

## Supplementary Materials

### Firm Lobbying Financing Constraints

Using the 2002–2005 round of the World Bank Enterprise Surveys, I investigate what firm characteristics are associated with greater firm lobbying. The dependent variable is firms' answer to the following question: *Did your firm seek to lobby government or otherwise influence the content of laws or regulations affecting it?* I find domestic firms are less likely to lobby than firms with at least 10% foreign ownership, that large firms are more likely to lobby, and that exporters are more likely to lobby.

Table A1: Lobbying Activities by Ownership Structure

Lobby	Ownership Structure			Total
	Domestic	Min Foreign	Maj Foreign	
yes	3,608	160	751	4,519
	14%	25%	21%	15%
no	21,581	472	2,780	24,833
	86%	75%	79%	85%
	25,189	632	3,531	29,352

Pearson  $\chi^2(2) = 163.4808$ , Pr = 0.000

Cramér's V = 0.0746

Table A2: Lobbying Activities by Size

Lobby	Size			Total
	Small	Medium	Large	
yes	1,299	1,407	1,813	4,519
	9%	17%	26%	15%
no	12,611	7,029	5,193	24,833
	91%	83%	74%	85%
Total	13,910	8,436	7,006	29,352

Pearson  $\chi^2(2) = 993.4328$  Pr = 0.000

Cramér's V = 0.1840

Using a question on financial constraints from the same survey data, I also show that firms with some degree of foreign ownership are less likely to view financing as a binding constraint when in more open FDI environments, measured by the Fraser Index of FDI Liberalization.

Table A3: Lobbying Activities by Export Status

Lobby	Exporter		Total
	no	yes	
yes	3,147 13%	1,319 23%	4,466 15%
no	20,212 87%	4,413 77%	24,625 85%
Total	23,359	5,732	29,091

Pearson  $\chi^2(1) = 322.2667$  Pr = 0.000  
Cramér's V = -0.1053

Table A4: Financial Constraints and Firm Ownership by FDI Policy Environment

Restrictive FDI Environment				
Financial Constraints	Ownership Structure			Total
	Domestic	Min Foreign	Maj Foreign	
No Obstacle	5,040 20%	223 28%	887 23%	6,150 21%
Moderate Obstacle	6,591 26%	217 27%	1,000 26%	7,808 26%
Major Obstacle	13,467 54%	370 46%	1,987 51%	15,824 53%
Total	25,098	810	3,874	29,782

Pearson  $\chi^2(2) = 44.5748$ , Pr = 0.000, Cramér's V = 0.0274

Permissive FDI Environment				
Financial Constraints	Ownership Structure			Total
	Domestic	Min Foreign	Maj Foreign	
No Obstacle	7,719 21%	171 24%	1,456 30%	9,346 22%
Moderate Obstacle	8,941 25%	205 29%	1,224 25%	10,370 25%
Major Obstacle	19,429 54%	330 47%	2,131 44%	21,890 53%
Total	36,089	706	4,811	41,606

Pearson  $\chi^2(2) = 233.6455$ , Pr = 0.000, Cramér's V = 0.0530

## Financial Constraints and Policy

Table A5: Country Coverage – Historical Models

Algeria	Denmark	Indonesia	Nicaragua	Switzerland
Argentina	Dominican Rep.	Israel	Nigeria	Tanzania
Australia	Ecuador	Italy	Norway	Thailand
Austria	Egypt	Japan	Pakistan	Tunisia
Belgium	El Salvador	Jordan	Paraguay	Turkey
Bolivia	Ethiopia	Kazakhstan	Peru	Uganda
Brazil	Finland	Kenya	Philippines	United Kingdom
Cameroon	France	Madagascar	Portugal	Uruguay
Canada	Germany	Malaysia	Singapore	Uzbekistan
Chile	Ghana	Mexico	South Africa	Venezuela
China	Greece	Morocco	South Korea	Zimbabwe
Colombia	Guatemala	Mozambique	Spain	
Costa Rica	Hong Kong	Netherlands	Sri Lanka	
Cote d'Ivoire	India	New Zealand	Sweden	

Table A6: Data Sources – Historical Models

Variable	Source
Equity Restrictions	Pandya (2014)
Screening Requirements	Pandya (2014)
Banking Reform	Abiad et al. (2008)
GDP per capita	World Development Indicators
Inflation	World Development Indicators
Trade	World Development Indicators
Tertiary Enrollment	World Development Indicators
Domestic Credit	World Development Indicators
Fixed Exchange Rate	Levy-Yayati and Sturzenegger (2005)
Democracy	Marshall, Gurr, and Jagers (2012)
Crisis	Claeseens and Kose (2013)
Under IMF	World Development Indicators
Natural Resource Rents	World Development Indicators
Bilateral Investment Treaties	Buthe and Milner (2008), updated by author
Regional Equity Restrictions	Author Calculations
Regional Screening Requirements	Author Calculations

Table A7: Descriptive Statistics – Historical Models

Variable	Mean	Std. Dev.	N
Equity Restrictions	0.178	0.353	1394
Screening Requirements	0.347	0.464	1115
Banking Reform	6.997	4.310	1394
ln(GDP per capita)	8.399	1.552	1394
ln(inflation)	3.747	0.601	1394
ln(Trade)	3.921	0.571	1383
ln(Tertiary Enrollment)	3.944	0.565	1383
Regional Screening Requirements	0.35	0.267	1115
ln(Domestic Credit)	50.851	37.232	1366
Fixed Exchange Rate	0.304	0.46	1394
Democracy	0.589	0.492	1394
Crisis	0.095	0.293	1394
Under IMF	0.325	0.469	1390
ln(Natural Resource Rents)	0.711	2.021	1370
Regional Equity Restrictions	0.174	0.204	1393

Table A8: Correlation Matrix – Historical Models

	Entry Rest.	Bank Ref.	Ln GDPPC	Ln Infl.	Ln Trade	Tert Enroll	Dem	Crisis	Under IMF	P. Credit	Dom	Fix Exchg.	Reg Avg Rest.
Main Models – Observations: 1,351	1												
Entry Restrictions	-0.3645	1											
Banking Reforms	-0.2975	0.5189	1										
Ln GDP Per Capita	0.0288	-0.3298	0.2081	1									
Ln Inflation	-0.1152	0.3914	0.2149	-0.2991	1								
Ln Trade	-0.1222	0.3895	0.3882	-0.0154	-0.1242	1							
Ln Tertiary Enrollment	-0.2358	0.3131	-0.134	0.1647	-0.0836	-0.1178	1						
Democracy	0.0464	-0.1339	-0.5049	0.1876	-0.1336	-0.0825	-0.1164	1					
Crisis	0.0669	-0.2225	0.5834	-0.2515	0.2035	0.1878	0.2895	0.1657	1				
Under IMF	-0.1867	0.4808	0.0524	-0.1884	0.1446	0.1504	-0.0589	-0.0792	-0.4049	1			
Ln Private Dom Credit	-0.0392	0.089	-0.436	0.1588	-0.1216	-0.1286	-0.4509	0.0502	0.1372	-0.0347	1		
Fixed Exchange Rate	0.5705	-0.474								-0.0211	-0.261	1	
Region Avg Entry Restrict												-0.0597	1

Table A9: Country Coverage – UNCTAD Data Models

Afghanistan*	Chile *	Guinea-Bissau	Malta	Slovenia*
Albania*	China*	Guyana*	Mauritania*	Soloman Islands
Algeria*	Colombia*	Haiti	Mauritius*	South Africa*
Angola*	Congo*	Honduras*	Mexico*	South Korea*
Argentina*	Costa Rica*	Hong Kong	Moldova*	Spain*
Armenia*	Cote d'Ivoire*	Hungary*	Mongolia*	Sri Lanka*
Australia*	Croatia*	Iceland	Morocco*	Sudan*
Austria*	Cuba	India*	Mozambique*	Suriname*
Azerbaijan*	Cyprus*	Indonesia*	Myanmar*	Swaziland*
Bahamas	Czech Rep*	Iraq*	Namibia*	Sweden*
Bahrain*	Dem Rep Congo*	Ireland*	Nepal*	Switzerland*
Bangladesh*	Denmark*	Israel*	Netherlands*	Syria
Barbados	Djibouti *	Italy*	New Zealand *	Taiwan
Belarus*	Dominican Rep*	Jamaica*	Nicaragua*	Tajikistan*
Belgium*	Ecuador	Japan*	Niger*	Tanzania
Belize	Egypt*	Jordan*	Nigeria*	Thailand*
Benin*	El Salvador*	Kazakhstan*	Norway*	Togo*
Bhutan*	Equatorial Guinea	Kenya*	Oman*	Trinidad*
Bolivia*	Eritrea	Kuwait*	Pakistan*	Tunisia*
Bosnia & Herzegovina	Estonia*	Kyrgyz Rep*	Panama *	Turkey*
Botswana *	Ethiopia *	Laos*	Papua New Guinea*	Turkmenistan
Brazil*	Fiji	Latvia*	Paraguay*	Uganda*
Brunei	Finland*	Lebanon*	Peru*	Ukraine*
Bulgaria*	France*	Lesotho	Philippines*	UAE
Burkina Faso*	Gabon*	Liberia*	Poland*	UK*
Burundi*	Gambia*	Libya*	Portugal *	USA*
Cambodia	Georgia*	Lithuania*	Qatar*	Uruguay*
Cameroon *	Germany*	Luxembourg*	Romania*	Uzbekistan
Canada*	Ghana*	Macedonia*	Rwanda *	Venezuela*
Cape Verde*	Greece*	Madagascar*	Saudi Arabia*	Vietnam *
C African Rep*	Guatemala*	Malawi*	Senegal *	Yemen*
Chad*	Guinea*	Malaysia*	Sierra Leone*	Frm Yugoslav Rep
		Maldives	Singapore	Zambia*
		Mali*	Slovak Rep*	Zimbabwe

\* denote countries included in full models

Table A10: **Data Sources - UNCTAD Data Models**

<b>Variable</b>	<b>Source</b>
Yearly Lib	UNCTAD (2017)
Yearly Lib Entry	UNCTAD (2017)
Yearly Lib Treatment	UNCTAD (2017)
Yearly Lib Promotion	UNCTAD (2017)
Yearly Rstrict	UNCTAD (2017)
Net Interest Margin	Global Financial Development Database 1960-2014
GDP per capita	World Development Indicators
Inflation	World Development Indicators
Trade	World Development Indicators
Tertiary Enrollment	World Development Indicators
Democracy	Marshall, Gurr, and Jagers (2012)
Crisis	Claeseens and Kose (2013)
Under IMF	World Development Indicators
Fixed Exchange Rate	Shambaugh (2004)
Regional Lib	Author Calculations
Regional Lib Entry	Author Calculations
Regional Lib Treatment	Author Calculations
Regional Lib Promotion	Author Calculations
Regional Restrict	Author Calculations





Table A12: Simple models robust to estimation strategy (PCSE and FGLS) and FDI Policy Measure

	Entry Res	Entry Res	Entry Res	Entry Res
Lagged DV	0.6107 (0.0346)**		0.6048 (0.0323)**	
Banking Reform (t-1)	-0.0722 (0.0340)*	-0.0913 (0.0603)		
Interest Rate Controls (t-1)			-0.0730 (0.0188)**	-0.0984 (0.0335)**
Bank Privatization (t-1)				
Ln GDP per capita (t-1)	-0.0652 (0.2040)	0.7345 (0.2910)*	-0.0929 (0.2113)	0.6668 (0.2867)*
Estimation Technique	PCSE	FGLS	PCSE	FGLS
Observations	1394	1401	1394	1401
Countries	67	66	67	66
R2	0.7304		0.7316	
	Screening	OECD Restrictions	Heritage Index	Fraser Index
Lagged DV	0.7440 (0.0291)**			
Banking Reform (t-1)	-0.0827 (0.0527)	-0.0919 (0.0664)	3.2093 (1.3329)*	0.8240 (0.1920)**
Ln GDP per capita (t-1)	-0.2753 (0.1792)	-0.0636 (0.0567)	6.1356 (0.8827)**	0.5398 (0.1356)**
Estimation Technique	Fixed Effects	Pooled Regression	Pooled Regression	Pooled Regression
Observations	1147	32	442	145
Countries	55			66
R2	0.6531	0.3921	0.2741	0.4222

Non-indicator variables standardized. Fixed Effects include year dummies and standard errors clustered by country. PCSE estimated with country and year dummies. FGLS estimated with country and year dummies and a panel specific AR1. Pooled Regressions exclude lagged dependent variables due to limited data availability. Standard Errors in parentheses. \*\* p < .01, \* p < .05, + p < .1; two-tailed tests

Table A13: Full models robust to estimation strategy (PCSE and FGLS)

	Entry Restrictions	Entry Restrictions	Entry Restrictions	Entry Restrictions
Lagged DV	0.2148 (0.0098)**	0.2133 (0.0091)**		
Banking Reform (t-1)	-0.0275 (0.0146)+	-0.0399 (0.207)+		
I Rate Controls (t-1)				
Ln GDP/PC (t-1)	-0.0368 (0.0704)	0.0567 (0.1157)	-0.0245 (0.0068)**	-0.0437 (0.0117)**
Ln Inflation (t-1)	0.0018 (0.0075)	-0.0027 (0.0090)	-0.0396 (0.0679)	0.0773 (0.1154)
Ln Trade/GDP (t-1)	0.0819 (0.182)**	0.0808 (0.0853)	0.0041 (0.0064)	-0.0003 (0.0088)
Ln Tert Enroll (t-1)	-0.1091 (0.0115)**	-0.0766 (0.0878)	0.0839 (0.1831)**	0.0773 (0.0850)
Democracy (t-1)	0.0415 (0.0184)*	-0.0109 (0.0316)	-0.1083 (0.0105)**	-0.0731 (0.0876)
Crisis (t-1)	-0.0037 (0.0203)	0.0144 (0.0154)	0.0423 (0.0182)*	-0.0081 (0.0314)
Under IMF (t-1)	0.0058 (0.0131)	-0.0030 (0.0176)	-0.0017 (0.0203)	0.0141 (0.0154)
Ln P Dom Credit (t-1)	0.0246 (0.0171)	0.0474 (0.0186)**	0.0071 (0.0123)	-0.0001 (0.0176)
Fixed X Rate (t-1)	0.0308 (0.0163)+	0.0325 (0.0150)*	0.0238 (0.0171)	0.0439 (0.0184)*
Avg Reg Restrict (t-1)	0.0346 (0.0084)**	0.0566 (0.0094)**	0.0286 (0.0163)+	0.0316 (0.0149)*
Estimation Technique	PCSE	FGLS	PCSE	FGLS
Observations	1342	1341	1342	1341
Countries	65	64	65	64
R2	0.7399		0.7407	

Non-indicator variables standardized. Fixed effects estimated with year dummies and country-clustered standard errors. Standard Errors in parentheses. \*\* p < .01, \* p < .05, + p < .1; two-tailed tests

Table A14: Developing Country models robust to estimation strategy (PCSE and FGLS)

	Entry Restrictions	Entry Restrictions	Entry Restrictions	Entry Restrictions
Lagged DV	0.5645 (0.0323)**	-0.1875 (0.0874)*	0.5685 (0.0288)**	-0.0907 (0.0476)+
Banking Reform (t-1)	-0.1437 (0.0821)+			-0.4227 (0.4226)
Interest Rate Controls (t-1)		-0.4816 (0.4203)		0.0121 (0.0293)
Ln GDP per capita (t-1)	-0.4143 (0.3053)	0.0016 (0.0296)	-0.0855 (0.0311)**	0.1745 (0.2753)
Ln Inflation (t-1)	0.0101 (0.0213)	0.1971 (0.2752)	0.2380 (0.0706)**	-0.0827 (0.2864)
Ln Trade/GDP (t-1)	0.2444 (0.0747)**	-0.0994 (0.2858)	-0.2784 (0.0626)**	0.0879 (0.1085)
Ln Tertiary Enrollment (t-1)	-0.2901 (0.0653)**	0.0643 (0.1089)	0.1542 (0.0580)**	0.0492 (0.0537)
Democracy (t-1)	0.1503 (0.0566)**	0.0438 (0.0536)	0.0048 (0.0620)	-0.0030 (0.0604)
Crisis (t-1)	-0.0008 (0.0587)	-0.0021 (0.0603)	0.0263 (0.0347)	0.0678 (0.0802)
Under IMF (t-1)	0.0226 (0.0375)	0.0734 (0.798)	0.0552 (0.0865)	0.0763 (0.0598)
Ln Private Dom Credit (t-1)	0.0595 (0.0896)	0.0711 (0.0596)	0.0877 (0.0650)	0.0557 (0.0364)
Fixed Exchange Rate (t-1)	0.0911 (0.0670)	0.0556 (0.0363)	0.0912 (0.0289)**	0.0523 (0.0196)**
Avg Regional Restrict (t-1)	0.0876 (0.0273)**	0.0587 (0.0194)**	0.0153 (0.0085)+	
BITs (t-1)	0.0220 (0.0088)**			
Ln Resource Rents (t-1)	0.0115 (0.1236)	0.0581 (0.1428)	0.0137 (0.1292)	0.0586 (0.1422)
Estimation Technique	PCSE	FGLS	PCSE	FGLS
Observations	812	811	812	811
Countries	44	43	44	43
R2	0.7334		0.7334	

Non-indicator variables standardized. Constants, country, and year indicators not reported. Standard Errors in parentheses. \*\* p < .01, \* p < .05, + p < .1; two-tailed tests

Table A15: **Main findings are robust to disaggregating crisis variable**

	<i>Entry Restrictions</i>
Lagged DV	0.5850 (0.0423)**
Banking Reform (t-1)	-0.0766 (0.0373)*
Ln GDP per capita (t-1)	-0.1010 (0.2720)
Ln Inflation (t-1)	0.0035 (0.0231)
Ln Trade/GDP (t-1)	0.2292 (0.1622)
Ln Tertiary Enrollment (t-1)	-0.3028 (0.1860)
Democracy (t-1)	0.1121 (0.0532)*
Bank Crisis (t-1)	0.0283 (0.1150)
Currency Crisis (t-1)	-0.0060 (0.0449)
Debt Crisis (t-1)	-0.0591 (0.0829)
Under IMF (t-1)	0.0144 (0.0534)
Ln Private Dom Credit (t-1)	0.0660 (0.0389)+
Fixed Exchange Rate (t-1)	0.0835 (0.0405)*
Avg Regional Restrict (t-1)	0.0946 (0.0405)*
Observations	1342
Countries	65
R2	0.6782

**Table A16: Full Models Robust to BITs and Resource Rents**

	Developing Countries	Developing Countries
Equity Restrictions ( $t-1$ )	0.565 ** (0.050)	0.5658** (0.048)
Banking Reforms ( $t-1$ )	-0.144* (0.062)	
Interest Rate Controls ( $t-1$ )		-0.086 (0.052)
Ln GDP per capita ( $t-1$ )	-0.414 (0.298)	-0.335 (0.290)
Ln Inflation ( $t-1$ )	0.010 (0.028)	0.020 (0.027)
Ln Trade/GDP ( $t-1$ )	0.244 (0.171)	0.238 (0.168)
Ln Tertiary Enroll ( $t-1$ )	-0.291 (0.203)	-0.278 (0.203)
Democracy ( $t-1$ )	0.150* (0.062)	0.154* (0.062)
Crisis ( $t-1$ )	-0.008 (0.061)	0.005 (0.060)
Under IMF ( $t-1$ )	0.023 (0.064)	0.026 (0.063)
Ln Private Dom Credit ( $t-1$ )	0.060 (0.068)	0.055 (0.063)
Fixed Exchange Rate ( $t-1$ )	0.091 (0.070)	0.091* (0.036)
Avg Regional Restrict ( $t-1$ )	0.088* (0.034)	0.091* (0.036)
BITs( $t-1$ )	0.022+ (0.012)	0.015 (0.012)
Ln Resource Rents ( $t-1$ )	0.012 (0.106)	0.014 (0.112)
Observations	812	812
Countries	44	44
R <sup>2</sup>	0.6096	0.6394

Fixed effects estimated with year dummies and country-clustered standard errors.

Standard Errors in parentheses. †p <.1, \*p <.05, \*\*p <.01, \*\*\*p <.001

## Endogeneity Tests

### Error Correction Models

The estimations in Tables 1 and 2 (main text) assume panel dynamics are adequately modeled through a one year lag. My theory argues banking sector reform creates a policy environment more conducive to FDI liberalization. Because interest realignment takes time to transfer into policy change, the causal process may move more slowly. To address this possibility, I augment my analysis by estimating a series of single equation error correction models (SECMs). Such models are useful for several reasons. First, SECMs are particularly suited for integrated time series; diagnostics confirm both measures of FDI openness as well as banking sector reform conform to a first order integration. Second, unlike estimation models that include each explanatory variable lagged by a predetermined amount, SECMs remain agnostic to the length of time it takes for the effect of explanatory variables to fully transfer into outcomes of interest. SECMs estimate three qualitatively important quantities of interest – the average instantaneous change in  $Y$  as a result of  $x$ , the average long-term effect of  $x$  on  $Y$ , and the rate at which the long term effects of  $x$  change  $Y$ . Third, SECMs are accommodating of many problems typical with running dynamic models. These models can handle both integrated and stationary explanatory variables within the same equation (Engle and Granger, 1987; Keele and DeBoef, 2008), and they also are robust to weak endogeneity (DeBoef, 2001).

My estimation equation is as follows:

$$\begin{aligned} \Delta(FDIPolicy)_{(i,t)} &= \alpha_0 + \alpha_1(FDIPolicy)_{(i,t-1)} + \beta_0\Delta(BankingReform)_{(i,t)} \\ &+ \beta_1(BankingReform)_{(i,t-1)} + \beta_2\Delta X_{(i,t)} + \beta_3X_{(i,t-1)} + \gamma_{(i,t)} + \varepsilon_{(i,t)} \end{aligned}$$

where  $\beta_0$  and  $\beta_1$  are the main coefficients of interest and represent the short term and long term effects of Banking Reform on FDI Policy respectively,  $\Delta X_{(i,t)}$  and  $X_{(i,t-1)}$  consist of differenced and lagged country-level controls,  $\gamma_{(i,t)}$  are fixed country effects and  $\varepsilon_{(i,t)}$  are errors clustered by country to account for serial correlation.

Table A17 reports the results of SECMs for Equity Restrictions. Recall that all non-indicator variables are standardized to aid in interpreting relative effects. Jointly, these models demonstrate the core findings explicated above continue to hold even when employing this more conservative statistical estimation technique.

Interpreting SECMs requires separating the short-term effects of explanatory variables from the long-term effects, which transfer into the data through an equilibrating process. The intuition behind error correction models is if two or more time series are cointegrated, they should share a stochastic trend that moderates toward an equilibrium relationship. First, note that for all models, the coefficient estimate for the lagged dependent variable is negative and statistically significant. This finding provides evidence that an error correction model is indeed appropriate for the data; the differenced level of FDI openness is stationary and trends back toward an equilibrium value. Interpreting the short-term effects of the explanatory variables is straightforward; the coefficient estimate of the differenced value of an explanatory variable represents the average instantaneous change in FDI openness. Interpretation of long-term effects requires dividing the coefficient estimate for the lagged explanatory variable by the coefficient estimate for the lagged de-

Table A17: Error Correction Models

Equity Restrictions ( $t-1$ )	-0.416*** (0.00)	-0.420*** (0.00)	-0.428*** (0.00)	-0.429*** (0.00)
Banking Reforms ( $t-1$ )	-0.078* (0.04)		-0.144* (0.03)	
$\Delta$ Banking Reforms	0.020 (0.78)		0.072 (0.45)	
Interest Rate Controls ( $t-1$ )		-0.075** (0.01)		-0.099* (0.01)
$\Delta$ Interest Rate Controls		-0.028 (0.34)		-0.014 (0.71)
Ln GDP per capita ( $t-1$ )	0.061 (0.79)	0.030 (0.88)	-0.117 (0.66)	-0.103 (0.68)
$\Delta$ Ln GDP per capita	0.426 (0.65)	0.353 (0.70)	0.399 (0.72)	0.248 (0.81)
Ln Inflation ( $t-1$ )	-0.016 (0.49)	-0.006 (0.78)	-0.016 (0.51)	-0.002 (0.92)
$\Delta$ Ln Inflation	-0.055 (0.22)	-0.053 (0.23)	-0.061 (0.17)	-0.059 (0.19)
Ln Trade/GDP ( $t-1$ )	0.275 (0.06)	0.285* (0.05)	0.308 (0.09)	0.322 (0.07)
$\Delta$ Ln Trade/GDP	0.417 (0.31)	0.418 (0.28)	0.451 (0.30)	0.458 (0.27)
Ln Tertiary Enroll ( $t-1$ )	-0.365* (0.02)	-0.367* (0.02)	-0.390 (0.06)	-0.390 (0.07)
$\Delta$ Ln Tertiary Enroll	-0.478 (0.28)	-0.484 (0.25)	-0.516 (0.27)	-0.520 (0.24)
Democracy ( $t-1$ )	0.165** (0.00)	0.164** (0.00)	0.197** (0.00)	0.197** (0.00)
$\Delta$ Democracy	0.060 (0.54)	0.057 (0.54)	0.073 (0.51)	0.067 (0.52)
Crisis ( $t-1$ )	0.053 (0.57)	0.058 (0.54)	0.120 (0.23)	0.123 (0.23)
$\Delta$ Crisis ( $t-1$ )	0.017 (0.79)	0.021 (0.73)	0.070 (0.27)	0.071 (0.26)
Under IMF ( $t-1$ )	0.041 (0.56)	0.046 (0.52)	0.047 (0.56)	0.055 (0.49)
$\Delta$ Under IMF ( $t-1$ )	0.009 (0.91)	0.012 (0.88)	-0.003 (0.97)	0.004 (0.97)
Ln Private Dom Credit ( $t-1$ )	0.065 (0.06)	0.059 (0.05)	0.059 (0.35)	0.054 (0.35)
$\Delta$ Ln Private Dom Credit	0.013 (0.79)	0.013 (0.78)	0.050 (0.56)	0.051 (0.55)
Fixed Exchange Rate ( $t-1$ )	0.079 (0.20)	0.068 (0.27)	0.106 (0.28)	0.098 (0.31)
$\Delta$ Fixed Exchange Rate	0.014 (0.79)	0.009 (0.86)	0.044 (0.53)	0.037 (0.59)
Avg Regional Restrict ( $t-1$ )	0.139*** (0.00)	0.136*** (0.00)	0.140*** (0.00)	0.142*** (0.00)
$\Delta$ Avg Regional Restrict	0.190*** (0.00)	0.187*** (0.00)	0.191*** (0.00)	0.191*** (0.00)
BITs ( $t-1$ )			0.021 (0.11)	0.012 (0.31)
$\Delta$ BITs			-0.006 (0.77)	-0.012 (0.51)
Ln Resource Rents ( $t-1$ )			-0.001 (0.90)	-0.000 (0.97)
$\Delta$ Ln Resource Rents			0.004 (0.57)	0.005 (0.53)
Observations	1333	1333	830	830
Countries	65	65	45	45
R <sup>2</sup>	0.241	0.243	0.253	0.253

Non-indicator variables standardized. Fixed effects estimated with year dummies and country-clustered standard errors. Standard Errors in parentheses.

+ p <.1, \* p <.05, \*\* p <.01, \*\*\* p <.001

pendent variable. Since all variables have been standardized, the resulting coefficient estimate represents the average total effect of a standard deviation change in the explanatory variable; the coefficient estimate for the lagged dependent variable provides an indication for how quickly the total long term effect transfers into the data.

What becomes immediately clear is financial reform has no instantaneous effect on FDI liberalization, but instead influences openness to foreign investment through a longer temporal process. This finding establishes that the correlation between FDI and financial sector liberalization is not driven by contemporaneous reforms in both policy areas. The substantive long-term effect of financial sector reform on liberalization of equity restrictions is quite large. Overall, a standard deviation change in banking sector liberalization leads to an average increase in FDI openness between 18.75 and 33.65 per cent of its standard deviation, depending on the model. I find similar effects for decreases in *Interest Rate Controls* on *Equity Restrictions*. A standard deviation loosening of *Interest Rate Controls* corresponds to between a 17.86 and a 23.08 percent average decrease in *Equity Restrictions*.

### Granger Causality Analysis

Next, to further deal with identification issues stemming from endogeneity, I run a series of Granger causality tests to ascertain the extent to which lagged values of banking sector reforms predict levels of FDI openness in time  $t$  and vis-a'-versa. I establish *Banking Reforms* Granger cause reductions in *Equity Restrictions* but *Equity Restrictions* do not Granger cause *Banking Reforms*. A related concern is that the relationship between reforms in the banking sector and investment law may reflect a latent propensity on the part of governments to pursue neoliberal reforms more generally. If my findings are driven by a latent neoliberal bias of governments, reforms in the banking sector should be dynamically associated with other types of neoliberal reform. Granger causality tests reveal no relationship between *Banking Reforms* and *Trade Liberalization* or between *Banking Reforms* and *Short Term Capital Account Openness*.

The intuition behind granger causality is that temporal ordering implies a causal sequence (Engle and Granger, 1987). Therefore, if lags of  $x$  jointly explain  $y$  after controlling for an equal number of lags of  $y$ , we can say that  $x$  granger causes  $y$ . To test for this, I run block F tests on the lags of  $x$ . A statistically significant  $p$  value indicates the lags of  $x$  jointly improve model fit. Choosing the correct lag structure for Granger causality tests is somewhat controversial due to issues of sensitivity and over-fitting (Thornton and Batten, 1985). Power loss from long lags becomes particularly problematic in unbalanced panels. I err on the side of a shorter lag structure in order to increase model power and to include the largest group of countries possible given the limitations of the data. Following the convention of choosing lag structure through measures of model fit, I begin with one lag and then increase the number of lags sequentially until model fit decreases. Based on AIC and BIC scoring, a two- to five- lag model emerges as the best fit for the data.

First, I run analysis to test the temporal ordering of the relationship between *Bank Reforms* and *Equity Restrictions*. Table A18 shows Bank Reform granger causes *Equity Restrictions*, but *Equity Restrictions* does not granger cause *Bank Reforms*, as indicated by the statistically significant  $p$  values for models with *Equity Restrictions* as the dependent variable and the statistically insignificant  $p$  values for models with *Bank Reforms* as the dependent variable. Next, I consider whether *Bank Reforms*



Table A18: **Granger Causality - Banking Reform and Equity Restrictions**

<i>Equity Restrictions = Equity Restrictions<sub>t-1</sub> + Bank Reform<sub>t-1</sub></i>				
# lags	AIC	BIC	Test Statistic	<i>p</i> value
1	-758.672	-748.142	12.8	0.0006
2	-729.322	-708.458	6.22	0.0033
5	-747.582	-716.594	8.33	0.0396
<i>Bank Reform = Bank Reform<sub>t-1</sub> + Equity Restrictions<sub>t-1</sub></i>				
# lags	AIC	BIC	Test Statistic	<i>p</i> value
1	3713.333	3739.660	1.78	0.1884
2	3552.408	3588.920	2.98	0.2249
5	-747.5821	3440.955	5.34	0.1484

is really just a proxy for a latent propensity to pursue neoliberal reforms broadly defined. Table A19 demonstrates no evidence that *Bank Reforms* granger causes *Trade Liberalization*, as measured by applied tariff rates, or short-term *Capital Account Openness*, as measured by the widely used Chinn and Ito variable of capital account restrictions.

Table A19: **Granger Causality - Banking Reform, Tariff Levels, and KA Open**

<i>Tariff Levels = Tariff Levels<sub>t-1</sub> + Bank Reform<sub>t-1</sub></i>				
# lags	AIC	BIC	Test Statistic	<i>p</i> value
1	-419.699	-363.002	1.49	0.2259
2	-306.177	-249.681	1.64	0.2003
5	-198.900	-146.306	0.94	0.4642
<i>KA Open = KA Open<sub>t-1</sub> + Bank Reform<sub>t-1</sub></i>				
# lags	AIC	BIC	Test Statistic	<i>p</i> value
1	-1196.759	-1179.925	0.13	0.7213
2	-1132.683	-1104.885	1.23	0.2926
5	-1092.028	-1032.689	0.75	0.5884

## Capital Intensity, Financial Constraints, & Industry-Level Policy

Table A20: Capital Intensity Scores in 2005 By Industry

Manufacture of:	Agriculture (0.813)	Public Admin (0.395)
Chemicals (0.848)	Extraction (0.870)	Media (0.726)
Clothing (0.729)	Admin (0.395)	R & D (0.469)
Electronics (0.658)	Arts (0.679)	Real Estate (0.920)
Fabricated Metals (0.694)	Construction (0.593)	Telecom (0.853)
Food products (0.855)	Education (0.786)	Trade (0.537)
Publishing (0.659)	Electric (0.853)	Transport (0.600)
Metals (0.813)	Finance (0.694)	Water (0.395)
Other (0.682)	Health (0.768)	
Petrol (0.969)	Hospitality (0.642)	
Pharmaceuticals (0.848)	Information Tech (0.447)	
Plastics (0.782)	Legal Services (0.363)	
Transport Equipment (0.776)	Professional Services (0.379)	
Wood Products (0.760)	Other Services (0.503)	

Table A21: FDI Policy Changes, Banking Regulation & Capital Intensity

	Liberal	Lib Entry	Lib Treat	Lib Promote	Restrict
Capital Intensity	0.131 (0.35)	0.052 (0.32)	-0.287 (0.39)	0.859 (0.57)	1.608 (0.83)
Banking Reform	-0.132* (0.07)	-0.127 (0.07)	-0.253* (0.12)	-0.156* (0.08)	0.042 (0.06)
Interaction	0.027 (0.03)	0.037 (0.03)	0.076 (0.05)	-0.044 (0.05)	-0.051 (0.07)
Constant	-3.509*** (0.79)	-3.766*** (0.82)	-5.813*** (1.26)	-5.283*** (0.98)	-8.927*** (1.29)
aic	5383.362	4271.498	506.661	1442.553	2056.665
bic	5551.718	4439.854	625.468	1610.908	2214.982
N	52095	52095	35819	52095	48795

Year fixed effects not reported. Standard errors in parentheses.

\* p <.05, \*\* p <.01, \*\*\* p <.001

Table A22: FDI Policy Changes, Banking Sector Efficiency & Capital Intensity

	Liberal	Lib Entry	Lib Treat	Lib Promote	Restrict
Capital Intensity	0.478*** (0.07)	0.530*** (0.08)	0.438* (0.17)	0.360*** (0.11)	1.030*** (0.12)
Net Interest Margin	-0.143* (0.07)	-0.166* (0.07)	-0.052 (0.23)	0.027 (0.10)	-0.075 (0.12)
Interaction	0.167***	0.175***	0.249	0.200**	0.314***
Constant	-5.098*** (0.25)	-5.306*** (0.27)	-8.675*** (1.01)	-7.043*** (0.52)	-8.999*** (0.99)
aic	7414.929	5919.875	596.825	1933.742	2597.497
bic	7593.623	6098.569	723.558	2112.436	2765.661
N	89769	89769	63094	89769	84323

Year fixed effects not reported. Standard errors in parentheses.

\* p <.05, \*\* p <.01, \*\*\* p <.001

Table A23: FDI Policy Changes, Banking Regulations & Capital Intensity -  
**With Controls**

	Liberal	Lib Entry	Lib Treat	Lib Promote	Restrict
Capital Intensity	-0.061 (0.32)	-0.137 (0.36)	-0.189 (0.32)	0.842* (0.39)	1.060 (0.78)
Banking Reforms ( <i>t</i> -1)	-0.214** (0.07)	-0.210** (0.07)	-0.291** (0.10)	-0.217*** (0.07)	0.108 (0.09)
Interaction	0.048 (0.03)	0.063 (0.03)	0.044 (0.05)	-0.052 (0.04)	-0.034 (0.06)
Ln GDP per capita ( <i>t</i> -1)	0.246 (0.48)	0.318 (0.56)	-0.464 (0.66)	0.398 (0.42)	-0.173 (0.42)
Ln Inflation ( <i>t</i> -1)	-0.133 (0.14)	-0.081 (0.14)	-0.499** (0.16)	0.395 (0.30)	0.097 (0.28)
Ln Trade/GDP ( <i>t</i> -1)	-0.342* (0.15)	-0.259 (0.18)	-1.577*** (0.43)	-0.259 (0.21)	-0.898*** (0.25)
Ln Tertiary Enroll ( <i>t</i> -1)	0.259 (0.22)	0.100 (0.25)	2.190*** (0.64)	0.774 (0.44)	1.037* (0.46)
Democracy ( <i>t</i> -1)	0.081 (0.48)	0.204 (0.52)	-1.107* (0.49)	-0.210 (0.47)	-0.477 (0.51)
Crisis ( <i>t</i> -1)	0.561 (0.37)	0.602 (0.37)	0.000 (.)	0.000 (.)	0.174 (1.12)
Under IMF ( <i>t</i> -1)	0.800 (0.45)	0.871 (0.47)	2.239 (1.31)	0.386 (0.53)	1.040* (0.51)
Fixed Exchange Rate ( <i>t</i> -1)	-0.284 (0.25)	-0.329 (0.25)	1.230 (0.65)	-0.620 (0.36)	0.532 (0.32)
Constant	-3.856*** (0.83)	-4.101*** (0.85)	-7.388*** (2.13)	-2.596** (1.01)	-10.120*** (1.64)
aic	3584.324	2889.053	336.889	887.346	1137.889
bic	3803.984	3108.713	496.971	1068.403	1347.461
N	34492	34492	22117	27719	32302

Year fixed effects not reported. Standard errors in parentheses. \* p <.05, \*\* p <.01, \*\*\* p <.001

Table A24: FDI Policy Changes, Net Interest Margin & Capital Intensity -  
With Controls

	Liberal	Lib Entry	Lib Treat	Lib Promote	Restrict
Capital Intensity	0.500*** (0.08)	0.579*** (0.10)	0.213 (0.15)	0.339** (0.11)	0.725*** (0.14)
Net Interest Margin ( $t-1$ )	-0.272 (0.18)	-0.261 (0.20)	-0.800** (0.26)	-0.144 (0.20)	-0.206 (0.16)
Interaction	0.174** (0.05)	0.187** (0.07)	0.016 (0.10)	0.241* (0.10)	0.246** (0.09)
Ln GDP per capita ( $t-1$ )	0.132 (0.34)	0.123 (0.39)	-0.369 (0.66)	0.525 (0.32)	0.382 (0.41)
Ln Inflation ( $t-1$ )	-0.084 (0.16)	-0.061 (0.16)	-0.451* (0.22)	0.509 (0.33)	0.320 (0.30)
Ln Trade/GDP ( $t-1$ )	-0.207* (0.09)	-0.210* (0.09)	-0.429** (0.15)	-0.081 (0.11)	-0.192 (0.12)
Ln Tertiary Enroll ( $t-1$ )	0.280 (0.15)	0.231 (0.15)	1.219*** (0.36)	0.577 (0.45)	0.584 (0.38)
Democracy ( $t-1$ )	-0.195 (0.51)	-0.101 (0.56)	-1.065 (0.63)	-0.662 (0.38)	-0.120 (0.45)
Crisis ( $t-1$ )	0.486 (0.35)	0.574 (0.35)	0.000 (.)	0.000 (.)	-0.214 (1.10)
Under IMF ( $t-1$ )	0.977* (0.45)	0.852 (0.47)	2.783 (1.43)	1.100 (0.59)	1.172* (0.49)
Fixed Exchange Rate ( $t-1$ )	-0.359 (0.23)	-0.310 (0.24)	0.802 (0.67)	-0.929** (0.36)	0.151 (0.35)
Constant	-5.934*** (0.42)	-6.050*** (0.45)	-10.123*** (1.91)	-5.698*** (0.90)	-8.961*** (0.85)
aic	4647.998	3767.075	390.798	1128.135	1497.327
bic	4877.807	3996.885	558.724	1336.723	1716.818
N	50962	50962	32738	43967	48032

Year fixed effects not reported. Standard errors in parentheses. \* p <.05, \*\* p <.01, \*\*\* p <.001

## Financing Constraints, Domestic Political Institutions, and FDI Policy

Table A25: Equity Restrictions, Bank Reform & Domestic Political Institutions; controls reported

Entry Restrictions <sub>t-1</sub>	0.538*** (0.00)	0.541*** (0.00)	0.478*** (0.00)	0.473*** (0.00)
Bank Reform <sub>t-1</sub>	-0.113 (0.10)	-0.104 (0.13)	-0.197 (0.16)	-0.237* (0.02)
Executive Partisanship <sub>t-1</sub>	-0.028 (0.40)			
Legislative Partisanship <sub>t-1</sub>		-0.007 (0.87)		
Corruption <sub>t-1</sub>			-0.007 (0.86)	
Bureaucratic Quality <sub>t-1</sub>				-0.062 (0.22)
Interaction	0.011 (0.70)	0.000 (1.00)	0.039 (0.19)	0.074* (0.03)
GDP per capita <sub>t-1</sub>	0.146 (0.66)	-0.001 (1.00)	-0.439 (0.24)	-0.463 (0.21)
Inflation <sub>t-1</sub>	0.006 (0.78)	0.002 (0.92)	-0.000 (1.00)	-0.008 (0.68)
Trade <sub>t-1</sub>	0.129 (0.59)	0.012 (0.96)	-0.037 (0.81)	0.064 (0.66)
Human Capital <sub>t-1</sub>	-0.189 (0.51)	-0.113 (0.68)	-0.157 (0.38)	-0.232 (0.15)
Crisis <sub>t-1</sub>	0.003 (0.97)	0.005 (0.94)	-0.039 (0.53)	-0.029 (0.63)
Under IMF <sub>t-1</sub>	0.068 (0.27)	0.013 (0.85)	0.048 (0.46)	0.051 (0.42)
Domestic Credit <sub>t-1</sub>	0.061 (0.07)	0.113* (0.03)	0.079 (0.21)	0.065 (0.30)
Fixed Exchange Rate	0.054 (0.19)	0.051 (0.21)	0.062 (0.13)	0.070 (0.10)
Regional Restriction <sub>t-1</sub>	0.090* (0.04)	0.066 (0.13)	-0.020 (0.67)	-0.027 (0.58)
Constant	-0.090 (0.58)	-0.099 (0.55)	-0.099 (0.53)	0.032 (0.81)
R <sup>2</sup>	0.417	0.409	0.332	0.337
bic	1277.000	1320.920	1201.543	1194.886
N	897	941	895	895

*p* values in parentheses. \* *p* <.05, \*\* *p* <.01, \*\*\* *p* <.001

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