

# **FDI, Unmet Expectations, and the Prospects of Political Leaders: Evidence from Chinese Investment in Africa**

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# Do Political Leaders Benefit from FDI?

The Nigerian Vice-President attended a groundbreaking ceremony of a Chinese plant.



Kenyans protested against the construction of a coal plant invested by Chinese companies.



## Do Political Leaders Benefit from FDI?

Political leaders typically value inflows of FDI and compete for it,

- ▶ **but do they really gain political dividends from it?**
- ▶ **at which stages of FDI (announced or operational)?**

Answer from our paper: political leaders reap short-term benefits at the stage of announcement, but eventually pay reputational costs when projects are implemented, irrespective of the tangible impacts of the projects.

# Why?

## Unmet Expectations and Political Blame

- ▶ Perceptions on political leaders are formed in two stages
  - announcement of new projects
  - actual implementation of the projects
- ▶ When new projects are announced
  - political leaders reap short-term benefits
  - oversell the potential benefits of FDI projects
  - FDI, jobs, and job touting (different from aid)
- ▶ **The political risks of touting FDI**
  - **local communities develop inflated expectations**
  - **political leaders stake their reputations on promises**

# Empirical Implications

## Perception gaps from announcement to implementation

- ▶ When new projects are announced
  - public perceptions are positive on economic conditions
  - public perceptions are positive on political leaders
  
- ▶ When projects are implemented
  - public perceptions turn negative on economic conditions
  - public perceptions turn negative on political leaders

# Research Design

## Data

- ▶ Chinese FDI in Africa
  - Financial Times *fDi markets*
  - 438 Chinese FDI projects in Africa from 2003 to 2018
  - We geocoded exact locations for each project
  - We coded the year of announcement and implementation
  - 223 projects with precise geolocations
- ▶ Geocoded Afrobarometer: Round 1 to Round 7 (1999-2017)
- ▶ Geocoded Chinese aid from *AIDDATA*: 2003-2013
  - As a comparison to Chinese FDI
  - To rule out the effects from China's presence per se

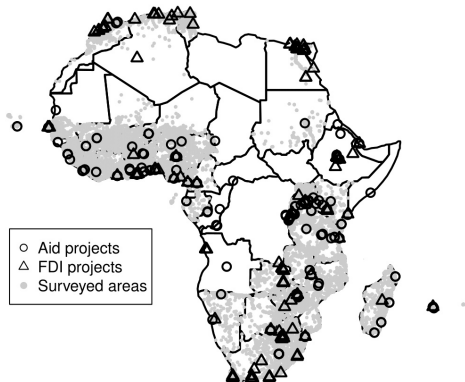
# Research Design

## Dependent Variables

- ▶ Perceptions on economic conditions
  - Current economic conditions (1-5)
  - Future economic conditions (1-5)
  
- ▶ Perceptions on political leaders
  - Managing the economy (1-4)
  - Creating jobs (1-4)
  - Presidential approval (1-4)

## Research Design

Connecting Geocoded Projects to Survey Responses (50km cut-off)





# Research Design

## Identification Strategy

- ▶ Challenge: locations of FDI are not random
- ▶ Solution: compare with respondents close to *inactive* projects
  - *inactive*: not announced or operational at the time of survey
  - *active*: operational at the time of survey
  - *announced*: announced but not active at the time of survey

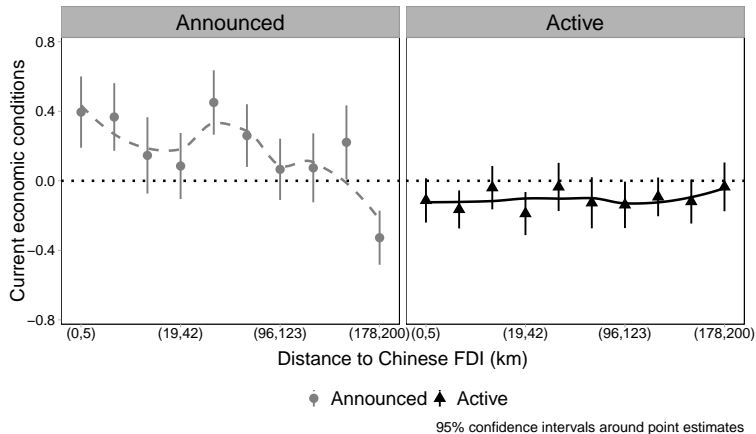
## Baseline Model

$$Y_{ivt} = \beta_1 \text{announced}_{it} + \beta_2 \text{active}_{it} + \beta_3 \text{inactive}_{it} + \lambda X_i + \theta_c + \gamma_t + \varepsilon_{ivt}$$

Alternatively, we drop the respondents not close to FDI

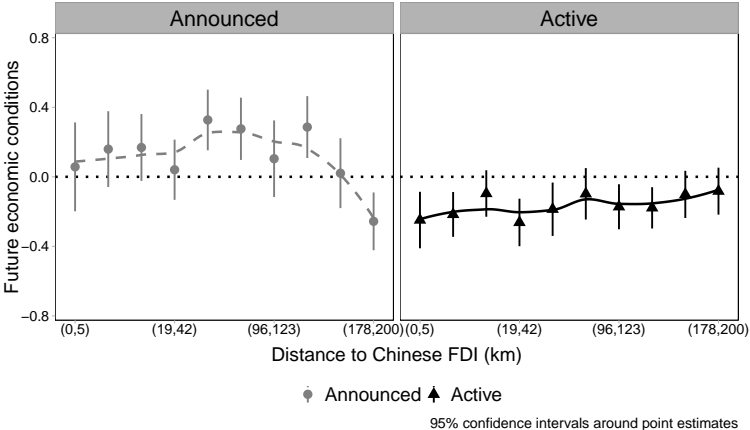
$$Y_{ivt} = \beta_1 \text{announced}_{it} + \beta_2 \text{active}_{it} + \lambda X_i + \theta_c + \gamma_t + \varepsilon_{ivt}$$

# Main Results: Perceptions on Economic Conditions



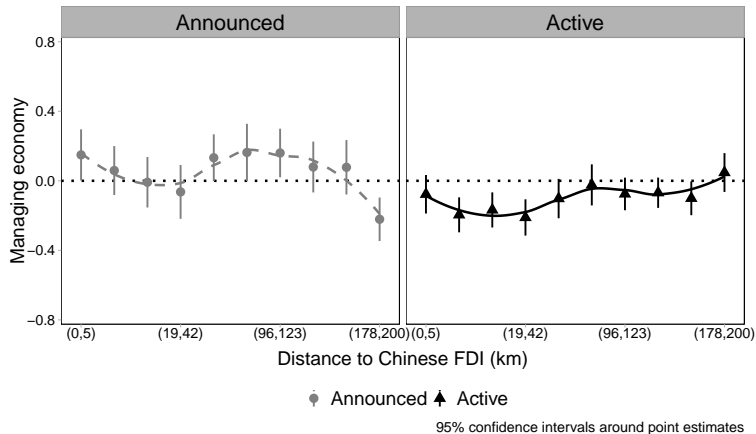
(a) FDI: Current economic conditions

# Main Results: Perceptions on Economic Conditions



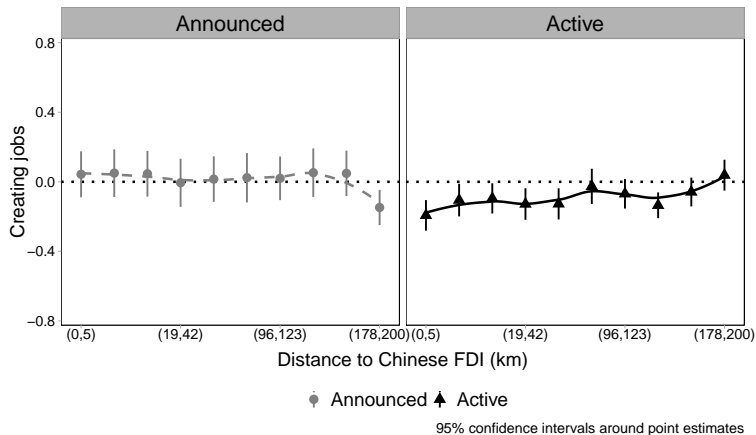
(b) FDI: Future economic conditions

# Main Results: Perceptions on Political Competence



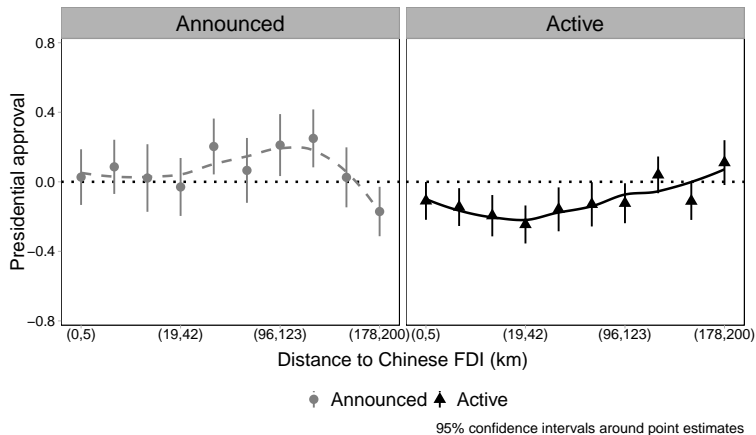
(a) FDI: Managing economy

# Main Results: Perceptions on Political Competence



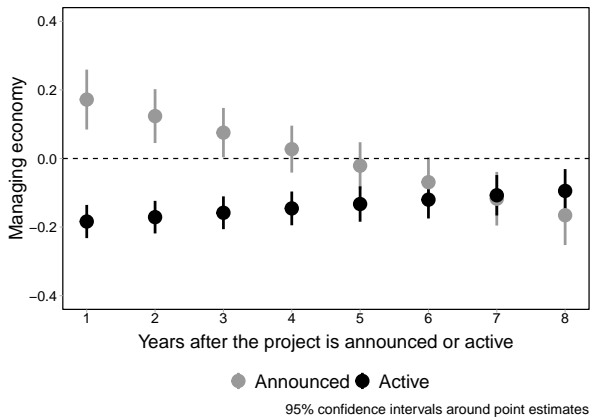
(b) FDI: Creating jobs

# Main Results: Perceptions on Political Competence



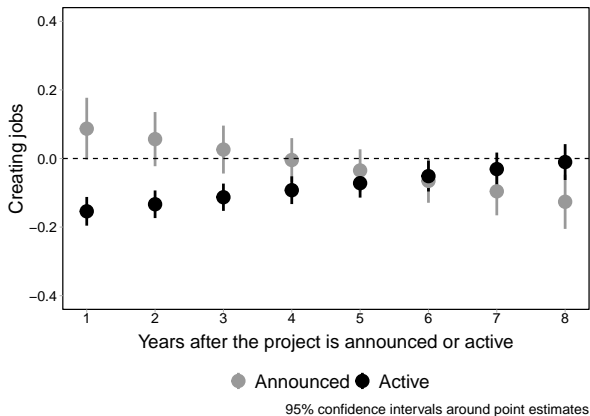
(c) FDI: Presidential approval

## Marginal Effects by Years: Perceptions on Political Competence



(a) FDI: Managing economy

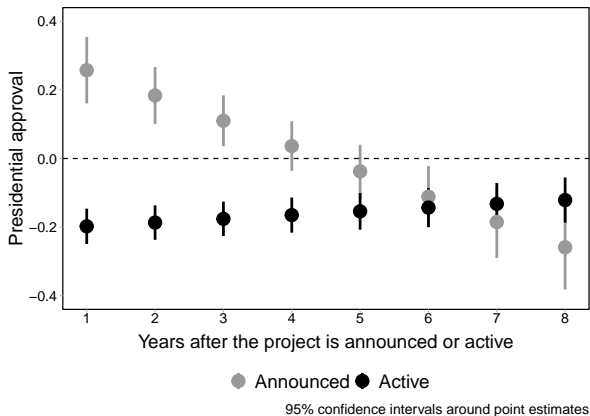
## Marginal Effects by Years: Perceptions on Political Competence



(b) FDI: Creating jobs

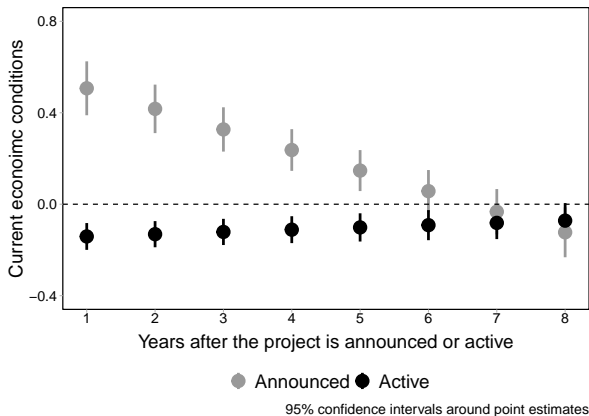


## Marginal Effects by Years: Perceptions on Political Competence



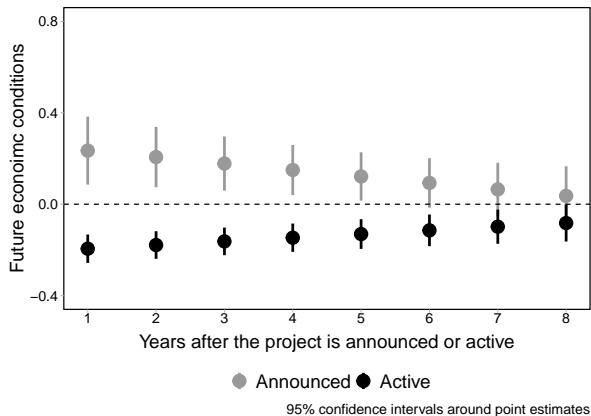
(c) FDI: Presidential approval

# Marginal Effects by Years: Perceptions on Economic Conditions



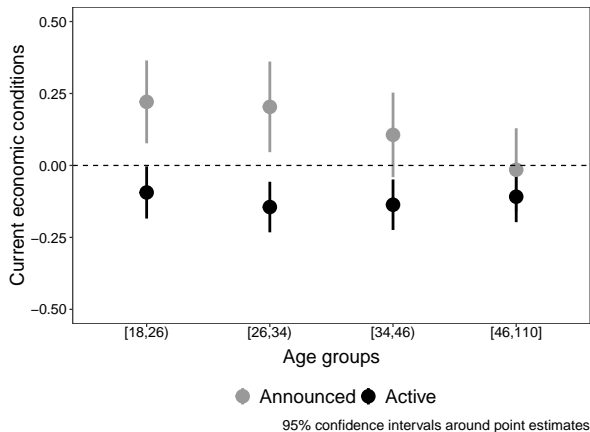
(a) FDI: Current Economic Conditions

## Marginal Effects by Years: Perceptions on Economic Conditions



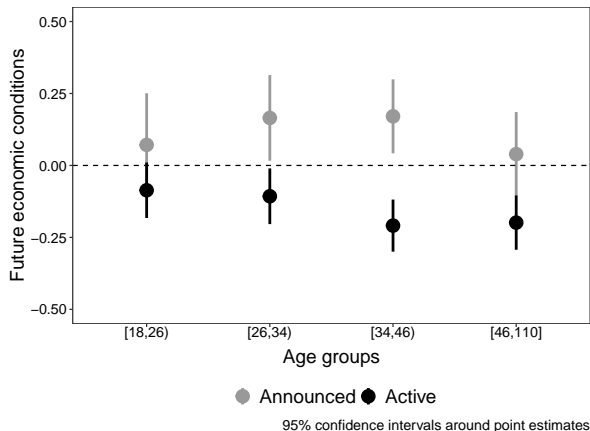
(b) FDI: Future Economic Conditions

## Heterogeneous Effects across Age Groups



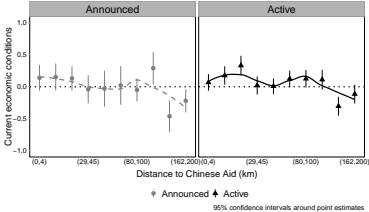
(a) FDI: Current economic conditions

## Heterogeneous Effects across Age Groups

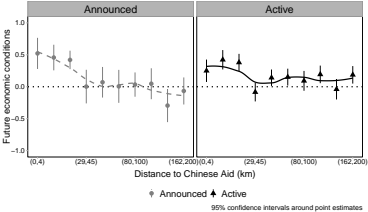


(b) FDI: Future economic conditions

# Comparisons with Chinese Aid: Perceptions on Economic Conditions

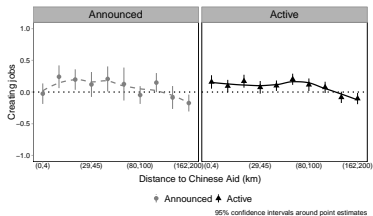
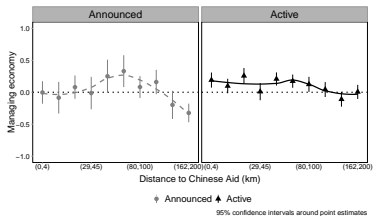


(a) Aid: Current economic conditions



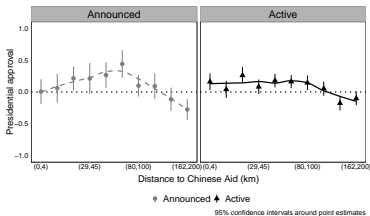
(b) Aid: Future economic conditions

# Comparisons with Chinese Aid: Perceptions on Political Competence



(a) Aid: Managing economy

(b) Aid: Creating jobs



(c) Aid: Presidential approval

## Robustness Checks

- ▶ Different distance cut-offs (25km)
- ▶ sub-national region fixed effects
- ▶ project fixed effects
- ▶ matching



## Summary of the Main Findings

Compared with people living close to *inactive* Chinese FDI projects

- ▶ People living close to *announced* Chinese FDI projects
  - are more excited about economic conditions
  - give credits to political leaders, but only for a period of time
- ▶ People living close to *active* Chinese FDI projects
  - are more negative about economic conditions
  - blame political leaders for their disappointments

The perception gaps are more salient among the workforce groups

Chinese aid projects do not elicit the same effects

## Conclusion

- ▶ Do political leaders benefit from FDI?
  - reap near-term political bump
  - but eventually pay a reputational cost
  - near-term political bump undermines later political payoffs
  - it may be the successors who bear the cost
  
- ▶ Communities react differently to FDI and foreign aid

Thank you for your comments!