyle, 2012; Joshi & Quinn, 2020; Sabir, Rafique, & Abbas, 2019); and FDI per capita (Reiter & Steensma, 2010).

FDI in stock is the total amount of FDI at a given point in time and it has some advantages over FDI inflows. FDI inflows show only yearly fluctuations, whereas FDI stock provides further information on a country's total amount of foreign investment within a country

as well as its historical record as a host to FDI (Blanton & Blanton, 2009). In short, it is a less of a temporary measure that provides broader insights into the overall investment climate of a country. It should be emphasized, however, that the use of flow measures rather than stock measures is also due to practical reasons linked to data availability (Globerman & Shapiro, 2002). However, in this study my dependent variable is FDI stock, while FDI stock in percentage of GDP and FDI inflows are dependent variables for the robustness check. The FDI stock and FDI stock in percentage of GDP data are from UNCTADstat (UNCTAD, 2020) and FDI inflows data is from the World Bank Data (The World Bank, 2020).

### *Independent Variables: TJ Mechanisms and Level of Economic Development*

The dataset includes six different TJ mechanisms such as trials, truth commissions, reparations, amnesties, purges, and exiles. Since the theoretical interest of this paper is to investigate whether the existence of one or more TJ mechanisms, regardless of the quality, in a post-conflict country attracts more FDI, I use a dummy variable which records the presence or absence of any TJ mechanism. All data regarding the TJ mechanisms are taken from PCJ Dataset (Binningsbø et al., 2012).

### *Control Variables*

The control variables that might attract FDI and lead post-conflict countries to implement TJ are economic growth, property rights, resource wealth, democracy, and conflict intensity level. *Economic growth* (GDP per capita growth) implies greater consumer demand and purchasing power, which are attractive to FDI. The data is taken from the the World Bank (2021). *Resource wealth,* particularly in primary sectors, may be a crucial locational criterion in investment decisions. Furthermore, given the importance of raw materials in traditional view of the link between FDI and HRs (also TJ), this aspect must be controlled for (Blanton & Blanton, 2007). I operationalize resource wealth as the total natural resources rent as a percentage of GDP (The World Bank, 2020). *Democracy* and FDI may be associated, however newer studies provide conflicting expectations regarding the relationship's direction. Democratic countries can reliably provide a more stable political and investment environment for foreign investors and hence make better hosts for FDI (Jensen, 2003). According to Li and Resnick (2003), democracies create a better investment environment due to greater property rights protections. Jensen (2003) discovers a positive association between democracy and FDI, while Li and Resnick (2003) find a negative relationship (Blanton & Blanton, 2007). I use the

dummy variable for democracy where it is '1' if a country has political leader that is chosen through fair and free elections (Coppedge, et al., 2021). Haydaroglu (2015) focused primarily on *property rights* and concluded that the degree of protection of property rights is significant to FDI inflows in the EU and other OECD nations. Furthermore, this study indicated that enhanced property rights might eliminate market inefficiencies and, as a result, have a beneficial influence on economic growth in addition to FDI inflows. On the other hand, Maskus (2000) found out that property rights are not an adequate element to lead firms to invest and gave the examples of Brazil and China that have substantial FDI inflows but also weak property rights. I have used property rights index (Ouattara & Standaert, 2020) that covers 191 countries over the period of 1994 and 2014. As a conflict measure, one of the control variables is the *intensity level of conflict*. This measure is based on the number of battle-related deaths in a given year. I coded '0' if the intensity level is minor that represents between 25-999 battle-related deaths and '1' if the intensity level reached a war status where there are at least 1000 battle-related deaths and the data is taken from UCDP/PRIO Armed Conflict Dataset (Pettersson, et al., 2021; Gleditsch, et al., 2002). According to the literature review presented by Pierpont and Krueger (2005), it is evident that high intensity level of a conflict decreases foreign investment.

**4. Results**

I use series of fixed effects panel data regressions to estimate the models using Stata 16. I estimated the impact of TJ on FDI stock and the potential effect of level of ED (measured as income levels) on the TJ-FDI relationship by splitting sample. To test the first hypothesis, I first estimate FDI-TJ relationship, then add the control variables individually, and lastly run the model with all control variables. *Table 1* shows the results of these estimations. According to the table, existence of TJ has a negative and significant impact on FDI stock without any control variables. The assumption was that a post-conflict country gets more FDI if they implement TJ mechanisms. However, the base model result shows otherwise and conflict with the literature. In the following models (2, 4, 5 and 6), except model 3, TJ has a significant and negative impact on FDI stock. While GDP per capita growth and democracy increase FDI stock in existence of TJ, conflict intensity level decreases FDI stock. Model 7 with all the control variables show that TJ has a negative but insignificant impact on FDI stock. While resource wealth and democracy have a positive and significant impact on FDI stock. H1suggested that post-conflict countries that implement TJ mechanisms attract more FDI. However, the base

model and the other models reject H1 and concludes that implementation of TJ does not attract FDI.

*Table.1* Fixed Effects Model Estimation for the Impact of TJ on FDI stock

| | (1) FDI stock | (2) FDI stock | (3) FDI stock | (4) FDI stock | (5) FDI stock | (6) FDI stock | (7) FDI stock |
|---|---|---|---|---|---|---|---|
| TJ Dummy | -224.4* | -218.7* | -232.4 | -231.3* | -225.1* | -223.5* | -129.0 |
| | (98.23) | (104.0) | (147.9) | (101.2) | (98.08) | (98.13) | (152.8) |
| GDP per capita growth | | 6.973* | | | | | 2.097 |
| | | (3.322) | | | | | (7.765) |
| Property rights index | | | -113.8 | | | | -154.6 |
| | | | (150.5) | | | | (151.5) |
| Natural Resource (%GDP) | | | | 5.229 | | | 18.99* |
| | | | | (4.569) | | | (8.002) |
| Democracy | | | | | 197.7** | | 1333.1** |
| | | | | | (74.43) | | (456.3) |
| Intensity Level | | | | | | -171.8* | -53.99 |
| | | | | | | (75.51) | (150.5) |
| Constant | 596.2*** | 603.6*** | 6625.9 | 562.2*** | 517.5*** | 624.1*** | 7886.9 |
| | (21.55) | (23.31) | (7584.4) | (46.15) | (36.62) | (24.79) | (7638.3) |
| *N* | 2044 | 1938 | 1080 | 1930 | 2044 | 2044 | 1054 |
| $R^2$ | 0.003 | 0.005 | 0.003 | 0.004 | 0.006 | 0.005 | 0.018 |

Standard errors in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

In this study I also aim to estimate the effect of the level of ED of countries on the relationship between TJ and FDI. *Table 2* shows the generated categorical variable for post-conflict countries according to their income levels. Since the p-value is very small, it rejects the null hypothesis. Therefore, there is some evidence that there is a relationship in the

population between ED level and TJ variables.

*Table 2*. Frequency Table Between ED Level and TJ

| Country ED Level | TJ Dummy | | Total |
|---|---|---|---|
| | 0 | 1 | |
| Low | 658 | 45 | 703 |
| | 25.70 | 29.22 | 25.90 |
| Lower-middle | 757 | 60 | 817 |
| | 29.57 | 38.96 | 30.10 |
| Upper-middle | 742 | 27 | 769 |
| | 28.98 | 17.53 | 28.33 |
| High | 403 | 22 | 425 |
| | 15.74 | 14.29 | 15.66 |
| Total | 2,56 | 154 | 2,714 |
| | 100.00 | 100.00 | 100.00 |

Pearson chi2(3) = 11.8695 Pr = 0.008

*Table 3* shows the TJ-FDI relationship at different ED strata. On *Table 3*, I look closely into the relationship between TJ and FDI if the level of ED is low, lower-middle, upper-middle or high. According to the results, for all levels of ED, TJ has a negative impact on FDI stock. However, only in upper middle income post-conflict countries this relationship is significant.

*Table 3.* TJ-FDI Relationship in Post-conflict Countries with Different ED Levels

| | (Low) FDI stock | (Lower middle) FDI stock | (Upper middle) FDI stock | (High) FDI stock |
|---|---|---|---|---|
| TJ Dummy | -16.53 | -20.29 | -447.3** | -1078.3 |
| | (11.58) | (19.86) | (159.1) | (651.2) |
| Constant | 81.72*** | 124.4*** | 602.4*** | 2366.2*** |
| | (2.879) | (4.675) | (28.75) | (124.2) |
| *N* | 561 | 632 | 521 | 330 |
| $R^2$ | 0.004 | 0.002 | 0.016 | 0.009 |

Standard errors in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

To further investigate the relationship between TJ and FDI at different ED strata, I add the control variables to the regression. According to *Table 4*, TJ has a positive impact on FDI stock in low and lower-middle income countries, while TJ has negative impact on FDI stock in upper-middle- and high-income countries. However, the impact of TJ is significant only for low income (positive) and upper-middle income (negative) countries. Control variables such as resource wealth, economic growth, GDP per capita, democracy and conflict intensity are significant and mostly positive for low income and lower-middle income countries. However, only GDP per capita is significant and positive for upper-middle income and high-income

countries. The H2 argued that the effect of implementing TJ on the ability to attract FDI is stronger with higher level of ED in post-conflict countries. However, according to the results in low-income countries TJ attracts FDI, while in upper-middle income countries TJ does not attract FDI. Due to this, the results reject H2 and suggests that post-conflict countries with lower levels of ED attract more FDI by implementing TJ.

*Table 4*. TJ-FDI Relationship in Post-conflict Countries with Different ED Levels (with control variables)

| | (Low) FDI stock | (Lower middle) FDI stock | (Upper middle) FDI stock | (High) FDI stock |
|---|---|---|---|---|
| TJ Dummy | 12.21** | 8.713 | -292.3* | -331.0 |
| | (4.503) | (15.46) | (125.7) | (423.8) |
| Natural Resource (%GDP) | 2.188*** | 6.191*** | -0.678 | -11.07 |
| | (0.245) | (1.020) | (4.084) | (15.42) |
| GDP per capita growth | 0.565** | 3.102*** | -2.584 | 9.642 |
| | (0.187) | (0.763) | (3.735) | (8.998) |
| GDP per capita | 0.112*** | 0.219*** | 0.318*** | 0.333*** |
| | (0.0122) | (0.0133) | (0.0231) | (0.0145) |
| Democracy | 27.66** | 104.6*** | 303.4 | 192.1 |
| | (10.62) | (28.55) | (206.0) | (523.1) |
| Intensity Level | -8.804* | -25.41* | -104.8 | 72.58 |
| | (4.256) | (12.32) | (89.06) | (785.8) |
| Constant | -14.18* | -133.7*** | -348.7** | -1413.5*** |
| | (5.554) | (15.44) | (107.1) | (373.3) |
| *N* | 476 | 593 | 507 | 320 |
| $R^2$ | 0.293 | 0.480 | 0.355 | 0.651 |

Standard errors in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

In analogy to the changed coefficients in the previous results, the coefficient for TJ variable changes drastically for upper-middle income and high-income post-conflict countries. This change in the coefficients might be due to the existence of influential cases in the dataset. To detect the influential cases, I use Cook's distance to estimate the influence of cases when performing OLS (Cook, 1977). According to the results of Cook's d, mainly the upper-middle income post-conflict countries are influencing the regression results. In addition to the conducted tests, I will further conduct a qualitative analysis on one of the influential cases. *Appendix A* presents the list of first 30 most influential cases in the dataset.

### 4.1 Robustness Checks

To assess the robustness of my results, I use model variation test where I change the dependent variable (FDI stock) to FDI stock as percentage of GDP and FDI inflows. Appendix B shows the OLS regression with FDI stock (%GDP). According to the results, TJ has negative yet insignificant impact on FDI. However, GDP per capita growth, property rights, resource wealth, democracy and intensity level are all have significant and positive impact on FDI. In the final model where all control variables are included, only GDP per capita growth has a significant and positive impact, while TJ has negative yet insignificant impact on FDI. Appendix C shows the OLS regressions where the dependent variable is FDI inflows. According to the results, TJ has negative yet insignificant impact on FDI. In the final model where all control variables are included, none of the variables are significant.

Inspired by the Appel & Loyle (2012), to assess the robustness I tried Coarsened Exact Matching (CEM), however, the variables of this study are not suitable to conduct such an analysis.

## 5. Discussion

In this study, the research question is "Do post-conflict countries attract more FDI if they implement TJ and does this depend on the ED levels of the country?". To answer this question, I estimated fixed effects panel data OLS models that first examine the relationship between FDI stock and TJ. Then, I used stratification to obtain different ED strata and explored their potential impact on this relationship. According to the findings, there is a negative relationship between FDI stock and TJ. While the impact of TJ keeps being negative, GDP per capita growth and democracy has a positive relationship with FDI stock when individually controlled for. However, conflict intensity level has a negative impact on FDI stock with TJ. In the final model where I controlled for all control variables, the impact of TJ loses its significance and only natural wealth and democracy have significant and positive relationship with FDI stock in post conflict countries. Consequently, the findings suggest that implementation of TJ does not attract FDI and therefore reject the H1. The analysis with ED strata shows that at each level of ED, only in upper-middle income countries (Table 3) TJ has a significant yet negative effect on FDI stock. Therefore, the results do not provide enough evidence to accept or reject the H2.

The first part of the results shows us that implementing TJ mechanisms in post-conflict countries does not attract FDI, on the contrary, it decreases the FDI stock. This negative

relationship is surprising and significant since the literature suggests that TJ attracts more FDI (Appel & Loyle, 2012; Blanton & Blanton, 2007). Theoretically, the decrease in FDI stock after implementation of TJ is justifiable through the diverted resources. The literature suggested that TJ is financially costly and diverts resources away from ED efforts (Duthie, 2009; Boettke & Coyne, 2007; Cobban, 2006). Additionally, there are not a lot of countries where they have implemented TJ mechanisms, also, those mechanisms are not always successful, therefore the quality of implementation is also important.

When controlled for *economic growth* with GDP per capita growth, the results indicate that TJ negatively affects FDI and as expected, growth attracts more FDI. The literature supports this positive relationship. The literature on the relationship between *democracy* and FDI presents conflicting expectation. However, the findings of this study support the argument that democracies create a better investment environment and therefore attract more FDI (Jensen, 2003; Li & Resnick, 2003). High *level of conflict intensity*, in other words when a conflict reached the point of a war, decreases FDI stock. Literature also supports the negative relationship between intensity of a conflict and FDI (Pierpont & Krueger, 2005).

In the final model (Model 7), TJ has a negative yet insignificant impact on FDI and only resource wealth and democracy have positive and significant impact on FDI. One explanation why justice efforts after a conflict do not have a positive impact on FDI could be because of the traditional assumption. Blanton and Blanton (2007) suggested that the traditional assumption is that a country may be more attractive to potential investors if the country repress HRs because they reduce the risk for FDI and uncertainty by repressing protests and opposition. Similarly, Kishi, et al. (2017) argue that to increase investment, regimes may use violent strategies to control their domestic environment. They also argue and show that countries with unhealthy economy and low levels of civil liberties may engage with violent or conflict actions with the increased investment (Kishi, et al., 2017). Therefore, there might be a negative impact of FDI on a post-conflict country's peace, that may cause conflict recurrence and either no implementation or failed implementation of TJ mechanisms.

The second part of the analysis presents mixed results. Therefore, it is challenging to interpret the potential effect of different levels of ED on the TJ-FDI relationship. According to the theory, I expected to see a significant positive impact of higher development levels in attracting more FDI in post-conflict countries. However, post-conflict countries with higher levels of ED and TJ attract less FDI (at least in the case of upper-middle income, Table 3). In the theory, I argued that foreign investors vary in their country assessments, and they have

different attitude "to risk according to their size, sector, country of origin, sensitivity to reputational issues, and their individual investment strategies" (Bray, 2010, p. 5). Therefore, there could be many other factors that affects the relationship between TJ and FDI. Implementing TJ may not be the only and enough step that post-conflicts countries can take to attract FDI. Foreign investors are themselves affected by economic and political developments and might not invest if the host country "fails to provide a conducive environment, or if the country is still considered to be unsafe. Furthermore, the impact of individual investments will depend on the extent to which they are managed in a conflict-sensitive manner" (Bray, 2010, p. 2).

My findings and theoretical arguments suggest new avenues to explore in future studies. For example, while the theory and my arguments anticipated to have a positive relationship between TJ and FDI, the unanticipated findings were suggesting that there is negative relationship between those two. Therefore, scholars now should take the negative relationship into account when assessing the relationship between TJ and FDI and investigate on it more. This study was limited to post-conflict countries, however, with a more comprehensive approach post-authoritarian countries could also be included in the analysis.

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## Appendices

*Appendix A*. Influential cases

| Country Name | Year | Cook's D | ED Level |
|---|---|---|---|
| Morocco | 2002 | 9.86e-06 | lowermiddle |
| Malaysia | 1987 | 9.85e-06 | uppermiddle |
| Azerbaijan | 2002 | 9.84e-06 | uppermiddle |
| France | 1986 | 9.80e-06 | high |
| Nicaragua | 2004 | 9.65e-06 | lowermiddle |
| Thailand | 1998 | 9.65e-06 | uppermiddle |
| Malaysia | 1988 | 9.58e-06 | uppermiddle |
| Russia | 2003 | 9.54e-07 | high |
| South Africa | 2002 | 9.54e-06 | uppermiddle |
| Bosnia and Herzegovina | 2003 | 9.52e-06 | uppermiddle |
| Tunisia | 1986 | 9.36e-07 | uppermiddle |
| Peru | 2000 | 9.20e-06 | uppermiddle |
| Oman | 1980 | 9.19e-06 | high |
| Malaysia | 1982 | 9.09e-06 | uppermiddle |
| Croatia | 2001 | 9.02e-06 | high |
| Argentina | 1994 | 9.01e-07 | uppermiddle |
| Dominican Republic | 2002 | 8.95e-06 | uppermiddle |
| Uruguay | 2002 | 8.83e-06 | high |
| Uruguay | 1999 | 8.77e-07 | high |
| Thailand | 2003 | 8.76e-06 | uppermiddle |
| Uruguay | 2003 | 8.69e-07 | high |
| Croatia | 2000 | 8.67e-09 | high |
| Costa Rica | 1990 | 8.56e-06 | uppermiddle |
| Uruguay | 1997 | 8.47e-06 | high |
| Malaysia | 1983 | 8.34e-06 | uppermiddle |
| Greece | 1984 | 8.28e-06 | high |
| Greece | 1992 | 8.15e-06 | high |
| Malaysia | 1984 | 8.15e-06 | uppermiddle |
| Croatia | 1998 | 8.00e-06 | high |
| South Africa | 2001 | 7.91e-06 | uppermiddle |

*Appendix B*. Robustness Check with FDI inward stock as a percentage of GDP

| | (1) FDI stock (%GDP) | (2) FDI stock (%GDP) | (3) FDI stock (%GDP) | (4) FDI stock (%GDP) | (5) FDI stock (%GDP) | (6) FDI stock (%GDP) | (7) FDI stock (%GDP) |
|---|---|---|---|---|---|---|---|
| TJ Dummy | -0.605 | -0.821 | -2.017 | -1.157 | 0.0877 | -0.643 | -1.080 |
| | (4.502) | (1.343) | (1.703) | (1.292) | (4.539) | (4.499) | (1.737) |
| GDP per capita growth | | 0.342*** | | | | | 0.179* |
| | | (0.0429) | | | | | (0.0882) |
| Property rights index | | | -0.0461 | | | | -0.0653 |
| | | | (1.733) | | | | (1.722) |
| Natural Resource (%GDP) | | | | 0.447*** | | | 0.0696 |
| | | | | (0.0583) | | | (0.0909) |
| Democracy | | | | | 21.20** | | 5.091 |
| | | | | | (7.907) | | (5.186) |
| Intensity Level | | | | | | 7.165* | -0.283 |
| | | | | | | (3.462) | (1.711) |
| Constant | 21.70*** | 16.96*** | 24.86 | 13.69*** | 13.43*** | 20.54*** | 22.18 |
| | (0.988) | (0.301) | (87.33) | (0.589) | (3.293) | (1.136) | (86.81) |
| *N* | 2044 | 1938 | 1080 | 1930 | 2030 | 2044 | 1054 |
| $R^2$ | 0.000 | 0.034 | 0.001 | 0.032 | 0.004 | 0.002 | 0.008 |

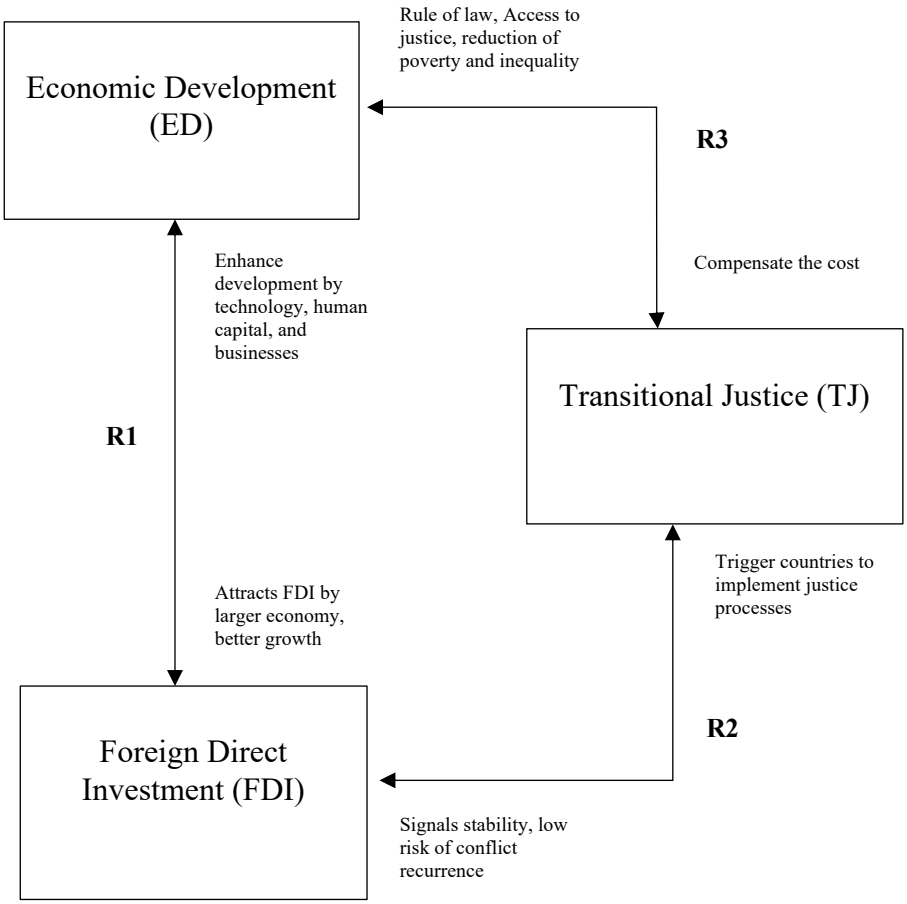
Standard errors in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

*Appendix C.* Robustness Check with FDI inflows

| | (1) FDI inflows | (2) FDI inflows | (3) FDI inflows | (4) FDI inflows | (5) FDI inflows | (6) FDI inflows | (7) FDI inflows |
|---|---|---|---|---|---|---|---|
| TJ Dummy | -589.4 | -623.9 | -1241.4 | -645.8 | -458.1 | -581.2 | -1013.6 |
| | (624.7) | (676.5) | (1279.0) | (669.4) | (633.7) | (625.5) | (1361.7) |
| GDP per capita growth | | 13.92 | | | | | 14.51 |
| | | (21.69) | | | | | (69.88) |
| Property rights index | | | 2406.3 | | | | 2397.3 |
| | | | (1283.3) | | | | (1324.1) |
| Natural Resource (%GDP) | | | | -29.27 | | | 75.87 |
| | | | | (26.96) | | | (69.60) |
| Democracy | | | | | 2587.5* | | 2683.5 |
| | | | | | (1015.0) | | (4328.7) |
| Intensity Level | | | | | | -389.0 | -1139.3 |
| | | | | | | (484.4) | (1328.3) |
| Constant | 1948.4** | 2036.3*** | -117401.9 | 2327.1*** | 986.6* | 2010.5*** | -118817.5 |
| | (142.8) | (157.5) | (64698.0) | (283.3) | (409.2) | (160.4) | (66726.4) |
| *N* | 2512 | 2369 | 1077 | 2362 | 2493 | 2507 | 1045 |
| $R^2$ | 0.000 | 0.001 | 0.005 | 0.001 | 0.003 | 0.001 | 0.008 |

Standard errors in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

*Appendix D.* Alternative Figure for the Theory: Loops of Independent Relationships



*Appendix E.* Follow-up Qualitative Analysis and Preliminary Case: Morocco

Despite being a preliminary case, Morocco was on top of the influential cases list (shown in the main document). Additionally, according to the PCJ dataset Morocco has implemented TJ in various years. International Center for Transitional Justice further indicates that Morocco is still in the process of implementing TJ mechanisms. Therefore, arguing that even though there were TJ efforts, still significant work remains to be done. For instance, the reparation programs are still in their initial phase, as well as some disappearance cases remain unsolved (ICTJ, 2021).

In addition to its TJ history, I also tried to find some fundamental information about the investment environment in Morocco. I presented two different tables that shows the strengths and the weaknesses of Morocco in attracting FDI. I categorized the strong and weak points under political and economic factors. I have touched upon the political and economic factors that attract FDI in the main document, therefore, I thought that this categorization might come in handy when referring to the theory. Especially, political stability is one of the factors where I can argue that TJ might attract FDI. With economic factors like horizontal inequalities and high poverty I can argue the impact of economic development, since I have argued that these are different dimensions of economic development. Additionally, I added a simple graph of FDI stock in Morocco between 1970-2019.

| **Strengths of Morocco in terms of investment** | |
|---|---|
| ***Political Factors*** | ***Economic Factors*** |
| Political stability- closely related to TJ efforts encouraged by King Hassan then followed by King Mohammed VI | Strategic location, the distance to Europe and sub-Saharan Africa |
| Legal framework that is favorable to investors | Low labor cost |
| | Young and well-trained population |
| | Strong infrastructure |

| Weaknesses of Morocco in terms of investment | |
|---|---|
| ***Political Factors*** | ***Economic Factors*** |
| Lack of transparency in public procurement | Horizontal inequalities and high poverty rate (Dimensions of ED) |
| Weak property rights protection | High unemployment rate |
| Administrative tasks that slow down the process of starting a business | Low productivity |
| Regional instability (for instance, West Sahara Conflict) | Small internal market |