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A Decomposition Algorithm for Optimization over Efficient Sets

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Kurzfassung

We investigate the effect of the political regime on bilateral FDI flows from advanced to emerging countries in the period 1992–2004. We control for country size, per capita income and privatization proceeds in the host country, and use a random-effect Tobit model to exploit information from zero entries. Our results suggest that democracy does have a positive effect on the amount and probability of FDI flows from developed to emerging countries. Moreover, we find that the effect of democracy on FDI also works through the total factor productivity channel, not only the political risk one as suggested in the literature.