ECO 590

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**Proposal: How Worldwide Governance Quality Affects U.S. Direct Investment Abroad?**

I want to explore how governance quality influences U.S. Direct Investment Abroad (DIA), a key component of global Foreign Direct Investment (FDI). I have already researched this question for my ECO 400 course, but I want to expand my analysis by incorporating additional variables. My current dataset includes:

* Dependent Variable: U.S. DIA by Country (1996-2024)
* Independent Variables:
  + Worldwide Governance Indicators (WGI) (1996-2022)
  + U.S. Foreign Assistance
  + Macroeconomic variables for host countries from the World Bank (GDP per Capita, Trade Openness, LFPR, etc.)

**Data Sources & APIs:**

Bureau of Economic Analysis (BEA)

* Access: Open API, requires an API key. I registered and received mine.
* API Documentation:https://apps.bea.gov/API/signup/
* Specific Datasets:
  + Direct Investment by direction of investment, year, country, and industry
  + Activities of Multinational Enterprises (MNE) by direction of investment, ownership, bank/non-bank, year, country, and industry
  + International Services Trade dataset by type of service, trade direction, affiliation, area or country, and year
  + International Investment Position dataset by type of investment, component, frequency, and year

These datasets will help expand my research by providing deeper insights into investment trends and the role of multinational enterprises. I think there aren’t much of a “not obviously common” variables, the one I might think of are labor cost/regulations and natural resources in a host country. That data would come from a differend data source, not BEA.

World Bank API

* Access: Open API, no authorization key required.
* API Documentation:https://datahelpdesk.worldbank.org/knowledgebase/articles/889392
* Variables: Worldwide Governance Indicators (WGI) - six broad governance measures:
  + Voice and Accountability
  + Political Stability and Absence of Violence/Terrorism
  + Government Effectiveness
  + Regulatory Quality
  + Rule of Law
  + Control of Corruption

*Calculated Variable: o*ne of the requirements for this project is to create a unique calculated variable.

Governance Quality Index (GQI): Computed as the average of the six WGI indicators to provide a composite measure of governance quality. Formula: GQI=(VA+PS+GE+RQ+RL+CC)/6

**Motivation & Academic Relevance**

FDI is widely recognized as a key driver of economic growth, technology transfer, and workforce development. However, the relationship between FDI and governance risk remains debated.

Looking at research from the 1980s and 1990s, when this topic gained significant attention, we see mixed findings. Wheeler and Mody analyzed panel data and examined institutional factors like corruption using a composite risk measure. They found no significant negative impact of risk on FDI. In contrast, Wei using cross-sectional data on bilateral FDI, found that corruption significantly deterred investment.

Beyond governance factors, market size and openness also shape FDI decisions. Kravis and Lipsey found these factors positively influenced U.S. multinational investment in the 1960s, while relative labor costs had little impact. Their findings suggest that different industries weigh location factors differently.

More recent research complicates this picture. Multinational enterprises (MNEs) are increasingly willing to enter uncertain markets in pursuit of higher returns. While risk assessment has long been studied, how MNEs actually evaluate, manage, and mitigate risks remains less understood. Existing studies identify various risks - commercial, cultural, and country-specific, but the strategies MNEs use to navigate them are still unclear.

My research aims to address these gaps by using a more comprehensive panel data approach with a larger sample of countries. Additionally, I will focus specifically on U.S. Direct Investment Abroad (DIA), rather than examining outflows from multiple countries, to provide a clearer understanding of how governance quality influences U.S. investment decisions.