**3 Difference-in-Difference Analysis**

Text in the published paper:

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| The third approach involves a **difference-in-differences specification**. We regress the IHS transformation of FDI on battle fatalities, GDP, the interaction between ln battle fatalities (plus 1) and a treatment variable (coded as “1” for any year after the largest percentage increase in a country's air traffic, given that the amount increases by at least 150%, of which there are only 28 countries in the dataset where this is the case between 2010-2019), and the post-treatment variable (the number of years after the first treatment year). In effect, these large jumps in air traffic reflect an airport’s opening or, more often, reopening.  **Table 4**  **DiD regressions of Percentage change FDI on passengers flying into the country, controlling for battle fatalities using transformed real FDI**  A screenshot of a computer screen  Description automatically generated  The treatment variable (and its interaction with subsequent year terms) comes far closer to capturing a large air traffic shock, given our magnitude restriction. The significant treatment interaction with battle fatalities links the shock to a war-related event, and the significant post-treatment interaction variable indicates that this positive relationship between a shock and FDI remains positive, yet declines somewhat, in post-shock years. The negative coefficient on the treatment and post-treatment variables without the interaction also indicates that the positive relationship seems to be dependent on a war environment with more battle fatalities.  **Bottom line**: contemporaneous and lagged air traffic is associated with increased foreign direct investment, especially for countries/airports with modest traffic. Beyond omitted variables and endogeneity, the obvious criticism of this approach is that the terms are likely cointegrated, limiting claims to having uncovered causal inference. However, the positive significance of an air traffic surge in areas with high battle fatalities on FDI seems more likely to be unidirectional: it seems unlikely that FDI has a non-idiosyncratic causal impact on battle fatalities. |

Replication notes: