Leaders' Foreign Travel and Foreign Investment Inflows

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Abstract

This paper examines the effect of foreign travel by the leader or the head of state on the ability of the country to attract foreign capital, as reflected by foreign direct investment inflows. The key difficulty in determining a causal effect is the issue of endogeneity. As much as the leader's trips abroad may attract foreign capital inflows, it is also possible that leaders are tempted to visit countries known to have a high level of investment out of their borders. To deal with potential endogeneity, we introduce a novel instrumental variable. The instrument used is urban distance which is defined as the gap between the level of urban development in the country of the leader relative to that of the United States. The 2SLS shows that the leader's trips variable, instrumented by urban distance, has a statistically significant negative coefficient. This is the case even after the inclusion of other control variables and after using alternative samples. This result implies that these costly trips by the leaders can crowd out spending on the infrastructure needed for foreign investment, and can signal lack of seriousness by the leaders in spending on the implementation of reforms needed to attract foreign capital.

JEL Code : F21, F23, H11
Keyswords : International Investment, Foreign Direct Investment, Executive

« Partout où je vais tout le monde veut avoir des nouvelles du Congo (…) Je fais un travail, ensemble avec mes collaborateurs de chercher des investisseurs, les rassurer, etc.
Nous allons continuer. Nous n'allons pas les écouter. Ils avaient promis de tout faire pour que les investisseurs ne viennent pas au Congo. Nous avons pensé qu'ils sont des frères alors qu'ils sont des sorciers...
Je ris souvent quand j'écoute la polémique sur le voyage présidentiel. On a ramené plus d'un milliards et demi de dollars grâce à ces voyages, et je vais poursuivre pour ramener les investisseurs au Congo ».[1]

Speech by the President of the DRC, Félix Tshisekedi, to the Congolese diaspora in Paris (11/11/2019)

1. Introduction

This paper examines the effect of the number of foreign trips by the leader of the country or the head of the government on foreign investment inflows. To be specific, this paper investigates whether foreign travel by a country's leader allows the country to attract more foreign capital and to entice foreign firms to invest in their economy. This is the first attempt in the literature to consider the number of trips by heads of state as a determinant of foreign direct investment.

The intuition is straightforward. Leaders and heads of governments travel abroad for a plethora of purposes. One of the most important reasons is to strengthen bilateral economic ties between their country and the countries they are visiting. These economic ties can be fostered by increasing trade and commercial exchange, attracting foreign capital inflows, containing any potential political disputes or border conflicts, and facilitating travel and cultural exchange between the citizens of the two countries. In the context of this paper, these foreign trips allow the leaders to meet with potential foreign officials and investors, to present to them the investment opportunities available in their countries, to persuade them to invest in

[1] Translation : « Everywhere I go everyone wants to hear from the Congo (…) I do a job, together with my colleagues, to seek investors, reassure them, etc. We will continue. We are not going to listen to them. They promised to do everything to prevent investors from coming to the Congo. We thought they were brothers when they were wizards ... I often laugh when I listen to the controversy over the presidential trip. We brought in over a billion and a half dollars through these trips, and I'm going to continue to bring investors back to the Congo."

their economies, to highlight the concessions and incentives that can be afforded to foreign investors, to bargain with them over the terms of their investment, and to negotiate for better economic outcomes for their country. Foreign investors can also take the trip of the head of the state as a strong signal from the highest levels of a country's leadership for their serious commitment to facilitate foreign capital flows, to offer concessions to foreign firms, to ensure the security of foreign property, and to spend on the essential infrastructure for this type of investment. Thus, we would expect that the number of leaders' trips to be positively associated with foreign direct investment.

On the other hand, the travel of the head of the government is costly. Leaders usually travel with a large entourage that includes security personnel, policy makers, public officials, expert advisors, private entrepreneurs, staff of the presidential cabinet, members of the press corps and others. These trips are a burden on the coffers of the state due to the need to cover the cost of traveling, lodging, security, transportation, and meetings of the leaders and their retinue. These costly trips increase the opportunity cost for the social and physical infrastructure essential for foreign investment. This can include human capital spending that improves the level of skills of domestic workers who can potentially be hired by foreign investors, in addition to spending on the infrastructure for transportation, communication and utilities that are essential for any type of investment. Thus, the leaders' trips can lead to a crowding out effect where an increase in these costly trips abroad may lead to a reallocation of resources away from productive spending that is essential for investment. Leaders who travel a lot can also send a negative signal to investors. These trips can be interpreted as a lack of seriousness in dealing with challenges that these countries face, or lack of commitment to implement reforms needed to attract foreign capital, or lack of interest in spending on the social and physical infrastructure necessary for foreign investment. These trips, and the leader's direct involvement, can also signal the inefficiencies of the other institutions that are

supposed to be in the forefront of the efforts of attracting foreign capital, such as the chambers of commerce, the diplomatic corps, or any government agencies in charge of attracting foreign investments. Thus, we would expect a counter-intuitive result where the leaders' trips would have an adverse effect on foreign direct investment.

Given that the effect of the number of leaders' foreign trips on foreign investment inflows is inconclusive, an empirical analysis is warranted. To achieve its objective, the paper uses a novel variable that indicates the number of trips by a leader or a head of a government to the United States of America, which is derived from the archives of the U.S. Department of State. The baseline results, using Ordinary Least Squares estimation, show that the number of leaders' trips has a statistically significant negative coefficient, which provides evidence that these foreign trips adversely affect foreign direct investment inflows. These results are robust even after the inclusion of several control variables that are identified in the literature as determinants of foreign direct investment such as income per capita, economic growth, infrastructure, institutional quality, natural resources and others.

However, the key difficulty in determining a causal effect of the number of leader's trips to the United States on foreign direct investment is the issue of endogeneity. First, the association may be spurious due to a failure to account for an unobserved channel that may determine both variables. Second, as much as the leader's trips abroad may attract foreign direct investment inflows, it is also possible that leaders are tempted to visit countries known to have a high level of investment out of their borders. In this case, the United States is one of the countries with is a significant capital outflow seeking a better return. Thus, leaders would tend to go there to attract American capital to their economies. This highlights an issue of reverse causality.

To deal with potential endogeneity, we use a novel instrumental variable. The instrument that we use is urban distance, which captures the gap between the level of urban development in the leader's country and that of the United States. The Two Stage Least Squares estimation confirms the previous findings and shows that the leaders' trips variable has an adverse effect on foreign capital inflows. This is robust even after the inclusion of other control variables and after using alternative samples in the analysis.

This paper contributes to the pertinent literature in various ways. The paper is the first attempt to examine the effect of foreign travel by heads of state on attracting foreign capital. The second contribution of the paper is that it is also the first to highlight the economic consequences of a country's leader's trips abroad. The third contribution is the compilation of the data set on leaders' trips to the United States. The final contribution is the use of a novel instrumental variable, urban distance, which was not used before in the literature.

The remainder of the paper is organized as follows: section 2 discusses the literature survey, section 3 includes the detailed description of the data, section 4 includes the empirical estimation and the robustness tests, and section 5 concludes. References, tables and figures are included thereafter.

2. Literature

This paper contributes to the literature on the determinants of foreign direct investment. The studies in this literature emphasize the significance of several determinants such as the level of economic and financial development, the suitability of infrastructure, human capital, institutional quality, policy quality and democratic governance.

Some studies focus on the effect of institutional quality on foreign direct investment. These institutions offer protection for the property of foreign firms, protect foreign investors from the risk of expropriation, limit bribery payments to corrupt public officials, allow foreign

firms to enforce contracts, and allows for the judicial independence needed for litigation in case of dispute with a domestic entity. In this context, Du et al. (2008) examine the impact of institutions, including property rights protection and contract enforcement, on the location choice of foreign direct investment. The authors find that U.S. multinationals prefer to invest in Chinese regions that have better protection of intellectual property rights, less government intervention in business operations, less corruption, and better contract enforcement. Du et al. (2012) compare the sensitivity of the location choice of foreign direct investment toward the variation in institutional quality across Chinese regions. The authors find that enterprises from source countries that are culturally more distant from China exhibit a stronger aversion to regions with weaker institutions. Busse and Hefeker (2007) explore the connection between political risk, institutions, and FDI inflows. Their results show that political stability, internal and external conflict, corruption, ethnic tensions, law and order, government accountability, and quality of bureaucracy are significant determinants of FDI inflows. Asiedu et al. (2009) examine the effect of the risk of expropriation on FDI inflows. The authors show that the threat of expropriation decreases FDI inflows, and that foreign aid mitigates the adverse effect of expropriation risk but cannot eliminate it entirely.

Other studies focus on the effect of the democratic system of governance on the ability of the country to attract foreign capital. On one hand, democratic institutions hinder foreign capital inflows by constraining the monopolistic approach of multinational corporations, by protecting domestic investors from foreign competition, and by constraining host governments' desire to offer generous financial incentives and fiscal concessions to foreign investors. On the other hand, democratic institutions may promote foreign capital inflows by ensuring more credible property rights protection and reducing the risk of expropriation.

In this context, Li and Resnick (2003) find that increases in democracy enhance property rights protection, which indirectly encourages FDI inflows. The authors also find

that after controlling for their positive effect through property rights protection, democracy also decreases FDI inflows. Li (2009) shows that democratic governments are most likely to expropriate foreign investment when leaders face little political constraints and when their countries experience frequent leadership turnover. The author also finds that autocrats are least likely to expropriate foreign assets when they face high political constraints and have stayed in power for a long time. Harms and Ursprung (2002) explore whether political repression boosts FDI. The authors arrive at the conclusion that multinational enterprises appear to be attracted by countries in which civil rights and political freedoms are respected. Asiedu and Lien (2011) examine whether the abundance of natural resources in host countries alter the relationship between democracy and FDI. The authors find that democracy increases FDI inflows if the share of minerals and oil in total exports is less than some critical value.

Other studies examine the effect of various types of policies on the ability to attract foreign capital. Some of these policies have direct implications on foreign investors, such as capital controls, while others aim at implementing economic reforms that might attract foreign firms. For instance, Asiedu and Lien (2003) examine the effect on FDI of different types of capital control policies such as the existence of multiple exchange rates, restrictions on capital account, and restrictions on the repatriation of export proceeds. The authors show that in the 1970s and 1980s, none of the policies had a significant effect on FDI, while in the 1990s all were significant. The authors also find that capital controls have no effect on FDI to sub-Saharan Africa and the Middle East, but affects FDI to East Asia and Latin America negatively. Asiedu (2006) shows that lower inflation, suitable infrastructure, higher human capital, openness to FDI, less corruption, political stability and a dependable legal system have a positive effect. These findings suggest that countries can attract FDI by improving their institutions and policy quality. Asiedu (2002) explores whether factors that determine FDI affect countries in sub-Saharan Africa differently. The results show that better

infrastructure has no significant effect on FDI to sub-Saharan Africa, while trade openness promotes FDI to all developing countries even though the marginal benefit is less for sub-Saharan Africa. Gastanaga et al. (1998) examine the effects of different policy variables. The authors find a particular positive effect of trade openness on foreign direct investment.

Other studies explore the importance of human capital as countries can enhance their attractiveness as locations for FDI by pursuing policies that increase the level of local skills and labor force capabilities. In this context, Noorbakhsh et al. (2001) find that human capital is a statistically significant determinant of FDI inflows, is one of the most critical determinants, and its importance has increased over time. Cleeve et al. (2015) assess the role of human capital on FDI inflows to sub-Saharan Africa. Their results show that human capital has a significant influence on FDI, but that there is no evidence of the increasing importance of human capital on the type of FDI flowing to sub-Saharan Africa. Francois et al. (forthcoming) find that greater educational attainment of the leader of the country is associated with higher FDI, and that the leader having tertiary education in economics and prior experience in business is also associated with greater FDI. Asiedu et al. (2015) examine the relationship between HIV/AIDS and foreign direct investment. The authors find that HIV/AIDS has a negative but diminishing effect on FDI.

Besides economic development, some studies argue that the level of financial development is also essential to attract foreign direct investment. Desbordes and Wei (2017) investigate the various effects that source and destination countries' financial development have on foreign direct investment. The authors find that both source and destination financial development have a large positive influence on greenfield, expansion, and mergers & acquisitions FDI, by directly increasing access to external finance and indirectly encouraging manufacturing activities.

There are also studies that examine the effect of social capital on economic exchange between countries. Guiso et al. (2009) examine how bilateral trust between European countries affects their trade and financial flows. The authors find that lower bilateral trust leads to less trade between two countries, less foreign portfolio investment, and less foreign direct investment.

The contribution that is closest to ours is Constant and Tien (2010) who examine whether foreign-educated African leaders attract more foreign direct investment to their country. Their analysis shows that leaders' foreign education promotes foreign direct investment, indicating the role of networks and connections that these leaders built while studying abroad. Our paper, however, differs from these study in terms of focusing on the leaders' foreign travel rather than the leader's foreign education. Thus, ours study is more concerned about the networks and connections that the leaders cultivate during their travels abroad rather than those built during their education abroad. We argue that our approach makes more sense as the networks created during the leader's education abroad might not be with those foreign figures that will eventually influence bilateral economic and commercial ties between the two countries. However, the connections made during the leader's trips are with those policy makers and entrepreneurs who are more pertinent to these decisions.

3. Data

The countries included in the analysis are Taiwan, Canada, Liberia, Rwanda, Thailand, Czech Republic, Niger, Belize, USA, Guyana, St. Vincent and the Grenadines, Costa Rica, Malta, Ethiopia, Lao PDR, Libya, China, Turkey, Mongolia, Latvia, Guatemala, Uruguay, Republic of Moldova, Tajikistan, Saudi Arabia, Greece, Burundi, Tanzania, Portugal, Malawi, Netherlands, Antigua and Barbuda, Macao, Gabon, Nigeria, Cuba, Swaziland, Tunisia, Bermuda, Mozambique, Oman, Bhutan, Nepal, Georgia, Angola, Armenia, Mali, Denmark, Burkina Faso, Papua New Guinea, Venezuela, Uganda, Comoros, Syria, Lebanon, Bosnia and

Herzegovina, Equatorial Guinea, Pakistan, Brunei, Kuwait, Algeria, Congo, Bangladesh, Mauritius, Eritrea, Honduras, Sierra Leone, Solomon Islands, Haiti, Suriname, Benin, Germany, Norway, Lesotho, Central African Republic, Bahamas, Azerbaijan, Sao Tome and Principe, Singapore, Yemen, Fiji, Korea, Timor-Leste, Colombia, Albania, Djibouti, Nicaragua, Belarus, Jamaica, Madagascar, Brazil, Democratic Republic of Congo, Ireland, Iran, France, Egypt, Turkmenistan, Mexico, Sri Lanka, Maldives, Peru, Vietnam, Zimbabwe, New Zealand, Bahrain, Gambia, Zambia, El Salvador, Ukraine, Spain, Croatia, Iraq, Grenada, Jordan, Kenya, Cote d'Ivoire, Hong Kong, Russia, Belgium, Micronesia, Guinea-Bissau, Iceland, Dominica, Qatar, Luxembourg, Slovak Republic, Indonesia, Macedonia, Austria, Lithuania, Chad, Afghanistan, Slovenia, Tonga, Cameroon, Chile, Poland, Cyprus, Argentina, Singapore, Romania, Sudan, Israel, Philippines, Ecuador, Barbados, Panama, Palau, Somalia, Seychelles, St. Lucia, Finland, Estonia, Cape Verde, Paraguay, Vanuatu, United Kingdom, Australia, Italy, Montenegro, Kazakhstan, Cambodia, Kiribati, Guatemala, Guinea, Japan. Table 1 presents the descriptive statistics for all the variables used in the analysis.

The dependent variable in our analysis is foreign direct investment inflow as a percentage of Gross Domestic Product. This is derived from the World Development Indicators. The variable of interest is leaders' trips, which is calculated as the number of trips by the government's leader to the United States of America during the period 1960-2015. This data is derived from the Office of the Historian, which is affiliated to the Department of Sate of the United States of America.[2] Figure 3 shows a world map of leader's trips to the United States during the period 1960-2015.

Several control variables are used in the analysis. Appendix A presents the source and description of all the variables used in this study. Appendix B shows the correlation matrix for different variables.

[2] https://history.state.gov/departmenthistory.

4. Estimation

This section conducts an empirical estimation of the effect of the number of leaders' trips to the United States of America on foreign direct investment inflows to their country during the period 1960-2015. To explore this relationship we use the following equation

$$FDI_i = \theta + \delta_i LeadersTrips_i + \aleph_i \gamma + \mu_i \quad (1)$$

FDI_i is foreign direct investment inflows in country i. $LeadersTrips_i$ is the number of trips by the leader of country i to the United States. $\aleph_i$ is a vector of control variables and μ_i is the error term. The vector of control variables includes those commonly identified in the literature as determinants of foreign direct investment. Thus, we control for the age of the country since independence, total natural resources rents as a percentage of GDP, the logarithm of GDP per capita, annual GDP growth rate, infrastructure (proxied by fixed telephone subscriptions per 100 people) and institutional quality. The study is a cross-country analysis and applies the Ordinary Least Square (OLS) estimation technique. The choice of this technique is dictated by our variable of interest, which is only available in cross-section.

To the best of our knowledge, the variable of interest on leaders' trips has never been used before in economic analysis. To collect this variable, we used historical data from the Department of State of the United States of America. We counted the number of leaders' trips to the U.S.A. from 1960 to 2015. Initially, the objective was to use the total number of leaders' trips to all countries. However, the unavailability of this type of data did not allow us to have such a distribution. Thus, instead of considering all destination countries we only consider leaders' trips to the main country with capital outflows. This is a fact that deserves to be emphasized as the United States is identified as the main investor according to (OECD, 2020). This fact can justify our focus on travel by leaders to the United States.

5. Baseline Results

The baseline results are included in table 2. Column 1 includes the coefficient of the number of leader's trips without any control variables, column 2 adds the age of the country, column 3 adds the natural resources rents, column 4 adds the logarithm of GDP per capita, column 5 adds the annual GDP growth rate, column 6 adds a proxy for infrastructure, and column 7 adds the institutional quality.

The OLS estimation shows that the leaders' trips variable has a statistically significant negative coefficient in all specifications. This implies that the higher the number of foreign trips by the head of state the less foreign capital the country can attract in the form of foreign direct investment. It is also worth noting that the coefficient gets larger the more control variables we add to the regression equation. When we include all the control variables, the leaders' trips variable has a significant coefficient of -0.085. This implies that a one standard deviation increase in the number of leaders' trips to the United States translates into a decrease in foreign direct investment by 1.44.

The results also show that the logarithm of GDP per capita shows a statistically significant positive association with foreign direct investment, but it loses its significance once we add annual GDP growth rates. This implies that economic growth is more important than the level of development for foreign direct investment. As expected, the proxy for infrastructure has a statistically significant positive coefficient. Institutional quality, however, does not seem to matter as this aspect might be captured already by the economic growth indicator. The results also show that time since independence and resource abundance do not have statistically significant coefficients.

6. Robustness Tests

6.1 Influential Observations

The OLS estimates could be affected by the influence of a certain number of observations. Figure 1 shows the relationship between FDI and the number of leaders' trips. This graph shows that countries like Japan (JPN), Guatemala (GMT), Guinea (GIN), China (CH2), Kiribati (KIR), Cambodia (KHM) and Kazakhstan (KAZ) appear as outliers.

Our first sensitivity check estimates our baseline specification, with our full set of control variables, after dropping the ten countries with the largest number of leaders' trips. The results are presented in column 1 of table 3. However, this technique is generically weak and, thus, more robust estimations are called for. Considering this issue, we apply Hubert's Iteratively Weighted Least Squares IWLS as in Huber (1964, 1973) and Li (1985). This technique is used to mitigate the influence of outliers in an otherwise normally distributed data set, which serves to test the robustness of the results. The results are presented in column 2 of table 3. We omit all observations for which $|DFBETA_i| > 2/\sqrt{N}$, where N is the number of observations—in our case, 150.

These different corrections do not affect the results found so far. The coefficient of the leaders' trips remains negative and statistically significant. In different terms, the outliers have no real impact on the direction, sign or significance of the relationship of interest.

Figure 1. Leaders' Trips and FDI

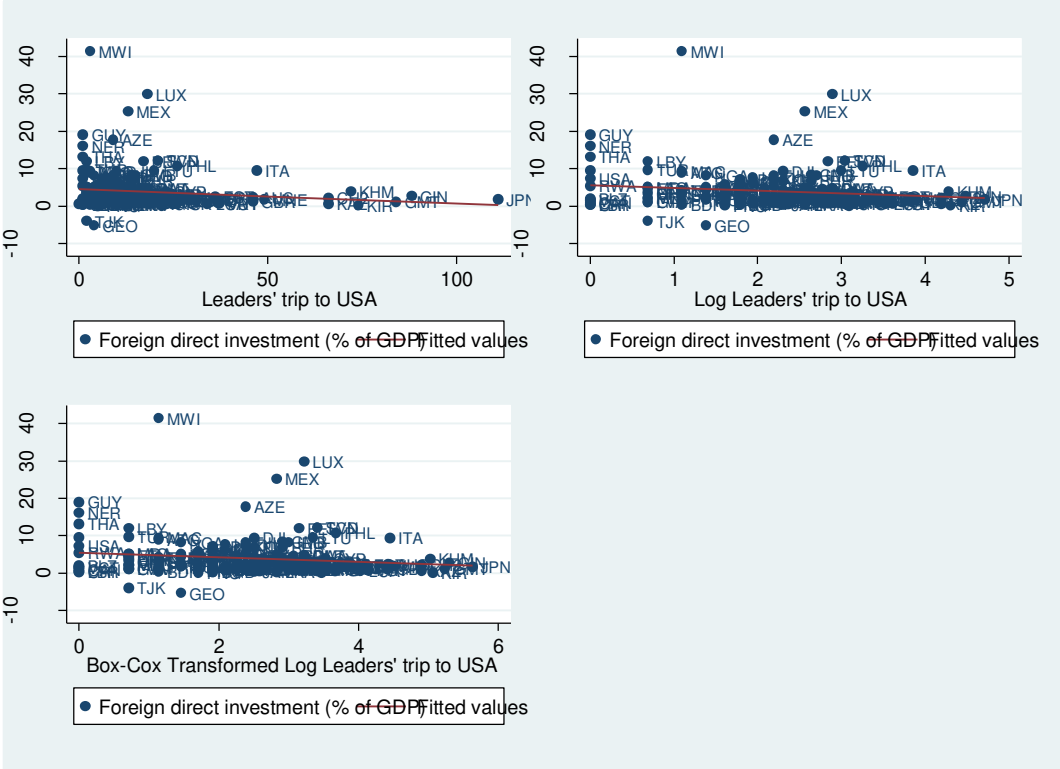


Figure 1 also suggests that our variable of interest is biased to the left. To correct this problem, we use two approaches. First, we conduct a logarithmic transformation of the leaders' trips variable. The graph is shown in column 2 of figure 1. Second, we perform a zero-skewness Box-Cox power transformation on the leaders' trips variable to obtain a measure with zero skewness. These two transformations cancel out the indicated bias. The results after these two transformations are included in columns 4 and 5 of table 3. As in the previous sensitivity tests, the bias of the distribution to the left also does not affect the relationship of interest. As shown in table 3, the logarithmic transformation of the leaders' trips and the zero-skewness Box-Cox power transformation confirm the sign and statistical significance of the coefficient, despite the increase in the magnitude of the coefficient of the variable of interest.

6.2 Identification Strategy: Endogeneity

The relationship found so far assumes that the leaders' trips are exogenous to foreign direct investment. However, the problem of endogeneity should not be ignored. First, the

association may be spurious due to the failure to account for an unobserved channel which is affecting both variables. It is likely that economies that are different for a variety of causes will differ both in the number of leaders' trips and their foreign direct investment inflows as well. Second, our leader's travel variable only considers travel to the United States. This country is among the countries where there is a significant outflow of capital seeking a better return. In this sense, political leaders would tend to go there. This means that as much as a larger number of leader's trips can attract more foreign capital, it is also possible that leaders are tempted to travel to countries known to be major investors out of their borders. This highlights the possibility of reverse causality. In the presence of these issues, the OLS assumptions are violated.

To solve this issue, we need a source of exogenous variation in leader's trips by using an instrumental variable approach. The choice in this case is not always obvious. To account for these sources of potential endogeneity, we use a novel instrument that we call urban distance. Urban distance is defined as the logarithm of the degree of urban development in country i divided by the logarithm of the degree of urban development in the U.S.A., which is the country that the leaders visit. Naturally, the value of urban distance will be zero for the U.S.A.

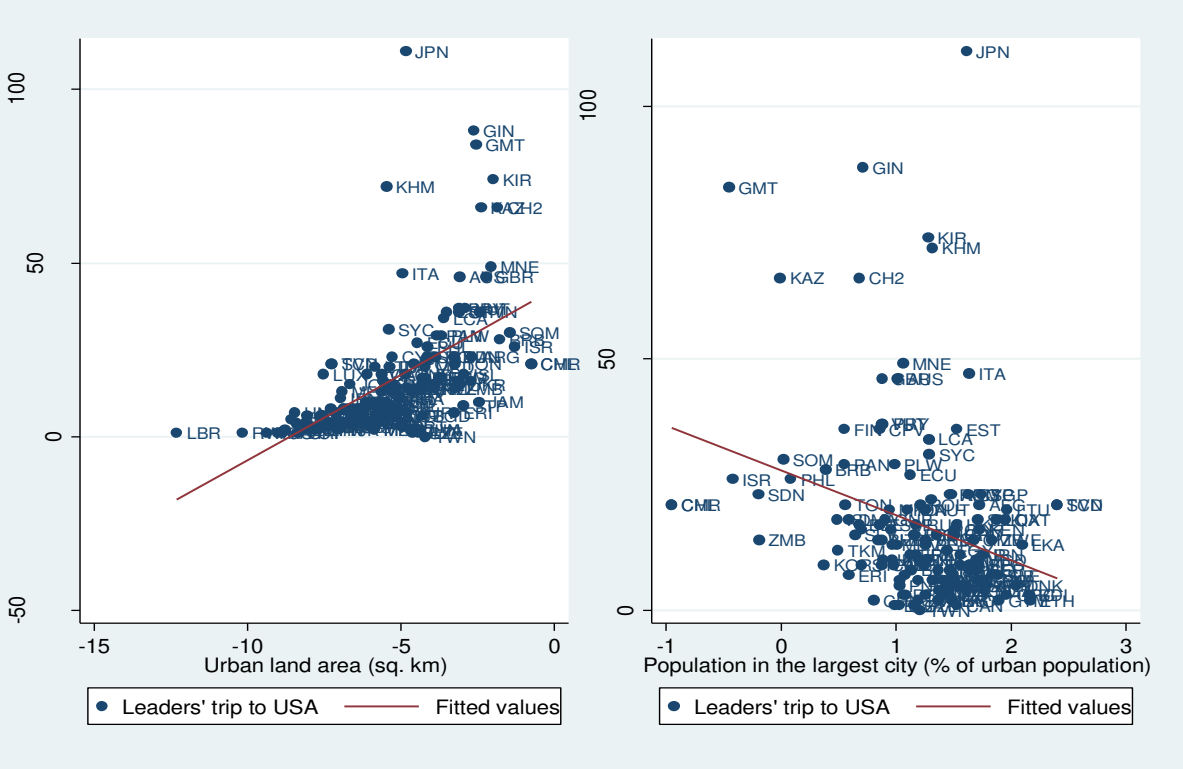
We use two measures of urban development to calculate our indicator of urban distance. This is a robustness test to ensure that the measure is not sensitive to the choice of the urban development indicator. First, we measure the degree of urbanization by the percentage of a country's urban population living in that country's largest metropolitan area. We also measure the degree of urbanization by the urban land area in square kilometers.

The identification strategy is based on the intuition that the gap between the urban development in the leader's country and that in the United States justifies a leader's trip to the U.S.A. In this context, the less urbanized the country the more the leader will be tempted to

travel to the United States to enjoy the urban amenities and to take advantage of the ample business opportunities in the urban centers of one of the most developed countries and the first economic power. This is to say that behind their multiple trips hides a certain form of tourism, in addition to the possibilities of concluding economic, financial and commercial transactions.

Figure 2 illustrates the unconditional relationship between the leaders' trips and urban distance. The first graph shows a positive association, which implies that the larger the difference between urban land area in the country of the leader and that of the U.S.A, the larger the number of leader's trips to the United States. The second graph, however, shows a negative relationship. This implies that the larger the gap between the percentage of urban population living in the largest city of the leader's country and that of the U.S.A., the smaller the number of leader's trips to the United States. The difference can be attributed to the fact that the first measure captures differences in the spread of urban development countrywide. Urban distance in this case may tempt the leader to take more trips to the United States. The second measure of urban distance, however, captures only the concentration of the urban population in the largest city or a first city bias. A high population density in the largest city, compared to other urban areas, might not reflect the extent of development in urban areas. Accordingly, a smaller urban distance, not a larger gap, might tempt the leader to make more frequent trips to the United States.

Figure 2. Leaders' Trips and Urban Distance



This relationship is conditionally described as follows

$$LeadersTrips_i = \theta + \delta_i Distance_i + \aleph_i \gamma + \mu_i \qquad (2)$$

Where $LeadersTrips_i$ is the leader's trips in country i, $Distance_i$ is the urban distance in country i and $\aleph_i$ is a vector of controls. Equation (2) constitutes the first stage in our Two Stage Least Squares (2SLS) approach, where $Distance_i$ is used as a source of exogenous variation in $LeadersTrips_i$.

Table 4 shows the effect of leaders' trips on FDI, corrected for endogeneity. Part A shows the results of the second stage of the 2SLS while Part B shows the results of the first stage of the estimation. In the first column, we use the urban land area as a measure of urban development. In the second column, we use the urban population in the largest city as a measure of urban development.

Since the tests of endogeneity suggest that leaders' trips appear not to be exogenous, we use IV-2SLS in subsequent analyses as it is more efficient than the OLS estimation. The first step in the estimation suggests that the instrument is valid, whatever the measure of urban development used in the construction of the instrumental variable. Looking at the magnitude

of the coefficients and the level of significance, it is clear that there is indeed a causal and negative effect of the number of leader's trips on foreign direct investment.

The coefficient of the leaders' trips variable, when we use urban land area to construct the instrument, is -0.251. This implies that a one standard deviation increase in the number of leaders' trips to the United States translates into a decrease in foreign direct investment by 4.26. The coefficient of the leaders' trips variable, when we use urban population in largest city to construct the instrument, is -0.311. This implies that a one standard deviation increase in the number of leaders' trips to the United States translates into a decrease in foreign direct investment by 5.28.

6.3 Controlling for other effects

In table 5, we control for other effects to confirm the baseline findings. We add other control variables such as democracy, prevalence of HIV, trade openness, private credit and continental dummies. These variables have been identified by other studies as confounding factors for foreign direct investment inflows. The definitions of these variables and their corresponding sources are included in Appendix A.

We estimate equation (2) while adding other control variables highlighted in the literature. Table 5 is broken down into two sections according to the two measures of urban development used to construct the urban distance instrument. In the first part of this table where the urban land area variable is used, the coefficient of the variable of interest confirms the direction of the relationship and the level of confidence. In the second part, the direction of the relationship remains but the instrument loses its significance at times. This is probably due to the possibility that the first instrument is better than the second.

6.4 Alternative Samples

Table 6 includes further robustness tests by using alternative samples. Column 1 excludes Africa, column 2 excludes Asia, column 3 excludes the Americas, column 4

excludes Oceania, column 5 excludes Europe, column 6 excludes OECD countries, while the last column focuses only on OECD countries. It is clear that the coefficient of the leader's trips to the United States is statistically significant and negative in all these specifications. The significance and size of the coefficient is similar in all these samples except in the OECD one. Even though the coefficient is larger in the OECD sample, the statistical significance is smaller.

6.5. Weakness of Instrument

The next set of robustness tests is conducted to assess whether the instrumental variable used in the analysis is weak. If the instrument is weak, the estimated coefficient of interest could be biased towards OLS even if the instrument is weakly correlated with the error term. In this case, there is an agreement in the literature to use Limited Information Maximum Likelihood (LIML) estimation. Therefore, to account for potential instrument weakness, we estimate our relationship of interest using the Fuller (1977) version of LIML. This is considered more robust than the 2SLS in the presence of weak instruments, as shown in the simulations in Hahn et al. (2004), and also has lower small-sample variability than LIML.

The results of the Fuller's Limited Information Maximum Likelihood estimation are shown in table 7. This table replicates the estimations of tables 5, when we control for additional determinants, and those of table 6, when we sue alternative samples, using LIML. The results show that the coefficient is statistically significant and negative when we control for additional determinants of foreign direct investment, which confirms our previous findings. However, when we use alternative samples the coefficient is negative in all specifications, but only statistically significant when we exclude OECD countries.

7. Conclusion

This paper examines the effect of foreign travel by the leader or the head of the state on the ability of the country to attract foreign capital, as reflected by foreign direct investment inflows. The baseline results of the OLS estimation show that the number of leader's trips has a statistically significant negative coefficient. These results are robust even after the inclusion of control variables such as GDP per capita, GDP growth rate, infrastructure, natural resource rents, time since independence, and institutional quality.

To deal with potential endogeneity, we introduce a novel instrumental variable for the number of leader's trips. The instrument is urban distance defined is the gap between the level of urban development in the country of the leader relative to that in the United States. We conduct a 2SLS where the urban distance serves as a source of exogenous variation in leader's trips. The 2SLS estimation confirms the previous finding of a statistically significant negative coefficient of leader's trips. This is the case even after the inclusion of other control variables and after modifying the sample used. This result implies that these costly trips by the leaders can crowd out spending on the infrastructure needed for foreign investment, and can signal lack of seriousness by the leaders in spending on the implementation of reforms needed to attract foreign capital.

Future research can investigate the effect of leader's trips on trade inflows, foreign portfolio investment, foreign aid, and foreign debt. Future scholarly endeavors can also explore the possibility of expanding the data set of the number of leaders' trips to other countries besides the United States.

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Table 1. Summary Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Leaders' trip to USA	178	14.58989	16.98871	0	111
FDI, net inflow	175	3.958817	5.18157	-5.29907	41.43945
Age of Country	161	163.9876	384.8219	27	2679
Total natural resources rents (% of GDP)	178	7.228907	9.750218	0	42.77812
Private credit	158	.5059546	.4705474	.0195633	2.303401
Log of GDP per capita	175	8.955041	1.204171	6.458339	11.67319
Trade openness	157	.9034614	.5622263	.2051657	3.720
GDP growth (annual %)	178	3.915802	2.079393	-1.490128	16.49753
Democracy	149	.3921772	.3776692	0	1
Fixed telephone subscriptions (per 100 people)	178	13.65776	14.567	.1275381	59.3074
Prevalence of HIV	104	2.505547	4.665329	.1	21.65769
Institutional quality	160	-.2205607	2.246149	-4.893744	4.592062
Urban Distance calculated by Population in the largest city (% of urban population)	143	1.203234	.5810638	-.9515346	2.401688
Urban Distance calculated by urban land area (sq. km)	149	-5.373651	2.029003	-12.30206	-.7452182
Africa	168	.2797619	.4502241	0	1
Americas	168	.172619	.3790474	0	1
Asia	168	.2559524	.4376998	0	1
Europa	168	.2261905	.4196146	0	1
Oceania	168	.0654762	.2481037	0	1

Table 2. Basline Results

	I	II	III	IV	V	VI	VII	Beta
Leaders' trips to USA	-0.039***	-0.038**	-0.035*	-0.067**	-0.068**	-0.086**	-0.085**	-.268
	(0.014)	(0.015)	(0.020)	(0.033)	(0.033)	(0.034)	(0.033)	
Age of Country		0.000	0.000	0.000	0.000	-0.001	-0.000	.587
		(0.000)	(0.000)	(0.001)	(0.001)	(0.001)	(0.001)	
Total natural resources rents (% of GDP)			0.022	0.031	0.013	0.088	0.087	.012
			(0.075)	(0.080)	(0.086)	(0.089)	(0.089)	
Log of GDP per capita				1.134**	1.074**	-0.796	-0.882	-.022
				(0.558)	(0.542)	(0.886)	(0.956)	
GDP growth (annual %)					0.383	0.628***	0.647***	.258
					(0.243)	(0.240)	(0.240)	
Fixed telephone subscriptions (per 100 people)						0.211**	0.217**	-.198
						(0.089)	(0.092)	
Institutional quality							0.031	.155
							(0.224)	
Cons	4.531***	4.643***	4.444***	-5.254	-6.081	6.623	7.229	
	(0.531)	(0.583)	(0.883)	(4.208)	(4.571)	(6.645)	(7.292)	
Number of observations	175	158	158	156	156	156	150	
R2	0.016	0.015	0.017	0.076	0.098	0.183	0.183	

Coefficients are reported with robust standard errors in brackets. .01 - ***; .05 - **; .1 - *

Table 3. Robustness with respect to Influential Observations

	Omit 10 countries with most Leaders' trips	IWLS	Omit if $\lvert DFBETA \rvert > 2/\sqrt{N}$	Log of Leaders' trips to USA	Box-Cox Transformation of Leaders' trips
Leaders' trips to USA	-0.079**	-0.041***	-0.074***	-1.250*	-1.093**
	(0.035)	(0.013)	(0.017)	(0.643)	(0.552)
Fixed telephone subscriptions (per 100 people)	0.217**	0.027	0.092**	0.194**	0.196**
	(0.097)	(0.026)	(0.037)	(0.089)	(0.089)
Institutional quality	0.049	-0.140	-0.139	0.065	0.066
	(0.237)	(0.089)	(0.108)	(0.217)	(0.217)
Age of Country	-0.001	0.000	0.001	-0.001	-0.001
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
GDP growth (annual %)	0.622**	0.108	0.542***	0.657***	0.658***
	(0.242)	(0.097)	(0.205)	(0.231)	(0.232)
Log of GDP per capita	-0.896	0.251	0.255	-0.713	-0.717
	(0.992)	(0.291)	(0.365)	(1.032)	(1.030)
Total natural resources rents (% of GDP)	0.096	-0.011	0.001	0.077	0.076
	(0.097)	(0.023)	(0.035)	(0.099)	(0.098)
Cons	7.293	0.448	-1.235	7.661	7.569
	(7.581)	(2.212)	(2.982)	(7.409)	(7.438)
Number of observations	143	150	142	150	150
R2	0.180	0.109	0.238	0.175	0.177

Coefficients are reported with robust standard errors in brackets. .01 - ***; .05 - **; .1 - *

Table 4. 2SLS Regressions of Leaders' Trips on FDI

	Panel A : Two-Stage Least Squares	
	Urban Distance calculated by urban land area (sq. km)	**Urban Distance calculated by Population in the largest city (% of urban population)**
Leaders' trips to USA	-0.251***	-0.311**
	(0.064)	(0.142)
Fixed telephone subscriptions (per 100 people)	0.287**	0.252*
	(0.126)	(0.134)
Institutional quality	0.212	0.101
	(0.317)	(0.313)
Age of Country	0.001	0.001
	(0.002)	(0.003)
GDP growth (annual %)	0.803***	0.352
	(0.262)	(0.289)
Log of GDP per capita	-1.004	-0.262
	(1.318)	(1.154)
Total natural resources rents (% of GDP)	0.036	0.019
	(0.114)	(0.106)
Cons	9.497	6.212
	(10.442)	(9.172)
	Panel B : First Stage Estimates for Leaders' Trips to USA	
Urban Distance	4.433***	-5.158**
	(.6645)	(2.400)
F(excluded instruments)	23.90	3.62
First Stage R2	0.4281	0.3479
Wu-Hausman F test (p-value)	0.000	0.009
Durbin-Wu-Hausman chi-sq test (p-value)	0.000	0.008
Number of observations	126	121

Coefficients are reported with robust standard errors in brackets. .01 - ***; .05 - **; .1 - *

Table 5. 2SLS Regressions Controlling for Alternative Determinants of FDI

Part 1. Urban Distance calculated by urban land area (sq. km)					
	I	**II**	**III**	**IV**	**V**
	Panel A : Two-Stage Least Squares				
Leaders' trip to USA	-0.260***	-0.168**	-0.251***	-0.287***	-0.238***
	(0.083)	(0.077)	(0.067)	(0.079)	(0.061)
Fraction of years under democracy	5.184**				
	(2.441)				
Prevalence of HIV		-0.212			
		(0.161)			
Trade openness			1.182		
			(1.516)		
Private credit				-0.354	
				(1.493)	
Asia					3.637
					(2.467)
Africa					5.584**
					(2.817)
Americas					4.583*
					(2.475)
Europa					3.529
					(2.443)
	Panel B : First Stage Estimates for Leaders' Trips to USA				
Urban Distance	4.343***	4.243***	4.387***	3.950***	4.510***
	(1.044)	(.773)	(.681)	(.658)	(.679)
F(excluded instruments)	24.91	11.68	16.56	17.84	23.72
First Stage R2	0.408	0.525	0.422	0.398	0.433
Wu-Hausman F test (p-value)	0.000	0.005	0.001	0.000	0.000
Durbin-Wu-Hausman chi-sq test (p-value)	0.000	0.004	0.000	0.000	0.000
Number of observations	102	70	121	121	126
Part 2. Urban Distance calculated by Population in the largest city (% of urban population)					
	Panel A : Two-Stage Least Squares				
Leaders' trips to USA	-0.217	-0.425*	-0.385*	-0.431*	-0.316**
	(0.136)	(0.234)	(0.218)	(0.229)	(0.142)
Fraction of years under democracy	2.561				
	(2.381)				
Prevalence of HIV		-0.277			
		(0.186)			
Trade openness			1.695		
			(1.920)		
Private_credit				1.055	
				(1.210)	
Asia					4.658*
					(2.461)
Africa					3.515
					(2.265)

Americas					3.219
					(2.267)
Europa					3.475
					(2.262)
	Panel B : First Stage Estimates for Leaders' Trips to USA				
Urban Distance	-4.690*	-7.179***	-3.531	-3.721	-4.821*
	(2.625)	(2.509)	(2.494)	(2.345)	(2.489)
F(excluded instruments)	3.83	5.81	1.20	2.46	2.89
First Stage R2	0.357	0.491	0.328	0.3158	0.3560
Wu-Hausman F test (p-value)	0.116	0.002	0.029	0.010	0.016
Durbin-Wu-Hausman chi-sq test (p-value)	0.101	0.001	0.023	0.009	0.012
Number of observations	116	77	114	117	121

note: Panels A and B reports coefficients from the second stage and the first stage of 2SLS estimation. All model specifications include constant term (note reported to save space) and all control variables in Table 2, column 7.

Robust standard errors in parentheses. .01 -***; .05 - **; .1 - *

Table 6. Sample Modification

	Exclusion Africa	Exclusion Asia	Exclusion Americas	Exclusion Oceania	Exclusion Europe	Exclusion OECD	Only OECD
Part 1. Urban Distance calculated by urban land area (sq. km)							
	Panel A : Two-Stage Least Squares						
Leaders' trips to USA	-0.250***	-0.282***	-0.250***	-0.237***	-0.217***	-0.270***	-0.786*
	(0.067)	(0.078)	(0.088)	(0.062)	(0.061)	(0.099)	(0.390)
_cons	8.447	15.448	11.938	12.002	-1.293	3.126	40.251
	(13.711)	(12.044)	(12.048)	(10.488)	(6.026)	(8.318)	(49.189)
	Panel B : First Stage Estimates for Leaders' Trips to USA						
Urban Distance	4.667***	4.267***	4.376***	4.327***	4.626***	4.081***	3.851
	(.885)	(.595)	(.827)	(.662)	(.796)	(.687)	(2.787)
F(excluded instruments)	16.23	20.88	18.13	15.39	20.81	11.34	1.26
First Stage R2	0.4224	0.5171	0.4043	0.4219	0.4320	0.4685	0.6930
Wu-Hausman F test (p-value)	0.000	0.001	0.001	0.001	0.008	0.022	0.014
Durbin-Wu-Hausman chi-sq test (p-value)	0.000	0.001	0.001	0.001	0.006	0.015	0.003
Number of observations	91	99	101	119	94	69	22
Part 2. Urban Distance calculated by Population in the largest city (% of urban population)							
	Panel A : Two-Stage Least Squares						
Leaders' trips to USA	-0.168**	-0.304**	-0.585	-0.286**	-0.172**	-0.194***	0.381
	(0.077)	(0.151)	(0.354)	(0.117)	(0.083)	(0.066)	(0.441)
_cons	17.157	12.003	5.708	8.797	-1.894	0.649	13.736
	(11.389)	(10.411)	(14.082)	(9.342)	(4.975)	(5.933)	(23.413)
	Panel B : First Stage Estimates for Leaders' Trips to USA						
Urban Distance	-4.696	-5.708**	-3.214	-5.590**	-6.018**	-8.359***	12.368
	(3.345)	(2.180)	(2.859)	(2.367)	(2.890)	(2.054)	(10.698)
F(excluded instruments)	0.83	4.64	1.29	4.57	3.60	6.94	1.55
First Stage R2	0.3209	0.4375	0.3202	0.3581	0.3732	0.4407	0.7337
Wu-Hausman F test (p-value)	0.020	0.010	0.010	0.011	0.089	0.042	0.329
Durbin-Wu-Hausman chi-sq test (p-value)	0.015	0.008	0.008	0.009	0.075	0.031	0.204
Number of observations	70	94	101	112	89	67	22

note: Panels A and B reports coefficients from second and first of the stage of TSLS estimation. All model specifications include constant term (note reported to save space) and all control variables in Table 2, Column 7. Robust standars errors in parentheses. .01 -***; .05 - **; .1 - *

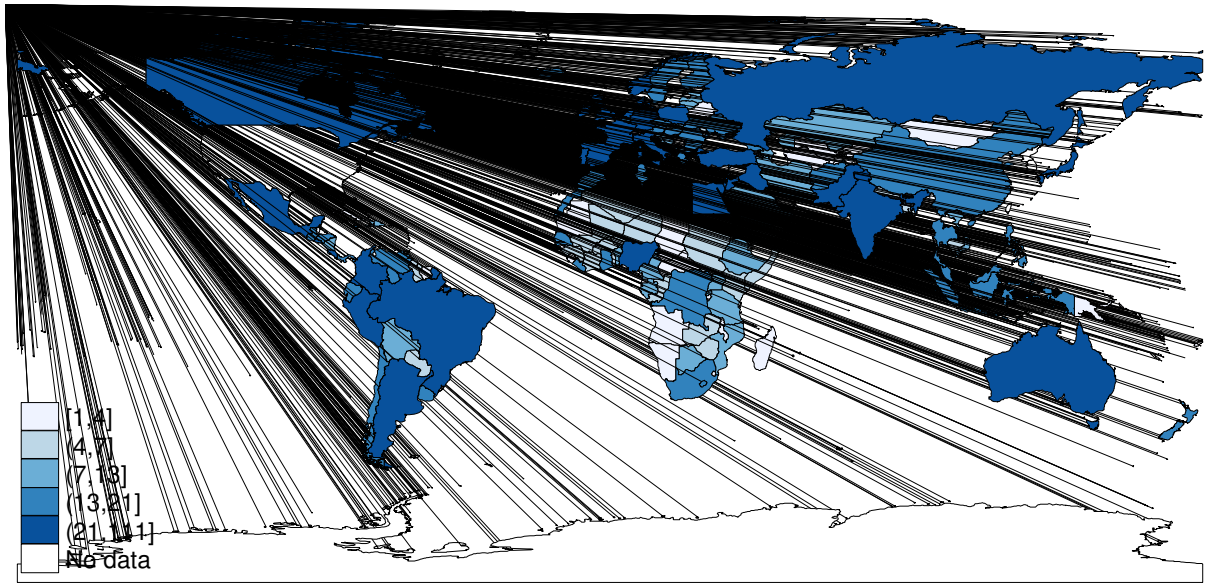
Table 7. Accounting for instrument weakness : Fuller's Limited Information Maximum Likelihood estimates

	Urban Distance calculated by Population in the largest city (% of urban population)											
	Table 5. Part II					Table 6. Part II						
	I	II	III	IV	V	Exclusion Africa	Exclusion Asia	Exclusion Americas	Exclusion Oceania	Exclusion Europe	Exclusion OECD	Only OECD
Leaders' trip to USA	-0.260***	-0.264**	0.075	-0.302***	-0.258***	-0.379	-0.178	-0.506	-0.208*	-0.129	-0.128**	0.381
	(0.079)	(0.121)	(0.060)	(0.104)	(0.080)	(0.408)	(0.113)	(0.457)	(0.114)	(0.082)	(0.058)	(0.352)
Fraction of years under democracy	5.184**											
	(2.331)											
Prevalence of HIV. total (% of population ages 15-49)		-0.245										
		(0.153)										
Trade openness			0.169***									
			(0.035)									
Private_credit				-0.006								
				(1.400)								
Asia					3.193							
					(2.575)							
Africa					3.970							
					(2.606)							
Americas					5.003*							
					(2.889)							
Europa					3.283							
					(2.477)							
Cons	9.245	19.647*	4.260	10.175	7.236	4.915	12.591	6.635	9.416	-1.042	2.070	13.736
	(10.167)	(11.873)	(5.156)	(11.119)	(10.715)	(14.212)	(8.984)	(13.314)	(8.506)	(4.811)	(5.109)	(18.677)

Number of observations	102	64	102	98	102	85	89	98	107	85	62	22

All model specifications include constant term (not reported to save space) and all control variables in table 2, Column 7.

Figure 3. World Map of Leader's Trips



Appendix A. Data Sources

Variables	Definitions	Sources
Private credit	Value of financial intermediaries credits to the private sector as a share of GDP (excludes credit to the public sector and credit issued by central and development banks), average over 1960–2015	World Bank WDI online database; Beck, Demirgüç-Kunt, and Levine (2010)
Trade openness	Sum of exports and imports of goods and services as a share of GDP in 1960–2015	World Bank WDI online Database
Institutional quality	An overall indicator of institutional quality measured as the sum of the six sub-indices for 1996 from World Bank Governance Indicators (WBGI): voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. Countries with higher values on this index have institutions of greater quality	Kaufmann, Kraay, and Mastruzzi (2010)
Leaders' trips to USA	Number of trips by heads of governments or state leaders to the USA during the period 1960-2015.	https://history.state.gov/departmenthistory
GDP growth (annual %)	Annual growth rate of real GDP per capita 1960-2015.	World Bank WDI online Database
Fixed telephone subscriptions (per 100 people)	Fixed telephone subscriptions refers to the sum of active number of analogue fixed telephone lines, voice-over-IP (VoIP) subscriptions, fixed wireless local loop (WLL) subscriptions, ISDN voice-channel equivalents and fixed public payphones 1960-2015.	World Bank WDI online Database
Fraction of years under democracy		Ashraf et al. (forthcoming)
Population in the largest city (% of urban population)	Population in largest city is the percentage of a country's urban population living in that country's largest metropolitan area. 1960-2015.	World Bank WDI online Database
Prevalence of HIV	Prevalence of HIV refers to the percentage of	World Bank WDI online

	people ages 15-49 who are infected with HIV. 1990-2015	Database
Age of Country	Difference between the year of independence and 2015.	Own Calculation
Log of GDP per capita	GDP per capita, PPP (constant 2011 international $) 1960-2015.	World Bank WDI online Database
Total natural resources rents (% of GDP)	Total natural resources rents are the sum of oil rents, natural gas rents, coal rents (hard and soft), mineral rents, and forest rents. 1970-2015	World Bank WDI online Database
Urban land area (sq. km)	Urban land area in square kilometers, based on a combination of population counts (persons), settlement points, and the presence of Nighttime Lights. Areas are defined as urban where contiguous lighted cells from the Nighttime Lights or approximated urban extents based on buffered settlement points for which the total population is greater than 5,000 persons. 1990-2010.	World Bank WDI online Database
Africa	Dummy variables that take on the value of one when a country belongs to a Africa and 0 otherwise	Own Calculation
Asia	Dummy variables that take on the value of one when a country belongs to a Asia and 0 otherwise	Own Calculation
America	Dummy variables that take on the value of one when a country belongs to a America and 0 otherwise	Own Calculation
Oceania	Dummy variables that take on the value of one when a country belongs to a Oceania and 0 otherwise	Own Calculation
Europe	Dummy variables that take on the value of one when a country belongs to a Europe and 0 otherwise	Own Calculation

Appendix B. Correlations

	FDI	**Leaders' trips to USA**	**Fixed telephone subscriptions (per 100 people)**	**Institutional quality**	**Age of Country**	**GDP growth (annual %)**	**Log of GDP per capita**	**Total natural resources rents (% of GDP)**
FDI	1.0000							
Leaders' trip to USA	-0.0614	1.0000						
Fixed telephone subscriptions (per 100 people)	-0.0458	0.6381	1.0000					
Institutional quality	0.2313	0.1913	0.2336	1.0000				
Age of Country	0.1029	-0.2019	-0.1627	0.0593	1.0000			
GDP growth (annual %)	-0.0751	0.0019	-0.1929	0.0626	-0.0827	1.0000		
Log of GDP per capita	-0.2438	0.6020	0.7613	0.2995	-0.1891	0.0838	1.0000	
Total natural resources rents (% of GDP)	0.4085	-0.2041	-0.3246	0.1199	-0.0239	0.1054	-0.2279	1.0000