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Journal of Asian Economics
Volume 75, August 2021, 101324

Can foreign direct investment promote BIT signing?

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Received 25 August 2020, Revised 16 March 2021, Accepted 27 April 2021, Available online 1 May 2021, Version of Record 13 May 2021.

https://doi.org/10.1016/j.asieco.2021.101324

Abstract

Compared to the vast number of previous studies on the impact of bilateral investment treaties (BITs) on Foreign Direct Investment (FDI), this paper empirically analyses how previous FDI affects BIT signing by using annual data covering 258 countries for the period 2002–2012. We find that the likelihood of signing BITs between two countries is higher when the country-pair has a larger sum of FDI stock and a larger FDI difference, and this effect is more pronounced in middle- and low-income countries than high-income countries. Further research finds that the institutional gap is an important factor that can enhance the positive impact of FDI stock/ FDI difference on the signing of BITs. The contribution of this research lies in providing a benchmark for incorporating more economic variables into the understanding of the determinants of BIT signing. In particular, the role of FDI should be given more attention.

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JEL classification

F21; F23; F53