

SAY WHAT YOU WANT, GET WHAT YOU NEED:
THE EFFECTS OF MEDIA FREEDOM ON FDI INFLOWS

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ABSTRACT:

Say What You Want, Get What You Need: The Effects of Media Freedom on FDI Inflows

As the discussion concerning economic growth has become increasingly important, Foreign Direct Investment (FDI) and its determinants have become a hot topic. This thesis uses 2SLS to investigate the relationship between Media Freedom, Socio-political Stability, and FDI levels, using Corruption as a robustness check. It finds that there is a positive correlation for FDI levels for both Media Freedom and Corruption, providing a theoretical framework within which they operate.

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Chapter I: Introduction

There is an old adage that states, “The squeaky wheel gets the grease.” A recent study on how press freedom affects domestic levels of investment seems to reinforce this phrase (Pal, Dutta, and Roy. 2011). The objective of this thesis is to take the research and models of this previous research and reconfigure it in order to measure *Foreign Direct Investment* (FDI). Formally speaking, FDI is investment from one country into another (normally by companies rather than governments) that involves establishing operations or acquiring tangible assets, including stakes in other businesses.

FDI is important because it serves as a strong indicator for economic growth, particularly in developing countries. As a nation collects FDI, it is better able to learn from make use of the technology that the investor brings to the host nation. This increase in technology leads to increased abilities to produce, thus stimulating economic growth.

However, it is difficult to quantify exactly what stimulates FDI inflows, leading to much debate as to what actually fosters FDI in a particular country. This paper contributes to the academic literature on FDI by using quantitative statistical analysis in order to investigate how levels of media freedom may have an effect on levels of FDI inflow, which, at the time of this writing, had yet to be formally investigated.

Using Ordinary Least Squares (OLS) and 2-Stage Least Squares (2SLS) techniques to test null hypotheses, this thesis determines that there is a statistically significant relationship supporting the hypothesis that higher levels of media freedom encourage FDI inflows through a domino-effect relationship. In this relationship, higher levels of media freedom provide for a more stable political environment, which is crucial for encouraging FDI because financial markets are forward looking and depend on

stability to make accurate predictions. This thesis successfully tests this relationship and also discovers a remarkably similar relationship shared between FDI, stability, and levels of perceived corruption. Following this statistical analysis, this thesis concludes with policy recommendations and suggestions for future research.

Chapter II: Literature Review

In their 2011 paper “Media Freedom, Socio-Political Stability and Investment,” Sudeshna Pal, Nabamita Dutta, and Sanjukta Roy discuss the role that press freedom plays in a nation's domestic investment. Much of the research within this thesis will draw from their previous work, but will be reapplied to foreign direct investment (FDI).

The research mentioned within this thesis contributes to the argument that higher levels of press freedom contribute positively to levels of political stability, and that these resulting levels of stability have a positive correlation with levels of FDI for developing countries. At this time, there is no prior research concerning media freedom and its effects on FDI flows.

Press Freedom and Stability

There is a wealth of literature discussing the ability of a free press to create political and social stability. This relationship exists through a variety of theoretical mechanisms with real world evidence. Pal, Dutta, and Roy (2011) give three possible mechanisms for how a free press can manifest itself in the political environment:

First, “non-captured” media (media not owned or otherwise controlled by the state) is less likely to contain falsified or manipulated information for the purpose of creating unrest that benefits those in power. A concrete example is post-independence India, in which “government controlled monopoly press by and large displayed anti-Muslim prejudices and contributed a great deal to the nurturing of communal hatred“(Pal, Dutta, and Roy 2011: 5).

A second mechanism through which the relationship between press freedom and socio-political stability may function is that a free media can close the information gap between governments and constituents, thus making the government more transparent and accountable and inhibiting the possibility of conflict stemming from ethnic, social, or religious tension. It does so by creating more mutual information between governments and their constituents, which typically have asymmetrical sets of information on a given topic. Post-independence India again provides a historical example when considering the responsiveness of state governments and their reactions to food shortages. States that had higher newspaper circulation, voter turnout, and literacy rates also possessed more responsive governments, controlling for the effect of wealth (Besley and Burgess, 2000). With respect to this theory of bridging the information gap, further research also shows that freedom of the press decreases corruption, improves civil rights (Djankov et al. 2002). During the 1930s in the United States, government services spending (Strömer 2004), all of which is correlated with higher levels of stability.

The final mechanism proposed is that media that is unrestrained is more able to create pressure on governments, both domestically and from abroad. An uncaptured media may be more able to spread news internationally. News that is spread outside of the host country could create external pressure on the government from foreign governments or non-government organizations. Leeson (2008) shows that high levels of media freedom strongly correlate to higher levels of political knowledge, political participation, and voter turnout. The implication is that a free press is more able to facilitate peaceful change using legal channels, rather than the need to resort to violence.

Stability and FDI Inflows

In addition to literature concerning the link between freedom of the press and political stability, there also exists a substantial body of work documenting the correlation between political stability and FDI inflows. Intuition would lead us to believe that higher levels of instability would result in lower levels of investment, because investors are less able to predict the real costs and profits of investments. However, there is an existential difficulty in quantifying this phenomenon, in that political stability is a complex phenomenon, and that only portions of this effect can be reliably measured (Singh and Jun, 1995: 5).

As a result, much of the relevant research leading up to Sing and Jun's study has been contradictory. In his 1966 article "The Foreign Direct Investment Decision Process," Arahoni determines that political stability in the host country is the second most important factor in whether or not to engage in direct investment abroad, second only to market potential. However, in a 1972 paper, Bennett and Green determine that political stability has an inconsequential effect on American FDI outflows. Even later, Lewis (1979) runs analyses with multiple proxies, receiving mixed results: "He found 'the absence of aggressive domestic behavior within the political system against groups or officeholders' to be a significant determinant of FDI for the current period, but not for a lagged period. Another variable, the legitimacy of the regime, was found to be significant for a lagged period but not significant for the current period"(Singh and Jun, 1995: 5). Further research into more specified topics reveals that FDI inflows are significantly affected by regular constitutional government changes, but not by internal armed attacks, levels of nationalism, or colonial affiliation (Root and Ahmed, 1979).

In 1995, Harinder Singh and Kwan W. Jun published a policy research paper for the World Bank titled: *Some New Evidence on the Determinants of Foreign Direct Investment in Developing Countries*, in which they discussed the role of political stability in determining FDI levels. Acknowledging the structural difficulties of their analysis, they constructed a regression model utilizing a political risk index (PRI) compiled by Beri. In their analysis, they determined that PRI is significant at the 1% level, barring the inclusion of exports relative to GDP in the regression equation (Singh and Jun, 14-15). They reinforce their argument by testing one mechanism through which political instability may directly effect the ability of an investment to create returns: the number of days lost as a result of “industrial or civil strife.” Rerunning the regression with work days lost (WDL) replacing PRI, they found that WDL is also statistically significant (again, barring the inclusion of exports in the regression model), especially for countries with low levels of FDI (Singh and Jun, 16).

Corruption as a Control Variable

In order to better confirm the ability of media freedom to affect stability and FDI, a robustness check is employed. This thesis utilizes corruption levels as its control, as the literature suggests that FDI has similar effects upon stability—and thus, FDI.

Corruption as an Informal Institution

There is a divergence within academic economic literature as to whether or not corruption is a negative or positive element in a society. In order to best analyze the effects of corruption, it needs to be placed within the framework of institutions. In their 2014 paper “Political Corruption and Institutional Stability,” Hanne Fjelde and Håvard

Hegre argue that corruption exists as an “informal institution.” Informal institutions are those that are “created, communicated, and enforced outside of officially sanctioned channels.” In their 2004 paper “Informal Institutions and Comparative Politics: A Research Agenda,” Gretchen Helmke Steven Levinsky cite a number of examples of corruption functioning as an informal institution:

For decades, Mexican presidents were selected not according to rules in the Constitution, the electoral law, or party statutes, but rather via the *dedazo* (“big finger”)—an unwritten code that gave the sitting president the right to choose his successor, specified the candidate pool, and prohibited potential candidates from openly seeking the job. In Japan, the “strict but unwritten rules” of *Amakudari* (“descent from heaven”), through which retiring state bureaucrats are awarded top positions in private corporations, have survived decades of administrative reform. In Central Asia, clan-based norms have “become the rules of the game,” while the constitutional structures created after the collapse of the Soviet Union are “increasingly ... inconsequential.” And in much of the developing and postcommunist world, patterns of clientelism, corruption, and patrimonialism coexist with (and often subvert) new democratic, market, and state institutions.

Historical evidence such as these instances give credit to the notion that although informal, corruption operates with many qualities that define formal institutions: it affects the political and economic incentives of a community's individuals and it permeates itself through both administrative and structural changes in a political system.

Corruption and Stability

There is considerable debate concerning the relationship between corruption and political stability. Although it would follow logically that any process that undermines the state's ability to function would negate its ability to maintain control, there are a number of theories and considerable evidence that betray this assumption.

One theory for how corruption can provide stability is that of “rentier states.” A common example of rentier states are small, oil-exporting Gulf nations in the Middle East. These nations export oil for revenue (or “rent”) and in turn use this in order to placate the population. Where much of contemporary socioeconomic theory states that as incomes increase, so does the level of democracy or political inclusion, rentier states are able to instead “buy off” their populations. Rentier states are still corrupt, because the majority of the wealth is absorbed by the state, but just enough wealth is transferred to the public in order to placate any desire for structural political or economic change. Because the level of living is already so high, there is no incentive to rebel against a government—regardless of how authoritarian it is—for an economic or political system in which an individual risks having a lower quality of life (Matthew Gray, 2011).

Another theory, referenced in Acemoglu and Robinson's *Why Nations Fail*, is that corruption exists as an extractive institution, an institution “designed to extract incomes and wealth from one subset of society to benefit a different subset.” Although corruption certainly has the potential to reallocate actual dollar amounts, corruption also has the capacity to be politically extractive in that it takes political power and influence from one, generally large portion of society to another, generally smaller portion of society—the “elites.” Even if there is widespread support from the public at large for a change in

the political and economic systems that they are subject to, political corruption can subvert the political processes so that the desires of the public at large are never put into play on the political stage.

It is interesting to note that although this argument implies corruption increases stability, it does so by impeding the level of interaction between the public and policy makers—the exact opposite of one proposed media freedom mechanism. It is in fact counter-intuitive for an extractive, authoritative regime to be host to a free media. This is largely because a regime that is dependent upon the extraction of economic and political capital from the populace has a natural incentive to hide its actions and motives from the public eye.

Despite the historical and contemporary evidence that is available to support these theories, there is still much debate upon whether this relationship actually exists, and there is substantial literature to suggest that there are several factors that may influence this relationship (Fjelde and Hegre, 2014). In any case, this thesis finds that due to its similar mechanisms within the theoretical framework, corruption serves as a good control variable with which to compare the effect of press freedom.

Chapter III: Methodology

Model Specification

This thesis will measure the relationship between press freedom and FDI by using a linear regression series with pooled OLS statistics. Because this relationship is being tested as a “domino” effect, a regression framework based on the dual-equation model used by Alesina and Perotti (1994: 9) and Pal, Dutta, and Roy (2011: 9) is utilized. This original model is synthesized with other variables proposed by Singh and Jun (1995) in order to better fit with FDI rather than domestic investment. The result is a model that utilizes a 2-Stage Least Squares (2SLS) Regression method, as stated

$$PercFDI = a_1 + a_2Stability_t + a_3Controls_t + u_t \quad (1)$$

$$Stability = \beta_1 + \beta_2MediaF_t + \beta_3PercFDI_t + \beta_4Controls_t + \varepsilon_t \quad (2)$$

Within this framework, these equations are bivariate and simultaneous. Equation (1) measures the dependent variable: FDI inflows as a percentage of that nation's GDP. The primary independent variable of interest is *Stability*, an index on political stability. In addition, the equation contains the year and *Controls*, which consists of indicators the literature suggests also determine levels of FDI, each with their own coefficient. They include real GDP per capita, market size, income levels, the exchange rate, trade openness, export orientation, population growth rate, and education.

Equation (2) is constructed similarly, but instead with *Stability* as the dependent variable. Here, the primary independent variable is *MediaF*, an index that evaluates a nation's level of media and press freedom. Another important independent variable

is *%FDI*, which is included in order to capture the joint determination between FDI and press freedom, as documented by Dutta and Roy (2009). Equation (2) again has a dependent variable *Year*, in addition to the aforementioned set of *Controls* variables, which is identical to the set of variables utilized in Equation (1).

In order to verify that this model is appropriate, this thesis employs a series of regressions in order to show that there is no direct effect of Press Freedom upon a country's FDI as a percentage of its GDP. These will also be run using a 1-period time lag, and are constructed in the following fashion:

$$Stability = \beta_1 + \beta_2 MediaF_{(t-1)} + \beta_3 PercFDI_{(t-1)} + \beta_4 Controls + \beta_5 u_{(t-1)} \quad (3)$$

$$PercFDI = \beta_1 + \beta_2 MediaF_{(t-1)} + \beta_3 Stability_{(t-1)} + \beta_4 Controls + \beta_5 u_{(t-1)} \quad (4)$$

$$MediaF = \beta_1 + \beta_2 PercFDI_{(t-1)} + \beta_3 Stability_{(t-1)} + \beta_4 Controls + \beta_5 u_{(t-1)} \quad (5)$$

By running these linear regressions, the correlations between the three variables of interest will be exposed. When running a regression on one variable (for example, Political Stability, as in Equation (5)), the other two variables (in Equation (5), past values of Media Freedom and the level of FDI) are included in order to account for their shared endogeneity.

As an additional test of this theory, this thesis conducts a robustness check by including corruption as an independent variable into the regressions. This is done by recreating the tests above with an included corruption variable (*Corruption*) in each equation and comparing its coefficient to that of each independent variable of interest. These modified regressions are denoted using a prime, so that referring to the variation of Equation (3) being used to check robustness appears as Equation (3)'.

Data

The database for this thesis is composed from a variety of sources, including raw data and various indexes—all of which are publically available. This study encompasses 195 countries during the period of 2005-2013, and contains over 77,000 individual points of data. Descriptions and sources for the data are as follows:

Corruption— Data for corruption exist as an index that quantifies the perceived level of corruption within a country. provided by Transparency International. The data prior to 2012 uses a 1-10 scale, and a 1-100 scale from 2012 onwards, with higher values indicating lower levels of corruption. This thesis has adjusted all values to match the 1-10 scale used prior to 2012. The data for this index was obtained directly via e-mail from Transparency International.

Education – Because education is difficult to quantify using a single statistic, this thesis uses an index developed by the United Nations Development Programme and currently hosted by the Human Development Reports. It is an index ranging from 0.0-1.0, where larger values indicate increased levels in education. It is calculated using “Mean Years of Schooling” and “Expected Years of Schooling. “

ExpOrient – This is a measure of exports as a percentage of a nation's total GDP. This thesis includes exports as a control variable because it is widely believed that open economies “encourage more confidence and foreign investment“(Singh and Jun, 1995: 9). This variable's data are available as an indicator from the World Bank database.

- percFDI* – This variable is a measurement of the net inflows of the reporting economy from foreign investors, divided by GDP. This variable's data are available as an indicator from the World Bank database
- MediaF* – This variable is an annually published index from Freedom House that measures press and media freedom in 197 countries and territories. The index quantifies the degree of print, broadcast, and internet freedom within a country, with a numerical value and a categorization of “Free,” “Partly Free,” and “Not Free.” The index runs between 1 and 100, with lower values indicating more press and media freedom.
- GDP* – This is an annual measure of a nation's Gross National Product, measured in current USD. This variable's data are available as an indicator from the World Bank database.
- GDPpc* – This is an annual measure of a nation's Gross National Product, measured in current USD and divided by the nation's population. This variable's data are available as an indicator from the World Bank database.
- GNI* – This is an annual measure of the sum of value added by all resident producers plus any product taxes not included in the valuation of output plus net receipts of primary income from abroad, measured in current USD. This variable is included as a proxy for the size of a nation's market. Prior research shows that this is a significant determinant of American FDI (Singh and Jun 1995). This variable's data are available as an indicator from the World Bank database.

GroPop – This variable measures the annual growth in a country's population from the previous year in terms of percentage change. Higher levels of expected population mean that a country hosts more possible laborers and hosts a potentially larger domestic market. This variable's data are available as an indicator from the World Bank database.

PolStab – As stated by the World Bank's Worldwide Governance Indicators (WGI) project, this variable measures “perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism. “ It is constructed from the “Political Stability and Absence of Violence.” portion of the index, which has been developed and compiled by the World Bank Group annually from 1996 to 2014.

Region Dummies – In order to capture the effects of geography and the trends of each region, dummies were generated for each region. This paper uses a total of 11 regional dummies: North America (*NorthAmerica*), Caribbean (*Caribbean*), Latin America (*LatinAmerica*), WesternEurope (*WesternEurope*), Eastern Europe (*EasternEurope*), Central Asia (*CentralAsia*), East Asia (*EastAsia*), South Asia, (*SouthAsia*), Oceania (*Oceania*), the Middle East and North Africa (*MENA*), and Sub-Saharan Africa (*SSAfrica*).

TradeOp – This is a measurement of the sum of imports and exports as a percentage of GDP, which we use as a proxy for the level of openness in an economy. This variable's data are available as an indicator from the World Bank database.

Year – This serves simply as a dummy variable in order to determine the year of each data entry. In addition, this variable will also control for the year to year variations in FDI flows and capture natural fluctuations in the world business cycle.

Xrate – This is a measure of the country's real exchange rate. This is included as a control variable due to exchange rate risk and its role in determining the value of possible profits and risks of prospective investments. The World Bank provides an index in which a currency is weighed against a broad range of other currencies, with 2010 serving as a base year.

Chapter IV: Analysis Results

Time-Lagged Regressions

In order to justify running the 2-Stage Least Squares Regression, it is important to first evaluate the relationships between media freedom, stability, and FDI using a series of linear regression models. The results of these regressions are shown on Tables 1-3. Because the United States and Canada are only two countries in the region, North America was chosen to serve as the control region, thus providing descriptive coefficients for the greatest number of available countries. In addition, the time period lag is 1 year due to constraints within the data. This thesis will look at each regression in the order of the directional relationship proposed in Chapter II.

Table 1* displays the regression results for Equation (3), in which Stability is regressed against FDI, Media Freedom, and the set of controls. When the β -coefficients are analyzed, there is a statistically significant correlation between the lagged effect of Media Freedom and levels of stability. Because the Freedom House Index utilizes lower values in order to denote higher levels of media freedom, the fact that β_2 is negative supports the proposed directional relationship. The fact that β_3 , in addition to being very small (-.001), is statistically insignificant ($p = .661$) further strengthens the directional theory, as it indicates that FDI levels may be exogenous within this framework.

The next step in the directional relationship is displayed by Table 2, which displays the regression of FDI levels against the other variables of interest, plus controls (Equation (4)). Again, the negative β -value for Media Freedom indicates that higher

1 Tables within this thesis will display only the variables being investigated plus any variables that are statistically significant at the 95% confidence level. For full tables and outputs, refer to the Appendix

levels of freedom within a media correlate with increased levels of FDI (-0.018), but this result is statistically insignificant, with a p-value of 0.669. This indicates that however Media Freedom may affect FDI, this is not a direct relationship. The positive β -value for Stability suggests that there is a positively correlated relationship, but this is complicated by the high p-value (0.990). At first glance, this Media Freedom may affect FDI, this is not a direct relationship. The positive β -value for Stability suggests that there is a positively correlated statistic discourages an interpretation in favor of the directional theory. However, it is important to note that correlation does not disprove the theory, and that further confirmation will come from the 2SLS regression.

Table 1: Stability

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	11.604	23.272		.499	.618
Media Freedom Index w/ 1-period Lag	-.013	.001	-.344	-9.761	.000
PercFDI w/ 1-period lag	-.001	.001	-.011	-.439	.661

a. Dependent Variable: Stability

Table 2: FDI

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	718.203	674.493		1.065	.287
Media Freedom Index w/ 1-period Lag	-.018	.043	-.024	-.427	.669
Adjusted Stability Index w/ 1-period lag	.014	1.108	.001	.013	.990

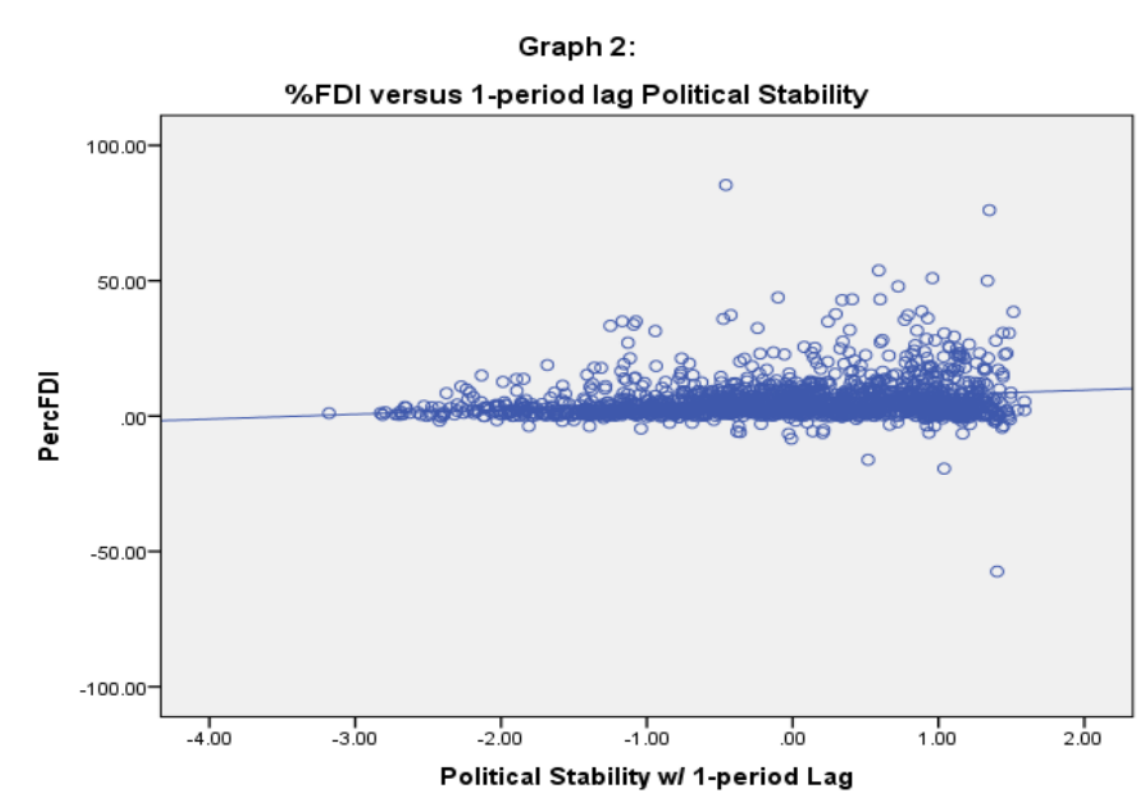
a. Dependent Variable: PercFDI

Table 3: Media Freedom

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-586.750	550.964		-1.065	.287
PercFDI w/ 1-period lag	-.008	.032	-.006	-.256	.798
Adjusted Stability Index w/ 1-period lag	-9.430	.850	-.384	-11.098	.000
South Asia Dummy	.145	6.978	.000	.021	.983

Table 3 displays not a direct relationship. The positive β -value for Stability suggests that there is a positively correlated relationship, but this is complicated by the high p-value (0.990). At first glance, this Media Freedom may affect FDI, this is not a direct relationship. The positive β -value for Stability suggests that there is a positively correlated statistic discourages an interpretation in favor of the directional theory. However, it is important to note that this correlation does not disprove the theory, and that further confirmation will come from the 2SLS regression. The small β -coefficient for FDI (-0.008), coupled with a large p-value (0.798), indicate that the effect of FDI's past values, although conducive to a free media, are both small and statistically insignificant. This, coupled with the β -coefficient for FDI in Table 1, support the notion that FDI is endogenous within the proposed statistical model. However, Table 3 also brings a possible complication in the form of a feedback effect. The β -coefficient (-9.430) and p-value (0.000) for Stability imply that as stability increases, so does the level of Press Freedom. Simple regression alone makes it difficult to discern the direction of causality. This, in conjunction with the statistical insignificance of Press Freedom in Equation (3), justify the use of a 2SLS regression model, as it will aid in inferring the path of causality.

The direct relationship between Media Freedom with a 1-period lag and FDI is visually displayed in Graph 1. The scatter plot illustrates that what direct relationship exists between the two variables is relatively weak. Similarly, Graph 2 visualizes the weak direct relationship present between FDI levels and 1-period lagged Political Stability. In both cases, there is a best fit line that is consistent with the theory; but it has a low slope, suggesting low levels of correlation, and the high level of variance surrounding it indicate signify the weak statistical significance of the correlation.



2-Stage Least Square Regression

The results from the 2SLS regression, simulating Equations (1) and (2), are displayed in Table 4. The output in Table 4 displays both stages of the 2SLS regression. In the first stage regression, stability is set as the dependent variable, with press freedom and the controls functioning as independent variables. The first stage regression indicates that there is a negative β -coefficient that is strongly significant, with a p-value equal to 0.000. With this evidence, the null hypothesis that the β -coefficient for press freedom equals zero can be safely rejected at the 99%-confidence level.

Continuing to the second stage of the 2SLS regression, the amount of FDI as a percentage of GDP is set as the dependent variable, with the stability statistic obtained in the first stage and the control variables set as the independent variables. The resulting β -

Table 4: 2SLS Model Output

First-stage regressions

```

Number of obs = 1690
F( 16, 1673) = 80.85
Prob > F = 0.0000
R-squared = 0.4361
Adj R-squared = 0.4307
Root MSE = 0.7381
    
```

stable	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
tradeopenness	-.002886	.0010032	-2.88	0.004	-.0048537	-.0009182
educ	.5578004	.0965599	5.78	0.000	.3684095	.7471913
fx	-.0004077	.0003957	-1.03	0.303	-.0011838	.0003684
rexporient	.0138013	.0018897	7.30	0.000	.0100949	.0175077
northamerica	.0852705	.3738642	0.23	0.820	-.6480204	.8185615
caribbean	.3943326	.1522075	2.59	0.010	.0957954	.6928699
latinamerica	-.335775	.1243297	-2.70	0.007	-.5796331	-.0919169
westerneuropa	.4555204	.1276925	3.57	0.000	.2050666	.7059743
easterneuropa	.0096364	.117037	0.08	0.934	-.2199179	.2391907
centralasia	-.2695655	.171669	-1.57	0.117	-.606274	.0671431
eastasia	.1908226	.265274	0.72	0.472	-.3294814	.7111265
southasia	-.1767965	.1339308	-1.32	0.187	-.439486	.0858931
oceania	.7677275	.075306	10.19	0.000	.6200236	.9154315
mena	-.0530957	.1226268	-0.43	0.665	-.2936137	.1874224
time	-.0029158	.008742	-0.33	0.739	-.0200622	.0142307
freedom	-.0184731	.0008698	-21.24	0.000	-.0201792	-.0167671
_cons	8.495026	17.55832	0.48	0.629	-25.94357	42.93362

Instrumental variables (2SLS) regression

```

Number of obs = 1690
Wald chi2(16) = 249.00
Prob > chi2 = 0.0000
R-squared = 0.1112
Root MSE = .12031
    
```

fdigdp2	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]	
stable	.0275422	.007675	3.59	0.000	.0124994	.042585
tradeopenness	.0010361	.0001627	6.37	0.000	.0007173	.0013549
educ	-.0766879	.0172288	-4.45	0.000	-.1104557	-.0429201
fx	.0000482	.0000641	0.75	0.452	-.0000774	.0001738
rexporient	-.0006674	.0003144	-2.12	0.034	-.0012836	-.0000512
northamerica	-.0023827	.0609757	-0.04	0.969	-.1218928	.1171275
caribbean	.0028626	.0253224	0.11	0.910	-.0467685	.0524936
latinamerica	-.0002358	.0203402	-0.01	0.991	-.040102	.0396303
westerneuropa	.0005779	.0217678	0.03	0.979	-.0420862	.043242
easterneuropa	.0011686	.0190795	0.06	0.951	-.0362265	.0385637
centralasia	.0394324	.0282816	1.39	0.163	-.0159985	.0948633
eastasia	-.0250743	.0432803	-0.58	0.562	-.1099021	.0597535
southasia	-.0376425	.021961	-1.71	0.087	-.0806853	.0054003
oceania	-.0399365	.0149599	-2.67	0.008	-.0692574	-.0106157
mena	.0097018	.0200351	0.48	0.628	-.0295663	.04897
time	.0004673	.0014259	0.33	0.743	-.0023275	.0032621
_cons	-.9663886	2.864846	-0.34	0.736	-6.581383	4.648606

```

Instrumented: stable
Instruments: tradeopenness educ fx rexporient northamerica caribbean
              latinamerica westerneuropa easterneuropa centralasia eastasia
              southasia oceania mena time freedom
    
```

coefficient yields a positive correlation between stability that is again significantly significant at the 99%-confidence level ($p = 0.000$). With the two stages of the regression combined, there is overwhelmingly strong evidence that the effects of press freedom and stability follow the directional theory outlined in Chapter II.

Robustness Check Against Corruption

As mentioned in Chapter II, there is a likely possibility that Corruption plays a role in influencing all three variables of interest present within this thesis. The following regressions are identical to those run earlier, with two important distinctions: first, an index for Corruption is included in order to judge its effects against those found earlier. Second, because the corruption index runs from an approximately 0-10 scale, the Freedom House index has been rescaled from its original 0-100 by 0.1 in order to make direct comparison between the two variables easier to interpret at first glance.

Table 5: Stability with Corruption

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	12.650	23.277		.543	.587
	PercFDI w/ 1-period lag	-.001	.001	-.010	-.421	.674
	AdjMedia w/ 1-period lag	-.100	.016	-.247	-6.114	.000
	Corruption Index w/ 1-period Lag	.154	.021	.391	7.304	.000
	Caribbean Dummy	.014	.392	.001	.036	.971

a. Dependent Variable: PolStab

The results of Equation (3)' are displayed in Table 5. The addition of Corruption as a control has a relatively small impact on the β -coefficient of Media Freedom. What is more interesting is that Corruption itself has a positive, statistically significant correlation with Stability that is 50% stronger than that of Media Freedom. Table 6 shows nearly identical trends as Table 2 did previously, with all relationships between variables of interest being statistically insignificant. The absence of a direct effect is what qualifies the use of the 2SLS model.

Table 6: FDI with Corruption

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	874.995	725.813		1.206	.228
	Political Stability w/ 1-period Lag	.202	1.237	.010	.163	.870
	AdjMediaF w/ 1-period lag	-.253	.525	-.032	-.481	.631
	Corruption Index w/ 1-period Lag	-.872	.687	-.114	-1.270	.205

a. Dependent Variable: PercFDI

Table 7: Media Freedom with Corruption

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-489.033	543.592		-.900	.369
	PercFDI w/ 1-period lag	-.009	.030	-.007	-.308	.758
	Political Stability w/ 1-period Lag	-5.474	.901	-.223	-6.074	.000
	Corruption Index w/ 1-period Lag	-4.150	.490	-.428	-8.476	.000

a. Dependent Variable: AdjMediaF

Finally, Table 7 provides surprising data (β -coefficient = -4.150, p-value = 0.000), which strongly indicates that higher levels of corruption may actually contribute to higher levels of press freedom. However, a comparison of the β -coefficients indicates that although the introduction of the Corruption variable into the equation creates a β -coefficient in Equation (6)' nearly half of that in Equation (6), the effect of Corruption on levels of media freedom is not quite as strong as the effect of Stability.

Graphs 3 through 5 visually examine Corruption's interaction with three key variables. Graph 3 is similar to Graphs 1 and 2 before it, in that it shows little direct relationship between its two variables. Because there is little evidence of a strong direct relationship, the 2SLS method is again a justified as a test of exogeneity.

2-Stage Least Squares with Corruption Robustness Check

Despite the surprising data provided by the new regressions, it is important to note that this does not necessarily disprove the hypothesis of this paper. In fact, corruption could serve as a measuring stick with which to measure the strength of the Media Freedom-FDI relationship and the interactions associated with it, provided that corruption follows the domino effect-style pattern suggested in the literature. In order to check this, a 2SLS regression that includes corruption as an additional instrumental variable is utilized. The data output that constitutes Table 8 again shows both stages of the 2SLS regression. In the first stage, both Corruption and Media Freedom have β -coefficients that indicate a positive correlations with stability. The results are also statistically significant p-values of 0.000, putting both of them into the 99%-confidence interval. Where in the lagged regressions, Corruption was 50% stronger than Media Freedom for predicting Stability, the effect is reversed in the 2SLS model. Unsurprisingly, Stability has a positive (β -coefficient = .022) and statistically significant (p-value = 0.002) correlation with FDI levels. This enables a rejection of the null hypothesis $\beta_k \text{Media Freedom} = 0$ and confirms strong statistical evidence that a domino-style relationship among Media Freedom, Stability, and FDI does in fact exist. In addition, this analysis reveals that there is indeed a positive effect of corruption on FDI levels and that this relationship mimics that of media freedom.

Testing Corruption for a Quadratic Relationship

One key theoretical difference between how media freedom and corruption may affect stability and FDI levels is that corruption may have a quadratic relationship with these variables, rather than linear. The idea for this is that in extractive regimes, corruption may serve as an informal institution that allows those outside of the „elite“ to tap into their resources. In essence, corruption would serve as a method of “greasing the wheels” of tight bureaucracy and allowing for more economic movement. Conversely, overly corrupt regimes create instability and deter FDI. This can be conceptualized as politicians accepting bribes without fulfilling their obligation of the exchange, or a host government nationalizing particular industries. This implies that there is a “Goldilocks zone” of corruption. The existence of such a zone can be tested with a quadratic regression model in which the square of corruption is added in order to create a quadratic curve to fit the data, rather than a straight line:

$$\text{Stability} = \beta_1 + \beta_2 \text{Media}F_t + \beta_3 \text{PercFDI}_t + \beta_4 \text{Corruption}_t + \beta_5 \text{Corruption}_t^2 + \beta_6 \text{Controls}_t + \varepsilon_t \quad (6)$$

Although the shape of the scatter plot in Graph 4 indicates that this quadratic relationship actually does exist, but the results of this regression are inconclusive (the full output is listed as a table in the Appendix). A quadratic regression for media freedom was not conducted because there is no theoretical or empirical research to suggest that additional media freedom would result in higher levels of long term instability. Therefore, this thesis assumes that the relationship is linear in nature. This assumption is further strengthened by Graph 5, which displays a relationship that displays both a relatively high correlation and a linear form.

Chapter V: Conclusions

Summary of Findings

Building upon the foundation of previous related research and approximately 77,000 points of data, this thesis has adequately analyzed the quantitative relationship between media freedom and levels of FDI. The statistical evidence provided by the 2SLS regression within this thesis suggests that there is an existing, actual relationship in which media freedom indirectly affects FDI through its own effect on levels of stability. During the process of robustness checks, a similar process was discovered in which corruption also affects FDI through an indirect stability relationship. However, the 2SLS regression indicates that this effect is weaker than that of media freedom. This thesis theorized that corruption could have shared a quadratic relationship with the other key variables, but further attempts to investigate this phenomenon were inconclusive.

Policy Recommendations

The findings of this thesis likely suggest to world leaders that there are two strategies for securing higher levels of FDI: one that involves fostering a free media culture (an “open” strategy), and another that relies on government control tight enough to be considered corrupt (a “closed” strategy). National leaders may be tempted to attempt combining these strategies for the stacked effect they could provide, but this does not make sense theoretically, as corrupt governments and free media cultures are in principle mutually exclusive. A leader at the head of a corrupt government will have a vested interest in controlling the media in order to preserve his or her own rule. Though it might not be a direct cause, any opening of the media would put the regime currently in

power at risk because restrictive government regimes are often reliant upon misinformation and propaganda.

Perhaps the most iconic example of this phenomenon in recent history is the collapse of the Soviet Union shortly after the introduction of its *Glasnost* policy, which called for increased openness and transparency within the Soviet regime. This illustrates how any regime that attempts to open its media also invites political instability. Because both media freedom and corruption are dependent upon stability in order to secure more FDI, there is a serious possibility that even if a regime were able to balance between the two strategies, the avenue through which corruption and the media function, as well as the resulting FDI, would be removed.

Assuming that there is indeed a mutual exclusivity between a free media and corrupt levels of government control, this thesis can empirically recommend that world leaders pursue an open strategy of a free media due to evidence that it indeed has a stronger effect upon FDI inflows. In addition to the empirical data displayed in this thesis, outside evidence also indicates that nations following a “closed” strategy are not capable of sustaining long term rapid economic growth, which is often the larger goal being pursued by nations looking to increase their levels of FDI. Tight, restrictive regimes such as contemporary China are capable of astonishingly high rates of growth, sometimes reaching well into the double-digits.

However, these high levels of growth are not sustainable. When nations following a “closed” strategy experience these rates of growth, they invariably experience a steep decline before plateauing. At the time of writing (April 2015), China's latest economic report indicates a growth rate of 7%—only half of the 2007 growth rate. Before China,

there was the Soviet Union, and before the Soviets, there was the decline of Imperial Spain after the British defeat of the Armada. This follows the theory proposed by Daron Acemoglu and James A. Robinson in their book *Why Nations Fail*, in which they make a strong case that the economic growth and development of a nation are highly dependent upon the level of inclusiveness in its institutions. Even without the consideration of FDI or economic growth, this thesis would still recommend the adoption of “open” strategies due to the economic externalities created, such as increased personal and economic freedom for individuals. A common recommendation among economists that this thesis will support is the increase in the level of education that is offered and obtained, as both Tables 3 and 7 indicate a strong, positive correlation between higher levels of education and increased media freedom.

Suggestions for Further Research

This thesis provides strong statistical evidence to support its theories. However, at the time of writing, this is only the first formal attempt to investigate the relationship between media freedom and FDI. As a foray into such new territory, this thesis naturally contains an inherent number of shortcomings. As such, there are many areas in which further research is necessary. This could come in the form of more extensive robustness checks. For example, a study that investigates how media freedom affects FDI inflows with respect to a nation's current level of economic development.

Further research could also be used to dig deeper into the relationships found within this thesis. Such research could involve deeper investigation as to whether media freedom or corruption has additional influence upon FDI inflow levels that exist outside

of their direct influence on stability. These tests could be structured to assess whether or not a free media encourages FDI inflows because it can provide more accurate information on business and investment opportunities.

What could be very beneficial to this thesis would be further investigation into the relationship between corruption, and media freedom. The regression in Table 7 revealed that corruption shares a statistically significant positive relationship, but this thesis fails to find any theoretical or empirical research to support the data. Possible insight could come from the research of Fjelde and Hegre (2014). They describe the ways that regime types interact with levels corruption. Their research describes how corruption can actually serve as a stabilizing force in autocratic societies, where democratic societies tend to remove corruption systematically. By incorporating a version of their model into the theoretical framework, one could control for a variety of factors that may be endogenous to the model employed by this thesis. Quite simply, this is a large topic that offers much to be explored.

As with any quantitative investigation, further empirical research into this topic will benefit in the future from larger amounts of quantifiable data. One of the limits of this thesis is that it could only extend a span of 8 years due to data limitations. As indexes continue to be developed, the extensibility and robustness of research will become greater and more reliable.

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Appendix

Table 1: Stability

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	11.604	23.272		.499	.618
	Media Freedom Index w/ 1-period Lag	-.013	.001	-.344	-9.761	.000
	PercFDI w/ 1-period lag	-.001	.001	-.011	-.439	.661
	Export Orientation w/ 1-period lag	-.014	.003	-.469	-4.214	.000
	GDP per capita w/ 1-period lag	-3.614E-7	.000	-.008	-.121	.904
	GNI w/ 1-period lag	1.512E-5	.000	.262	3.314	.001
	Population Growth w/ 1-period lag	-.065	.025	-.082	-2.619	.009
	Trade Openness w/ 1-period lag	.012	.002	.688	6.703	.000
	Education w/ 1-period Lag	.955	.274	.167	3.478	.001
	Exchange Rate Index w/ 1-period Lag	.008	.002	.096	3.832	.000
	Year	-.005	.012	-.013	-.454	.650
	Caribbean Dummy	.202	.292	.016	.693	.489
	LA Dummy	-.135	.175	-.019	-.772	.440
	WE Dummy	.084	.155	.014	.541	.588
	EE Dummy	.295	.166	.045	1.780	.076
	CA Dummy	-.264	.411	-.015	-.643	.520
	EA Dummy	.627	.409	.036	1.532	.126
	South Asia Dummy	-.537	.294	-.044	-1.824	.069
	Oceania Dummy	.414	.092	.115	4.484	.000
	MENA Dummy	-.034	.210	-.004	-.162	.871
	Sub-Saharan Africa Dummy	.237	.152	.040	1.561	.119

a. Dependent Variable: Stability

Table 2: FDI

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	718.203	674.493		1.065	.287
	Media Freedom Index w/ 1-period Lag	-.018	.043	-.024	-.427	.669
	Adjusted Stability Index w/ 1-period lag	.014	1.108	.001	.013	.990
	Export Orientation w/ 1-period lag	.143	.099	.248	1.446	.149
	GDP per capita w/ 1-period lag	.000	.000	.564	5.466	.000
	GNI w/ 1-period lag	-.001	.000	-.524	-4.387	.000
	Population Growth w/ 1-period lag	-.231	.724	-.015	-.320	.749
	Trade Openness w/ 1-period lag	.034	.052	.107	.663	.508
	Education w/ 1-period Lag	-8.361	8.025	-.077	-1.042	.298
	Exchange Rate Index w/ 1-period Lag	.010	.063	.006	.164	.870
	Year	-.355	.336	-.046	-1.057	.291
	Caribbean Dummy	-.649	8.452	-.003	-.077	.939
	LA Dummy	-2.229	5.061	-.016	-.440	.660
	WE Dummy	.856	4.506	.007	.190	.849
	EE Dummy	1.793	4.815	.014	.372	.710
	CA Dummy	6.375	11.916	.019	.535	.593
	EA Dummy	-1.379	11.869	-.004	-.116	.908
	South Asia Dummy	-5.984	8.531	-.026	-.701	.483
	Oceania Dummy	.400	2.712	.006	.147	.883
	MENA Dummy	5.041	6.101	.030	.826	.409
	Sub-Saharan Africa Dummy	-4.168	4.410	-.036	-.945	.345

a. Dependent Variable: PercFDI

Table 3: Media Freedom

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-586.750	550.964		-1.065	.287
PercFDI w/ 1-period lag	-.008	.032	-.006	-.256	.798
Adjusted Stability Index w/ 1-period lag	-9.430	.850	-.384	-11.098	.000
Export Orientation w/ 1-period lag	.360	.080	.484	4.514	.000
GDP per capita w/ 1-period lag	-.001	.000	-.700	-11.216	.000
GNI w/ 1-period lag	.001	.000	.520	6.959	.000
Population Growth w/ 1-period lag	.899	.590	.046	1.523	.128
Trade Openness w/ 1-period lag	-.135	.042	-.326	-3.206	.001
Education w/ 1-period Lag	-48.055	6.345	-.341	-7.573	.000
Exchange Rate Index w/ 1-period Lag	.098	.052	.046	1.892	.059
Year	.345	.274	.035	1.256	.210
Caribbean Dummy	-14.501	6.888	-.048	-2.105	.036
LA Dummy	-7.177	4.127	-.041	-1.739	.083
WE Dummy	-4.189	3.682	-.028	-1.138	.256
EE Dummy	.451	3.896	.003	.116	.908
CA Dummy	22.649	9.720	.053	2.330	.020
EA Dummy	17.735	9.679	.042	1.832	.067
South Asia Dummy	.145	6.978	.000	.021	.983
Oceania Dummy	1.752	2.216	.020	.790	.430
MENA Dummy	6.682	4.979	.031	1.342	.180
Sub-Saharan Africa Dummy	2.390	3.604	.016	.663	.507

a. Dependent Variable: MediaF

Table 5: Stability with Corruption

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	12.650	23.277		.543	.587
PercFDI w/ 1-period lag	-.001	.001	-.010	-.421	.674
AdjMedia w/ 1-period lag	-.100	.016	-.247	-6.114	.000
Corruption Index w/ 1-period Lag	.154	.021	.391	7.304	.000
Export Orientation w/ 1-period lag	-.007	.003	-.248	-2.179	.030
GDP per capita w/ 1-period lag	-4.119E-6	.000	-.097	-1.383	.167
GNI w/ 1-period lag	5.314E-6	.000	.093	1.144	.253
Population Growth w/ 1-period lag	-.094	.025	-.120	-3.814	.000
Trade Openness w/ 1-period lag	.008	.002	.497	4.726	.000
Education w/ 1-period Lag	.443	.281	.078	1.580	.115
Exchange Rate Index w/ 1-period Lag	.009	.002	.107	4.379	.000
Year	-.006	.012	-.014	-.514	.607
Caribbean Dummy	.014	.392	.001	.036	.971
LA Dummy	-.135	.174	-.019	-.775	.438
WE Dummy	-.042	.150	-.007	-.279	.780
EE Dummy	.208	.158	.032	1.312	.190
CA Dummy	-.115	.394	-.007	-.291	.771
EA Dummy	.471	.392	.028	1.200	.230
South Asia Dummy	-.687	.283	-.057	-2.432	.015
Oceania Dummy	.478	.105	.113	4.560	.000
MENA Dummy	-.120	.202	-.014	-.593	.554
Sub-Saharan Africa Dummy	.296	.154	.047	1.926	.055

a. Dependent Variable: PolStab

Table 6: FDI with Corruption

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	874.995	725.813		1.206	.228
Political Stability w/ 1-period Lag	.202	1.237	.010	.163	.870
AdjMediaF w/ 1-period lag	-.253	.525	-.032	-.481	.631
Corruption Index w/ 1-period Lag	-.872	.687	-.114	-1.270	.205
Export Orientation w/ 1-period lag	.161	.106	.277	1.514	.131
GDP per capita w/ 1-period lag	.001	.000	.614	5.603	.000
GNI w/ 1-period lag	-.001	.000	-.504	-3.928	.000
Population Growth w/ 1-period lag	-.217	.774	-.014	-.281	.779
Trade Openness w/ 1-period lag	.025	.055	.079	.459	.647
Education w/ 1-period Lag	-6.016	8.768	-.054	-.686	.493
Exchange Rate Index w/ 1-period Lag	.015	.068	.009	.221	.825
Year	-.433	.362	-.054	-1.196	.232
Caribbean Dummy	-2.050	12.229	-.006	-.168	.867
LA Dummy	-2.193	5.434	-.016	-.404	.687
WE Dummy	1.529	4.683	.013	.326	.744
EE Dummy	1.110	4.942	.009	.225	.822
CA Dummy	5.649	12.298	.017	.459	.646
EA Dummy	-.994	12.245	-.003	-.081	.935
South Asia Dummy	-5.326	8.824	-.023	-.604	.546
Oceania Dummy	1.501	3.317	.018	.453	.651
MENA Dummy	5.307	6.305	.032	.842	.400
Sub-Saharan Africa Dummy	-4.206	4.808	-.035	-.875	.382

a. Dependent Variable: PercFDI

Table 7: Media Freedom with Corruption

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-489.033	543.592		-.900	.369
PercFDI w/ 1-period lag	-.009	.030	-.007	-.308	.758
Political Stability w/ 1-period Lag	-5.474	.901	-.223	-6.074	.000
Corruption Index w/ 1-period Lag	-4.150	.490	-.428	-8.476	.000
Export Orientation w/ 1-period lag	.268	.079	.365	3.392	.001
GDP per capita w/ 1-period lag	-.001	.000	-.564	-8.984	.000
GNI w/ 1-period lag	.001	.000	.616	8.415	.000
Population Growth w/ 1-period lag	1.748	.576	.091	3.036	.002
Trade Openness w/ 1-period lag	-.105	.041	-.256	-2.531	.012
Education w/ 1-period Lag	-37.092	6.392	-.265	-5.803	.000
Exchange Rate Index w/ 1-period Lag	.086	.051	.040	1.696	.090
Year	.277	.271	.027	1.023	.307
Caribbean Dummy	-19.408	9.128	-.047	-2.126	.034
LA Dummy	-8.997	4.054	-.050	-2.219	.027
WE Dummy	-1.221	3.508	-.008	-.348	.728
EE Dummy	-2.073	3.702	-.013	-.560	.576
CA Dummy	18.288	9.195	.044	1.989	.047
EA Dummy	18.662	9.139	.045	2.042	.042
South Asia Dummy	4.828	6.616	.016	.730	.466
Oceania Dummy	.858	2.484	.008	.345	.730
MENA Dummy	7.792	4.709	.037	1.654	.099
Sub-Saharan Africa Dummy	1.240	3.602	.008	.344	.731

a. Dependent Variable: AdjMediaF