MANUSCRIPT ID GINI-2017-1212 ENTITLED "THE REPUTATIONAL IMPACT OF INVESTOR STATE DISPUTES"

Dear Professor Schneider,

We first would like to thank you for the opportunity to revise and resubmit our manuscript. We believe the manuscript has greatly benefited from the Reviewers' helpful and thoughtful comments. We have thoroughly revised the manuscript, taking seriously each individual point raised by the Reviewers. The revision memo is organized by first responding to your comments and then addressing the reviewers' points. Our comments and responses are shown in *BLUE* below each point.

We hope you agree that the manuscript has greatly improved through this helpful process and we are looking forward to your response.

Sincerely,

The Authors.

1. Reviewer 1

1.1. Major Comments.

(1) To what extent is the basic assumption plausible that ISDS claims tarnish reputation? A series of studies have shown that awareness of IIAs and more so of claims is very limited even among foreign investors - why would claims impact on reputation? Among well-informed investors, it has become known that a good number of claims are entirely without merits, so the fact that a state is hit by a claim does not necessarily mean that the state has done anything reproachable (the institution that has most suffered in terms of reputation lately is ISDS itself). There are so many more interactions between businesses and governments (and so few claims, overall and against individual countries) that contribute to reputation, that noise probably covers any sign that could come out of investment treaty claims. In all, the findings are likely to be artifacts.

- *The reviewer asks "To what extent is the basic assumption plausible that ISDS claims tarnish reputation?" We agree with the reviewer and devote pp. 3 to 7 at the front end of the paper to discussing and challenging the plausibility of prior research findings claiming that investment treaty arbitration has a reputational impact. The assumption re ISDS claims is plausible BECAUSE of these prior studies. IF they are wrong (and we show they are), then the assumption becomes much less plausible.*

(2) One key problem of the design is the use of FDI data (and in particular the highly volatile flow data) for the econometric analysis. Although often repeated, the use of

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this dataset is highly problematic for the purpose of the study, as has been recognized for a decade now (see first Robert E. LIPSEY (2007), "Defining and measuring the location of FDI output" Sjoerd Beugelsdijk/Jean-Francois Hennart/Arjen Slangen/Roger Smeets (2010), "Why and how FDI stocks are a biased measure of MNE affiliate activity"; and later Andrew Kerner (2014), "What We Talk About When We Talk About Foreign Direct Investment" and Andrew Kerner/Jane Lawrence (2012)). Many econometric studies that seek to assess treaty effects still use this data for lack of other available data or due to ignorance, but this is not a good reason to use this data without any discussion on its validity and implications for the exercise.

- *We do not agree that FDI flow data are inappropriate. The literature cited to make this point is simply not relevant. a) Kerner and Lawrence criticize the use of flow data on the grounds that foreign capital investment takes different forms and the level of political risk varies accordingly. We're interested in foreign investor confidence, however, not vulnerability to political risk. Fixed capital may be more vulnerable than more volatile forms of investment to political risk, but that is irrelevant for the purposes of our analysis. All kinds of investment flows, whether they end up in the stock market or investment in land, are indicators of business confidence. b) Kerner argues that FDI flow data "measure the impact that MNCs have in the host country's capital account." That is precisely what we and others are interested in-NOT MNC assets, value added, sales or employment. The reason is that we are not interested in the relative importance or the impact of foreign investments on the domestic economy. We agree with Kerner that "Different research questions demand different conceptualizations." FDI sales, assets, employment, etc. do not address questions about the impact of disputes on investment reputation. c) Beugelsdijk, Hennart, Slangen and Smeets challenge the appropriateness of using FDI stock data to measure the value-adding activity of MNCs in host countries, We are NOT using FDI stock data and we are NOT interested in measuring the value-adding activity of MNCs in host countries. d) Lipsey (2007) argues that measures of flows and stocks don't measure the relative importance of FDI in terms of employment, output, etc. to an economy or the distribution of FDI by industry. We are not interested in either. The key point is that there is nothing intrinsically problematic with using investment flow data-it just depends on what one is trying to explain.*

(3) Also: Why is the number of claims not normalised against the volume of investment that individual countries receive overall (a country that receives little investment from anywhere is unlikely to be exposed to a lot of claims, while a country that attracts a lot of foreign investment would normally be more likely to get hit by claims); those that perceive the reputation can be assumed to factor this in. Also, not all countries have concluded IIAs with countries from which they receive meaningful amounts of investment, so the exposure to such claims is very different. This is also a fact that would be known to those that know about claims.

- *Three reasons: a) In the interest of making scholarship cumulative, we are using the same indicators as used by those whose claims we are challenging. b) The commentator has a hypothesis that more investment means more claims, but this is merely a hypothesis and almost certainly wrong. Recipients of unusually low levels of FDI (e.g., Moldova, and Turkmenistan) have had more disputes lodged*

against them (20) than four of the top five recipients of FDI (UK, Hong Kong, China, and Germany-a total of 7 disputes). c) We are interested in addressing the claims of prior research. Additionally, the point about having concluded or not concluded IIAs from FDI source countries is not very pertinent. "Treaty shopping" is an intrinsic feature of investment treaty arbitration. Philip Morris, for example, brought a legal claim versus Australia under an Australian-Hong Kong BIT, a legal claim against Uruguay under a Swiss-Uruguayan treaty, etc..

(4) At FN46, the authors express the surprising view that "we expect the number of ratified BITs to be positively related to reputation". Many hold that the opposite is likely to be the case (at least among developing economies, but the text is unclear on whether advanced economies are included in the statement, given the statement after FN53). BITs would more likely be used by states to compensate for mixed reputation to international investors - see, e.g., the papers cited earlier at FN11 and FN12.

- *Our focus here is not to understand the role that BITs may have on reputation. We are aware that there is much debate in the literature about the positive or null role that BITs may have on FDI and reputation. We are not focused on engaging with this debate in our paper.*

Other Comments.

(1) When the distinctive features of ICSID are described, the second item does not set ICSID apart. In fact, all arbitration institutions and rules, in combination with the IIAs, provide binding and enforceable awards. The legal authority of ICSID, if such a thing exists, appears irrelevant, as decisions are taken by the same kind of arbitrators that also adjudicate disputes under other rules and institutions. ICSID itself only facilitates the adjudication process.

- *We have changed the length and language of our discussion of the ICSID and added a citation buttressing our points about its distinctiveness.*

(2) Slicing off upper income nations (at FN40) for unspecific reasons ("significantly different role in the system" - why?) is not a plausible and satisfying way to address this issue. The fact that advanced economies are increasingly defendants of treaty claims (without their reputation being tarnished) is interesting and questions the basic assumptions. Canada is a case in point: It got hit by a large number of claims, of which it lost some, and still does not have a "bad" reputation for foreign investors. How would you explain this fact?

- *We slice off upper income nations to make our research comparable to those of others. This is the same as Allee and Peinhart, Aisbett, Busse and Nunnenkamp, etc. have done. We cannot address the robustness of their findings if we use an entirely different case base.*
- *However, to highlight the robustness of our results we reestimate Table 4 (our models of investment profile) below with upper income countries included. As you can see the results remain similar.*

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
ICSID (past 2 years)	−0.184**					
	(0.058)					
Not ICSID (past 2 years)		0.03				
		(0.113)				
ICSID (past 5 years)			−0.126**			
			(0.046)			
Not ICSID (past 5 years)				0.024		
				(0.084)		
Cumulative ICSID$_{t-1}$					−0.092**	
					(0.034)	
Cumulative Not ICSID$_{t-1}$						-0.006
						(0.055)
%Δ GDP (past years)	0.024**	0.023**	0.025**	0.023**	0.025**	0.023**
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
Ln(GDP per capita) (past years)	0.778*	0.8*	0.784*	0.791*	0.847*	0.811*
	(0.39)	(0.394)	(0.391)	(0.397)	(0.399)	(0.402)
Ln(Pop.) (past years)	2.602**	2.535**	2.637**	2.534**	2.703**	2.541**
	(0.381)	(0.387)	(0.38)	(0.386)	(0.381)	(0.387)
Ln(Inflation) (past years)	−0.224**	−0.209*	−0.234**	−0.208*	−0.252**	−0.209*
	(0.082)	(0.086)	(0.08)	(0.086)	(0.079)	(0.085)
Internal Stability (past years)	0.169**	0.171**	0.169**	0.171**	0.167**	0.17**
	(0.037)	(0.037)	(0.036)	(0.037)	(0.036)	(0.037)
External Stability (past years)	-0.052	-0.049	-0.055	-0.048	-0.058	-0.049
	(0.038)	(0.038)	(0.038)	(0.038)	(0.038)	(0.038)
Ratif. BITs (past years)	0.041**	0.038**	0.042**	0.038**	0.042**	0.039**
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Capital Openness (past years)	0.207**	0.211**	0.204**	0.211**	0.189**	0.211**
	(0.069)	(0.071)	(0.068)	(0.071)	(0.07)	(0.071)
Polity (past years)	0.011**	0.011**	0.011**	0.011**	0.011**	0.011**
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
n	3296	3296	3295	3295	3296	3296
N	126	126	126	126	126	126

TABLE 1. Regression on investment profile using country fixed effects, robust standard errors in parentheses. ** and * indicate significance at $p < 0.05$ and $p < 0.10$, respectively.

(3) Figure 1 arguably has a normalisation problem: the overall number of newspaper articles referenced on LexisNexis probably goes up every year, so a potentially useful measure of public attention would be the priority - relative frequency of mentioning - that "ICSID" gets in the news. This could be measured as a percentage of articles mentioning "ICSID" in a given year in all referenced articles in that given year. It is likely to show quite a different graph, and is more meaningful that the absolute number. The axis-title "frequency" should also be amended, as a frequency cannot be expressed in absolute numbers ("occurrences" would probably be better for this graph, but "proportion" or "share of" would be probably required if the graph was normalised as proposed here.

- *We have changed the axis-title to "Occurrences". However, we would note that if the increasing mentions of ICSID is simply an artifact of more articles every year, then we would note that we would expect a somewhat linear relationship*

from around 2000 onwards. Instead we see very few mentions of ICSID at all up until 2006, and then a substantial rise after 2010. This doesn't correspond with a story of the mentions just being tied to increasing amounts of media on LexisNexis.

(4) Why is population size (FN48) assumed to be positively correlated with international reputation? The countries with the largest populations do not normally feature on top in this regard. In the top 20, only three countries would be considered by most as having an above average reputation in foreign investors' eyes, and these are all advanced economies (and excluded from the study).

- *We are addressing claims based on prior research.*

(5) A large number of claims are now brought under multilateral arrangements (e.g. Energy Charter Treaty, NAFTA, CAFTA-DR) that have almost identical features as BITs and FTAs with respect to investment protection. Focusing exclusively on bilateral arrangements is an interesting choice in this regard (but admittedly, UNCTAD does not provide the required dataset off the shelf).

- *The vast majority of claims brought to ICSID are based on BITs. We would note that obtaining data on multilateral agreements is not very difficult either. The UNCTAD Investment Policy Hub website has information on multilateral agreements that include IIAs. Additionally, the DESTA database can also be used to ascertain PTAs that include IIAs. However, we choose to focus on BITs because of their relevance to ICSID and we have no reason to expect that accounting for multilateral agreements as well would substantive change our results re the affect of disputes on FDI or reputation.*

2. Reviewer 2

2.1. **Major Comments.**

(1) Substantively, I invite the authors to revise and update the discussions in pages 5-7. The authors said that the previous studies have found that the simple fact that a private firm brings a claim against a state on potential treaty violations regardless of the actual verdicts damages the states reputation as a law-abiding member of the international community in the previous section. Now, the authors say that the ISDS processs unique characteristics of being case-specific, decentralized, uncertain, and non-transparent may not lead to a significant reputation loss because reputations are sticky and constructed around multiple observations. These two claims seem not consistent. If only the fact that claims against a state are made matters, why do we need to care about the variations in specific designs in ISDS across treaties? If you are trying to reveal the inconsistency among the existing literatures claims, please revise your writing in this part. Currently, it is not very clear what you are trying to establish in this part.

- *We thank the reviewer for these comments. We are not asserting but rather challenging the first claim on the basis of the case-specific, decentralized, uncertain, and non-transparent nature of ISDA. We have rewritten this section of the paper and hope it is more clear.*

(2) For the sake of clarity, please state hypotheses in a separate section right below the theory part, for example. With the current format, it is somewhat hart to follow.

- *We have explicitly set out our main hypotheses on pages 14 and 15.*

(3) If simply facing a dispute either at the ICSID nor at the Non-ICSID is not associated with a meaningful change in FDI flows, why does it matter in affecting the ICRG ratings? Could you elaborate on this gap more?

- *Reputational arguments could be correct even if disputes have a limited effect on flows. We discuss this point further on p. ??*

(4) Regarding Tables 2, 3, and 4, authors report the results with country fixed effects. However, they are only showing within country variations. Do you have the pooled results? If so and if they are similar to country fixed effects, please mention in briefly at least.

- *Below we reproduce Tables 1 (models for FDI using ICSID disputes measures), 2 (models for FDI including non-ICSID dispute measures), and 4 (models for Investment Profile) without using fixed effects. Results are similar.*

Variable	Model 1	Model 2	Model 3
ICSID (past 2 years)	0.12		
	(0.183)		
ICSID (past 5 years)		0.066	
		(0.1)	
Cumulative ICSID_{t-1}			-0.005
			(0.058)
$\%\Delta$ GDP_{t-1}	0.075*	0.075*	0.075*
	(0.029)	(0.029)	(0.029)
$\text{Ln(GDP per capita)}_{t-1}$	-0.078	-0.079	-0.067
	(0.185)	(0.185)	(0.185)
Ln(Pop.)_{t-1}	1.276**	1.276**	1.278**
	(0.139)	(0.14)	(0.139)
$\text{Ln(Inflation)}_{t-1}$	-0.441	-0.443	-0.438
	(0.336)	(0.336)	(0.336)
$\text{Internal Stability}_{t-1}$	0.342**	0.342**	0.343**
	(0.11)	(0.11)	(0.11)
$\text{External Stability}_{t-1}$	0.313**	0.314**	0.314**
	(0.11)	(0.11)	(0.11)
$\text{Ratified BITs}_{t-1}$	0.019	0.019	0.021
	(0.014)	(0.014)	(0.014)
$\text{Capital Openness}_{t-1}$	0.072	0.072	0.07
	(0.139)	(0.139)	(0.139)
Polity_{t-1}	0.029*	0.029*	0.03*
	(0.012)	(0.012)	(0.012)
$\text{Property Rights}_{t-1}$	0.218**	0.219**	0.214**
	(0.045)	(0.045)	(0.045)
World FDI	0.000**	0.000**	0.000**
	(0.000)	(0.000)	(0.000)
n	2572	2572	2572

TABLE 2. Pooled regression on Ln(FDI flows) with standard errors in parentheses. ** and * indicate significance at $p < 0.05$ and $p < 0.10$, respectively.

- *Table 2 (models for FDI including non-ICSID dispute measures).*

Variable	Model 1	Model 2	Model 3
Non-ICSID (past 2 years)	-0.07		
	(0.369)		
Non-ICSID (past 5 years)		0.012	
		(0.211)	
Cumulative Non-ICSID$_{t-1}$			0.008
			(0.128)
%Δ GDP$_{t-1}$	0.075*	0.075*	0.075*
	(0.029)	(0.029)	(0.029)
Ln(GDP per capita)$_{t-1}$	-0.067	-0.07	-0.07
	(0.185)	(0.185)	(0.186)
Ln(Pop.)$_{t-1}$	1.28**	1.277**	1.277**
	(0.14)	(0.14)	(0.141)
Ln(Inflation)$_{t-1}$	-0.438	-0.438	-0.438
	(0.336)	(0.336)	(0.336)
Internal Stability$_{t-1}$	0.344**	0.343**	0.343**
	(0.11)	(0.11)	(0.11)
External Stability$_{t-1}$	0.314**	0.314**	0.314**
	(0.11)	(0.11)	(0.11)
Ratified BITs$_{t-1}$	0.021	0.021	0.021
	(0.013)	(0.014)	(0.013)
Capital Openness$_{t-1}$	0.071	0.071	0.071
	(0.139)	(0.139)	(0.139)
Polity$_{t-1}$	0.03*	0.03*	0.03*
	(0.012)	(0.012)	(0.012)
Property Rights$_{t-1}$	0.214**	0.215**	0.215**
	(0.045)	(0.045)	(0.045)
World FDI	0.000**	0.000**	0.000**
	(0.000)	(0.000)	(0.000)
n	2572	2572	2572

TABLE 3. Pooled regression of non-ICSID disputes on Ln(FDI flows) with standard errors in parentheses. ** and * indicate significance at $p < 0.05$ and $p < 0.10$, respectively.

- *Table 4 (models for Investment Profile).*

TABLE 4. Pooled Regression on investment profile. ** and * indicate significance at $p < 0.05$ and $p < 0.10$, respectively.

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
ICSID (past 2 years)	-0.244^{**}					
	(0.057)					
Not ICSID (past 2 years)		-0.022				
		(0.175)				
ICSID (past 5 years)			-0.147^{**}			
			(0.041)			
Not ICSID (past 5 years)				-0.011		
				(0.118)		
Cumulative ICSID_{t-1}					-0.082^{**}	
					(0.023)	
Cumulative Not ICSID_{t-1}						-0.002
						(0.071)
$\%\Delta$ GDP_{t-1}	0.026^{**}	0.026^{**}	0.026^{**}	0.026^{**}	0.025^{**}	0.026^{**}
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
$\text{Ln(GDP per capita)}_{t-1}$	0.384^{**}	0.378^{**}	0.385^{**}	0.379^{**}	0.388^{**}	0.378^{**}
	(0.082)	(0.085)	(0.082)	(0.085)	(0.082)	(0.085)
Ln(Pop.)_{t-1}	-0.01	-0.011	-0.011	-0.011	-0.012	-0.012
	(0.063)	(0.062)	(0.063)	(0.062)	(0.063)	(0.062)
$\text{Ln(Inflation)}_{t-1}$	-0.498^{**}	-0.51^{**}	-0.496^{**}	-0.511^{**}	-0.5^{**}	-0.51^{**}
	(0.109)	(0.109)	(0.109)	(0.109)	(0.109)	(0.109)
$\text{Internal Stability}_{t-1}$	0.174^{**}	0.177^{**}	0.174^{**}	0.178^{**}	0.172^{**}	0.177^{**}
	(0.037)	(0.037)	(0.037)	(0.037)	(0.037)	(0.037)
$\text{External Stability}_{t-1}$	0.127^{**}	0.127^{**}	0.126^{**}	0.127^{**}	0.127^{**}	0.127^{**}
	(0.038)	(0.038)	(0.038)	(0.038)	(0.038)	(0.038)
Ratif. BITs_{t-1}	0.021^{**}	0.017^{**}	0.022^{**}	0.017^{**}	0.023^{**}	0.017^{**}
	(0.006)	(0.006)	(0.006)	(0.006)	(0.007)	(0.006)
$\text{Capital Openness}_{t-1}$	0.26^{**}	0.262^{**}	0.258^{**}	0.262^{**}	0.253^{**}	0.262^{**}
	(0.064)	(0.064)	(0.064)	(0.065)	(0.065)	(0.065)
Polity_{t-1}	0.016^{**}	0.016^{**}	0.016^{**}	0.016^{**}	0.016^{**}	0.016^{**}
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
n	2603	2603	2603	2603	2603	2603

(5) What if you include cumulative ICSID (t-1) in the Models 1,2,(3,4) in Tables 2, 3, and 4? Recent counts of claims matter but you still need to control for the past history of claims in the model. And what about the potential endogeneity? It is possible that states with lower ICRG ratings tend to have more number of investment disputes.

- *Below we reproduce Tables 1 (models for FDI using ICSID disputes measures), 2 (models for FDI including non-ICSID dispute measures), and 4 (models for Investment Profile) in which we include the cumulative version of the disputes variable in each model. Results are similar.*

Variable	Model 1	Model 2
ICSID (past 2 years)	0.135	
	(0.205)	
ICSID (past 5 years)		0.159
		(0.148)
Cumulative ICSID_{t-1}	-0.078	-0.122
	(0.075)	(0.091)
$\%\Delta$ GDP_{t-1}	0.051	0.05
	(0.027)	(0.027)
$\text{Ln(GDP per capita)}_{t-1}$	-3.31^{**}	-3.274^{**}
	(1.021)	(1.022)
Ln(Pop.)_{t-1}	3.861^{*}	3.897^{**}
	(1.51)	(1.51)
$\text{Ln(Inflation)}_{t-1}$	-0.396	-0.4
	(0.357)	(0.357)
$\text{Internal Stability}_{t-1}$	0.322^{**}	0.321^{*}
	(0.125)	(0.125)
$\text{External Stability}_{t-1}$	0.413^{**}	0.413^{**}
	(0.131)	(0.131)
$\text{Ratified BITs}_{t-1}$	0.014	0.013
	(0.025)	(0.025)
$\text{Capital Openness}_{t-1}$	-0.213	-0.223
	(0.196)	(0.196)
Polity_{t-1}	0.003	0.003
	(0.013)	(0.013)
$\text{Property Rights}_{t-1}$	0.134^{*}	0.135^{*}
	(0.06)	(0.06)
World FDI	0.000^{**}	0.000^{**}
	(0.000)	(0.000)
n	2572	2571
N	101	101

TABLE 5. Fixed effects regression on Ln(FDI flows) with standard errors in parentheses. ** and * indicate significance at $p < 0.05$ and $p < 0.10$, respectively.

- *Table 2 (models for FDI including non-ICSID dispute measures).*

Variable	Model 1	Model 2
Non-ICSID (past 2 years)	-0.136	
	(0.409)	
Non-ICSID (past 5 years)		0.013
		(0.311)
Cumulative Non-ICSID$_{t-1}$	-0.184	-0.217
	(0.173)	(0.212)
%Δ GDP$_{t-1}$	0.05	0.05
	(0.027)	(0.027)
Ln(GDP per capita)$_{t-1}$	-3.257^{**}	-3.27^{**}
	(1.015)	(1.015)
Ln(Pop.)$_{t-1}$	3.726^{*}	3.716^{*}
	(1.518)	(1.518)
Ln(Inflation)$_{t-1}$	-0.378	-0.382
	(0.357)	(0.357)
Internal Stability$_{t-1}$	0.316^{*}	0.315^{*}
	(0.125)	(0.125)
External Stability$_{t-1}$	0.419^{**}	0.42^{**}
	(0.131)	(0.131)
Ratified BITs$_{t-1}$	0.017	0.017
	(0.024)	(0.024)
Capital Openness$_{t-1}$	-0.204	-0.208
	(0.195)	(0.195)
Polity$_{t-1}$	0.003	0.003
	(0.013)	(0.013)
Property Rights$_{t-1}$	0.134^{*}	0.135^{*}
	(0.06)	(0.06)
World FDI	0.000^{**}	0.000^{**}
	(0.000)	(0.000)
n	2572	2571
N	101	101

TABLE 6. Regression of non-ICSID disputes on Ln(FDI flows) with standard errors in parentheses. ** and * indicate significance at $p < 0.05$ and $p < 0.10$, respectively.

- *Table 4 (models for Investment Profile). Results are similar here as well, with the exception of the effect of the five year moving counter of ICSID disputes. This is not surprising as ICSID disputes have only recently become very frequently used, and the five year moving sum and cumulative count are highly correlated at a level of 0.82. As a result, estimating their effect jointly is difficult due to multicollinearity. Our key implications about the role that ICSID disputes play in reputation remain consistent.*

Variable	Model 1	Model 2	Model 3	Model 4
ICSID (past 2 years)	-0.058^{**}			
	(0.022)			
Not ICSID (past 2 years)		0.02		
		(0.078)		
ICSID (past 5 years)			-0.033	
			(0.022)	
Not ICSID (past 5 years)				0.042
				(0.066)
Cumulative ICSID_{t-1}	-0.052^{*}	-0.063^{*}	-0.048^{*}	-0.062^{*}
	(0.023)	(0.027)	(0.021)	(0.027)
Cumulative Not ICSID_{t-1}	-0.033	-0.033	-0.033	-0.05
	(0.073)	(0.067)	(0.074)	(0.065)
$\%\Delta$ GDP_{t-1}	0.016^{*}	0.016^{*}	0.016^{*}	0.016^{*}
	(0.007)	(0.006)	(0.007)	(0.006)
$\text{Ln(GDP per capita)}_{t-1}$	0.716	0.734	0.717	0.729
	(0.394)	(0.395)	(0.394)	(0.396)
Ln(Pop.)_{t-1}	2.638^{**}	2.642^{**}	2.639^{**}	2.643^{**}
	(0.384)	(0.384)	(0.385)	(0.384)
$\text{Ln(Inflation)}_{t-1}$	-0.293^{**}	-0.294^{**}	-0.293^{**}	-0.295^{**}
	(0.076)	(0.077)	(0.076)	(0.077)
$\text{Internal Stability}_{t-1}$	0.199^{**}	0.199^{**}	0.2^{**}	0.199^{**}
	(0.034)	(0.034)	(0.034)	(0.034)
$\text{External Stability}_{t-1}$	-0.01	-0.01	-0.01	-0.01
	(0.037)	(0.037)	(0.037)	(0.037)
Ratif. BITs_{t-1}	0.03^{**}	0.03^{**}	0.03^{**}	0.03^{**}
	(0.011)	(0.011)	(0.011)	(0.011)
$\text{Capital Openness}_{t-1}$	0.182^{**}	0.18^{**}	0.181^{**}	0.179^{**}
	(0.067)	(0.067)	(0.067)	(0.067)
Polity_{t-1}	0.012^{**}	0.012^{**}	0.012^{**}	0.012^{**}
	(0.003)	(0.003)	(0.003)	(0.003)
n	2603	2603	2602	2602
N	101	101	101	101

TABLE 7. Regression on investment profile using country fixed effects, robust standard errors in parentheses. ** and * indicate significance at $p < 0.05$ and $p < 0.10$, respectively.

(6) Explain the scale of the ICRG ratings in more detail to help the readers understanding of the results.

- *We have added additional descriptive information about the ICRG ratings on pp. 16.*

(7) What happens if you include ICSID and Non-ICSID in the same model so that you test their effects simultaneously?

- *In the table below, we model the effect on FDI flows as a function of our control variables and the cumulative versions of the ICSID and non-ICSID dispute measures. We find similar results as when we include them separately (see Model 3 of Tables 1 and 2 in the paper.)*

Variable	Model 1
Cumulative ICSID_{t-1}	-0.036
	(0.069)
Cumulative Not ICSID_{t-1}	-0.19
	(0.159)
$\%\Delta$ GDP_{t-1}	0.051
	(0.027)
$\text{Ln(GDP per capita)}_{t-1}$	-3.32^{**}
	(1.02)
Ln(Pop.)_{t-1}	3.667^{*}
	(1.52)
$\text{Ln(Inflation)}_{t-1}$	-0.393
	(0.357)
$\text{Internal Stability}_{t-1}$	0.315^{*}
	(0.125)
$\text{External Stability}_{t-1}$	0.418^{**}
	(0.131)
$\text{Ratified BITs}_{t-1}$	0.02
	(0.025)
$\text{Capital Openness}_{t-1}$	-0.215
	(0.196)
Polity_{t-1}	0.003
	(0.013)
$\text{Property Rights}_{t-1}$	0.132^{*}
	(0.06)
World FDI	0.000^{**}
	(0.000)
n	2572
N	101

TABLE 8. Fixed effects regression on Ln(FDI flows) with standard errors in parentheses. ** and * indicate significance at $p < 0.05$ and $p < 0.10$, respectively.

- *In the table below, we model the effect on investment profile as a function of our control variables and the cumulative versions of the ICSID and non-ICSID dispute measures. We find similar results as when we include them separately (see Models 5 and 6 of Tables 4 in the paper.)*

Variable	Model 1
Cumulative ICSID_{t-1}	-0.063^{*}
	(0.027)
Cumulative Not ICSID_{t-1}	-0.029
	(0.072)
$\%\Delta$ GDP_{t-1}	0.016^{*}
	(0.006)
$\text{Ln(GDP per capita)}_{t-1}$	0.734
	(0.395)
Ln(Pop.)_{t-1}	2.642^{**}
	(0.384)
$\text{Ln(Inflation)}_{t-1}$	-0.293^{**}
	(0.076)
$\text{Internal Stability}_{t-1}$	0.199^{**}
	(0.034)
$\text{External Stability}_{t-1}$	-0.01
	(0.037)
Ratif. BITs_{t-1}	0.03^{**}
	(0.011)
$\text{Capital Openness}_{t-1}$	0.18^{**}
	(0.067)
Polity_{t-1}	0.012^{**}
	(0.003)
n	2603
N	101

TABLE 9. Regression on investment profile using country fixed effects, robust standard errors in parentheses. ** and * indicate significance at $p < 0.05$ and $p < 0.10$, respectively.

(8) Why one point estimate is in blue? If this is an error, please correct it in Figure 4.

- *This is not an error. The colors designate the direction of the effect. Red indicates that the effect was negative and statistically significant, while blue indicates that the effect was positive and statistically significant. We would note that we agree with the increasing view that statistical significance is not the only benchmark one can use to determine the plausibility of a finding. That is why in Figure 5 we employ a simulation based approach to judge the substantiveness of our findings.*

(9) Please rewrite the Introduction to clearly present what motivates your research, in what aspects you challenge the previous studies both theoretically and empirically, and what your arguments are and how you are going to prove them. The current format is not a very effective introduction for the readers.

- *Per reviewer two's request, we have thoroughly rewritten the introduction to better highlight the motivation of our work here and our the contribution of our work.*