

# **Bilateral Investment Treaties and International Integration**

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## ***Abstract:***

This paper studies how bilateral investment treaties (BITs) affect the trade integration between partner countries. While the overall results from the full sample show that BIT signing is associated with an increase in overall imports that is generally smaller than the effect of WTO membership, BIT signing is found to have a considerable effect on capital goods imports and on imports of differentiated goods that exceeds the liberalization effects of WTO membership. In addition, BITs effects are found to be especially strong for low income countries, who are the most likely to benefit from the strengthening of investment protections. Thus, the results suggest BITs foster international integration through channels that are mediated by multinational firms.

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## *Introduction*

In contrast with trade liberalization, which has progressed largely in concert, as coordinated by the institutional structures of the GATT and now the WTO, investment liberalization has made few advances, and has been mostly piecemeal in form. Since the late 1990's attempt by OECD countries to form a multilateral investment analogue to the WTO, the Multilateral Agreement on Investment, quickly withered some issues related to international investment have been dealt with primarily through the TRIMS, the GATS, or as part of regional trade agreements. In this context, Bilateral Investment Treaties (BITs) provide an alternative mechanism which allows host countries to provide protections to firms undertaking foreign investment.<sup>1</sup>

While the first bilateral investment treaties were signed in 1959, the pace of BIT signing has accelerated: in fact, more than two-thirds of the bilateral investment agreements have been signed since 1995, as an increasing range of countries signed agreements. Due to the apparent popularity of bilateral investment treaties, it is surprising to learn that previous research on the effects of these treaties have come to mixed conclusions about the connection between BIT signing the volume of foreign investment attracted by host countries.<sup>2</sup>

Since the empirical link between BIT signing and foreign direct investment (FDI) inflows remains uncertain, one might ask whether the signing of BIT is purely

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<sup>1</sup> Most BITs place some nationality restrictions on those firms which can benefit. For example, when Germany signs a bilateral investment treaty with a host country, the affiliate of a U.S. firm located in Germany may or may not benefit from the extra protection conferred by the BIT.

<sup>2</sup> Hallward-Driemeier's (2003) analysis of BITs on FDI in a large set of countries uncovers no effect of BITs on FDI in host countries, while Egger and Merlo (2007) find a large effect of BITs on FDI between OECD countries and a set of OECD and Eastern European FDI hosts.

ceremonial, or if efforts to enact FDI-enhancing BITs are doomed to failure.<sup>3</sup> This would certainly be the case, if FDI flows were the only potential benefit to be gained from BIT signing. However, in confining analysis to foreign investment flows alone, previous work on this topic may have been too limited. First, BITs may facilitate international integration on other dimensions. Second, while foreign direct investment is also measured by capital flows, or investments in tangible capital, the value of foreign investment activity is often believed to arise from the flows in intangible assets, which often go unmeasured or poorly measured at best. In fact, a country may nonetheless benefit from signing BIT treaties if the BIT treaty helps them to intensify international connections, such as those related to the expansion of international trade, or to offer products that are higher on the product ladder.

For these reasons, the prime focus of this paper is on the relationship between bilateral investment treaty signing and levels of international trade. Such a focus provides three benefits. First, by concentrating on trade, rather than foreign investment, it is possible to include a much wider range of countries. In estimating the response of foreign investment to policy, it is well-known that bilateral foreign investment is characterized by a large number of zeros. By looking at trade, rather than foreign investment, it is possible to increase the sample of countries, and to ask whether the product trade that is most associated with multinational activity rises after BITs are signed. To implement this point, the empirical analysis will look not only at bilateral import levels, but also at bilateral imports of capital goods, and bilateral imports of differentiated products.

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<sup>3</sup> For example, it might be the case that pressure from existing foreign investors motivates countries to sign BITs. If so, the BITs might help current investors without bringing new investment in.

A second benefit of looking at the trade effects of bilateral investment treaties is that one can turn to the standard gravity model of trade and thus compare the economic effects of BITs with the policy effects of other trade institutions such as the WTO, regional trade agreements or generalized system of preferences (GSP).

Based on trade flows between 1975 and 2000 the results suggest that bilateral investment treaties have the strongest effects on trade mediated by multinational firms. In fact, BIT presence has a stronger effect on capital goods imports and on trade in differentiated goods is stronger than their effect on foreign direct investment. Thus, it appears that BIT treaties do more to foster international integration than has been previously realized. In addition, while the results in this paper only indirectly imply that BITs stimulate activity by multinational firms, the evidence on capital goods imports suggest that BIT treaties may indeed foster increased multinational technology transfer.<sup>4</sup>

Since other work on international institutions, such as Subramanian and Wei (2007) uncover differential effects of institutions on trade flows, I also study whether BITs have differential effects on low income versus high income countries. Here the analysis indicates that the effect of BIT treaties is especially strong for imports of capital goods and differentiated goods by lower income countries. This evidence suggests that the activities of multinational firms are indeed enhanced by the provision of host country investment protections. Such a finding is also reminiscent of recent findings by Nunn (2007) and Levchenko (2006) both of whom find a link between the nature of traded

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<sup>4</sup> Lee (1995) and Eaton and Kortum's (2001) work suggests that capital goods imports are associated with increased higher levels of economic growth.

products and institutional quality. Further, the results suggest that institutional quality influences trade through its effects on the behavior of multinational firms.

## ***2. Data and Background***

### ***Background on Bilateral Investment Treaties***

Surges in foreign investment in the late 1990's and again in recent years provide an apparent motivation for countries to use bilateral investment treaties as a means of attracting international investors. For example, foreign direct investment between 1993 and 2003 contributed 10.8 percent of gross capital formation in developing countries.<sup>5</sup>

Surprisingly, many analyses exploring the economic effects of BIT signing have come to the rather discouraging conclusion that BIT treaties are not associated with large increases in foreign investment. Hallward-Driemeir (2003) concludes for example, that BIT treaty signing only appears to have elevated foreign direct investment (FDI) if one examines the share of a source country's FDI attracted by a host. Further, she finds that such effects were only apparent five years after a treaty was signed. Hallward-Driemeir finds that other measures, such as FDI levels or FDI relative to GDP, were, if anything negatively correlated with bilateral investment treaties. Tobin and Rose-Ackerman also come to the same disappointing conclusion that BITs do not appear to increase foreign

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<sup>5</sup> Even if foreign direct investment is done by acquisition, payments made by foreign acquirers may potentially increase the financial resources of developing country hosts, thus freeing domestic resources that may finance domestic investments in the host economy.

investment flows, or to improve the characteristics of the local investment environment in signatory countries.<sup>6</sup>

In contrast, when Egger and Pfaffermayr (2004) look at OECD investment or Salacuse and Sullivan (2004) and Neumayer and Spess (2004) work larger sets of countries, they do find a positive association between the number of BITs signed and the foreign investment received by a country.<sup>7</sup> Neumayer and Spess (2004) also discover that the apparent boost provided by a BIT is bigger in countries that were characterized by greater risk, and hence likely to benefit more from the decision to sign a bilateral investment treaty. Finally, some of the largest effects are uncovered when Egger and Merlo (2007) adopt dynamic panel estimation techniques and focus on OECD data covering OECD and Eastern European hosts.

The results variability in the previous literature on bilateral investment treaties leaves one to question whether BIT signing is in the best interest of developing countries. Since bilateral investment treaties effectively require developing countries to relinquish some of their property rights to foreign investors, one may reasonably ask whether the countries receive an adequate level of benefits in return for their participation.

To be certain, the recent surge in the signing of bilateral investment treaties represents a form of investment liberalization since the expansion of investment protections is likely to facilitate increased globalization through international investment. What is notable is the contrast between this method of furthering international economic

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<sup>6</sup> In a similar vein, Blonigen and Davies (2004) note that the signing of bilateral tax treaties by OECD countries did not appear to spur investment, and according to some of their specifications, may have even reduced investment.

<sup>7</sup> While Egger and Pfaffermayr (2004) find a positive though insignificant effect related to BIT signing, they find a statistically significant effect for treaties that go into force.

integration with earlier approaches for trade liberalization which were largely based on the efforts of multilateral negotiations.

While there have been calls for multilateral negotiations aimed at the concerns of international investors, multilateral efforts to liberalize the international investment environment have not borne fruit. One view that has inhibited progress towards the creation of a true Multilateral Investment Agreement has been the view that signatories to such an agreement would provide foreign firms a host of economic benefits, while extracting no new concessions and imposing no new responsibilities on the beneficiary firms.<sup>8</sup> As a result, while the European Union was successful in adding discussion about such an investment agreement to the Doha Round of WTO talks, many countries view such agreements with suspicion. Consequently, there is no multilateral protection of investment which is similar in scope to the WTO protections provided to trade in goods and services and the prospects for a multilateral solution are believed to be slim. In this policy void, bilateral investment treaties provide a piecemeal set of investment protections which augment investment provisions that are provided through some regional agreements.<sup>9</sup>

### *Data*

The key variable of interest is whether a country pair has signed a bilateral investment treaty. For the years, 1959-1999, the list of bilateral treaties is contained in

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<sup>8</sup> For example, see the comments of Das (2003).

<sup>9</sup> A more limited set of WTO measures protect some forms of investments through the Trade Related Investment Measures (TRIMS) and the General Agreement on Trade in Services (GATS).

UNCTAD (2000), while later the UNCTAD website was used to learn about treaties signed or ratified after 1999.

Bilateral investment treaties generally contain provisions that touch on a common set of investment issues. After defining investment, BITs typically discuss the application of national and most-favored nation treatment to foreign investments. They may also include measures related to transparency of national laws, performance requirements, or the movement of foreign personnel. However, while BITs usually address a common set of topics, the content of BIT treaties often differs significantly.<sup>10</sup> Nonetheless, the element of BIT treaties that may be of greatest interest to foreign investors is a country's agreement regarding its obligations if a dispute arises in the future. While other domestic reforms may generally coincide with the interests of foreign investors, it may be difficult for host countries to persuade investors that their domestic reforms will be implemented as promised. In particular, investors may be especially concerned about the permanence or strength of domestic reforms that are implemented in countries that have a higher level of perceived risk or endemic corruption. The dispute-settlement procedures contained in bilateral investment treaties may alleviate these concerns, since the dispute settlement provisions codify the forum and treatment of any future disputes. As a result, bilateral investment treaties are capable of providing a commitment mechanism that helps to reduce the amount of uncertainty foreign investors believe themselves to face in a particular host country.<sup>11</sup>

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<sup>10</sup> United Nations (1998) provides a detailed description of the measures included in BITs and the variation across BITs. It also notes that the content of BIT treaties tends to vary even for treaties signed by a particular country with different partners.

<sup>11</sup> Vandevelde (1998) discusses the use of BITs as a commitment mechanism.



While it might be desirable to classify bilateral investment treaties with a continuous variable that represented the range of investor benefits conferred by the treaty, or by a set of indicator variables for the different set of protections given by different treaties, such a taxonomy would be difficult to implement. For this reason BITs are instead represented by two categorical variables. The first is an indicator for the signing of a BIT treaty between a country pair, while the second is an indicator variable for BIT agreements that have been ratified by both country partners.

The remaining data for the analysis were collected from familiar sources. Foreign investment stocks by country were collected from the United Nations' *World Investment Report*. Bilateral trade data on imports for 1975-2000 were collected from the NBER-United Nations Trade Data.<sup>12</sup> While these data are collected at the SITC4, rev.2 level of disaggregation, the original data are used to form three annual aggregates which are used as dependent variables.

The first dependent variable simply reports total imports for each bilateral country pair. This variable, as all the trade variables captures country A imports from country B, while an analogous variable captures country B imports from country A. The second dependent variable reflects the total imports of capital goods between countries in a bilateral pair. For purposes of implementation, capital goods were defined as products that are electrical or non-electrical machinery, office equipment or optical and measuring equipment.<sup>13</sup> The third dependent variable, which is total import of differentiated goods

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<sup>12</sup> Robert Feenstra's web page: <http://cid.econ.ucdavis.edu/data/undata/undata.html>, contains the trade data. Documentation is provided by Feenstra, Lipsey, Deng, Ma, Mo (2005).

<sup>13</sup> For the analysis, all 4-digit SITC goods that began with the digits 72, 73, 74, 75, 77, or 87 were classified as capital goods.

by the bilateral country pair is constructed using Rauch's taxonomy which splits products into three categories: homogenous, reference priced and differentiated. Since the aggregation scheme does not affect the results, all the reported results in the tables are based on trade aggregates that were formed using Rauch's "conservative" definition of differentiated products.

A number of the policy variables related to membership in the WTO or regional trade agreements were collected from Rose's data on his web site in support of Rose (2004). Rose's taxonomy, which placed countries into low, middle and high income categories was also used to classify countries in this paper as high income or not.

### ***Estimation Framework and Results***

The primary question in this paper is whether country signing of bilateral investment treaties effects a host country's trade integration with the world economy, and whether the presence of Bilateral investment treaties differentially effects lower income host locations that may have poor institutional quality, or trade-related amenities.

While the knowledge-capital model in the style of Carr, Markusen and Maskus (2001) is the typical point of departure for projects studying foreign investment, this paper turns to a gravity model of trade. There are two reasons for this choice. First, since the primary dependent variables are measures of country trade, the use of the gravity model facilitates comparison with the predominant approach to examining international trade. Second, this approach allows one to compare the new variables of

this analysis, which describe the presence of number of bilateral investment treaties, with the impacts of other trade policies, including WTO membership, the generalized system of preferences (GSP), or membership in a regional trade agreement.

### ***Results***

The basic gravity regression in table 1 looks at bilateral imports for the years 1975-2000. The gravity regressors are very similar to those for Subramanian and Wei (2007), including the differential and larger effect of WTO membership on imports by developed country importers. Notably, the indicator for bilateral investment treaties shows that BIT signing is associated with an increase in imports, though the magnitude of the effect is smaller than is the effect of WTO membership. When the analysis uses capital goods imports or differentiated goods imports as the dependent variable, the magnitude of the bilateral investment treaty effect changes considerably. The coefficients suggest that bilateral investment treaties increase capital goods imports by an amount that is larger than does WTO membership, while the effect of bilateral investment treaties on differentiated goods imports is comparable in strength to that of WTO membership. As a result, it appears that BITs foster international integration, and the fact that the areas of largest effect are often mediated by multinational firms suggest that bilateral investment treaties may intensify multinational firm activities in host countries.

While Table 1 assumes that the effect of BIT treaty signing is uniform for all countries, the differential effect of the WTO by country income suggests that assuming a

common effect may not be correct. And, if Bilateral Investment Treaties do facilitate multinational firm operation, then trade mediated by multinationals may be especially enhanced in countries that previously had weaker protections for foreign investors. For this reason, Table 2 allows the coefficient on BIT treaties to differ between developed and developing countries. The large and statistically distinct BIT coefficients indicate that low income country trade responds much more strongly to the provision of BIT treaties than does the trade of high-income countries, and again, the effects are strongest for imports of capital goods or differentiated products.

The regressions in Table 2 add a variable that is not common in gravity regression analyses of imports – a variable that indicates whether the exporting country in the bilateral trade relationship is a member of WTO.<sup>14</sup> For traditional trade, this variable should not matter, and in fact, the effect of exporter WTO status has no influence on total bilateral imports. In contrast, exporter WTO status has a strong positive effect on bilateral imports of capital goods and differentiated goods. This result provides further support for the idea that capital goods or differentiated goods trade is mediated by multinationals. This is because a multinational firm placing capital goods in a host country, is most likely to benefit from those exports if it can later import final goods that have been produced in the host country using their proprietary capital inputs.

Since the coefficients for the WTO and BIT policy variables vary with importer income, Table 3 relaxes the assumption of commonality on any trade determinants by introducing separate variables for high and low income importers on all variables. Most

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<sup>14</sup> The inclusion of this new variable does not influence the estimated magnitudes of the BIT variables, WTO variables or other coefficients of interest.

of the qualitative results remain similar to those before. The one interesting distinction that emerges is that the effect of RTA membership is especially strong for low income countries, and it especially strong for imports of capital goods or differentiated products. This suggests that the types of trade that are related to MNC activity benefit particularly from RTA arrangements.

### *Robustness Checks*

To evaluate the strength of the results a number of alternative specifications were tested. To test for the importance of specification, for example, Table 4, uses panel fixed or random effects to control for importer-exporter dyad effects that do not change over time. It also shows that the removal of the exporter WTO coefficient has no effect on the policy results.

The second set of robustness checks in Tables 5 and 6 seek to compare the effects of BITs on FDI and on trade. To maximize the size of the sample, I turn to aggregate stocks of FDI by country over the years 1975-2000. These are compared to country aggregate imports over the same time interval.<sup>15</sup> Since the comparison is no aggregate import, rather than bilateral import, the new BIT variable is the number of BITs signed by the country. There are three primary messages in tables 5 and 6. First, the relationship between BITs signed and FDI and the relationship between BITs signed and

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<sup>15</sup> The sample sizes are still different since a number of countries have no reported FDI, while trade is reported for a larger sample. However, if the import regressions reported in 5 and 6 are limited to country-year observations that have non-missing FDI observations, there is almost no change in the reported coefficients.

aggregate imports are almost identical in magnitude. Second, the effect of BITs on capital goods import is larger than it is on any other trade or FDI component. And third, the effect of BITs is again larger for low income countries than it is for high income countries. Noticeably, the effects of BIT numbers are smaller in the aggregate regressions than is the coefficient for WTO membership. However, this is to be expected, as WTO membership facilitates integration with a much larger number of countries.

## *Conclusions*

This paper studies how bilateral investment treaties affect the trade integration of partner countries. While the overall results from the full sample show that BIT signing is associated with an increase in overall imports that is generally smaller than the import stimulating effects of WTO membership, BIT signing is found to have a considerable effect on capital goods imports and on imports of differentiated goods. Thus, the results suggest that BITs foster trade that is mediated by multinational firms.

These results suggest that the previous question of BIT efficacy, which has examined how BITs are related to foreign direct investment stocks or flows, has missed activity conducted via multinational firms. This is because an expanded overseas presence by multinational firms does not necessarily imply that one will observe high value foreign investments in host countries. This is especially true since the multinational firm's primary investment may take an intangible form rather than being manifested in the purchase of bricks and mortar. The fact that BITs are associated with higher levels of capital goods and differentiated goods import is notable, since if BITs encourage high value trade, their presence may bring the benefits such as enhanced rates of country growth that are hoped for by signatory countries.<sup>16</sup>

Another finding of from this analysis is that it is important to distinguish the effects of BITs by country income. In particular, the effects of BIT signing are much more pronounced for low income countries than they are for high income countries. This echoes findings from Wheeler and Mody (1992), and Blonigen and Wang (2005) and

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<sup>16</sup> Both Lee (1995) and Eaton and Kortum (2001) highlight the links between capital goods import and country growth.

Subramanian and Wei (2007), all of who highlight that the assumption of similar responses by developed and developing countries is problematic. In addition, these differential effects contribute to the work on institutions and trade structure, such as that of Nunn (2007) and Levchenko (2006), in that it shows that investment protections are associated with an increase in the quality of trade, and that the effects are most noticeable in the set of countries that have weaker institutions and infrastructure to support trade.

In general, the results suggest that trade creation fostered by BIT signing appears to be conducted under the auspices of multinational firms. This impression is further bolstered by the fact that the differential effect of policy noted for BITs is also seen in the effects of regional trade agreements. In future work, it would be worthwhile to seek further evidence of BIT-associated increases in the quality of trade or investment. This could be studied by tracking evidence on FDI-related royalty payments, wage payments by multinationals in countries, and other evidence related to technology transfer.



**Table 1: Bilateral Investment Treaties and Bilateral Country Imports, 1975-2000.**

	ln(Bilateral Import)	ln(Bilateral Capital Goods Import)	ln(Bilateral Differentiated Goods Import)
BIT Treaty w/ Trade Partner	.114 <sup>a</sup> (.023)	1.054 <sup>a</sup> (.050)	.641 <sup>a</sup> (.048)
Importer WTO Member	.619 <sup>a</sup> (.037)	.401 <sup>a</sup> (.078)	.642 <sup>a</sup> (.076)
Exporter WTO Member	.030 (.025)	.353 <sup>a</sup> (.054)	.210 <sup>a</sup> (.052)
Regional Trade Agreement	.644 <sup>a</sup> (.052)	.755 <sup>a</sup> (.110)	.985 <sup>a</sup> (.107)
GSP	.086 <sup>a</sup> (.021)	.046 <sup>a</sup> (.045)	.461 <sup>a</sup> (.044)
ln(Dist)	-1.341 <sup>a</sup> (.010)	-2.404 <sup>a</sup> (.022)	-2.289 <sup>a</sup> (.021)
ln(rgdp)	-.021 <sup>a</sup> (.010)	-.129 <sup>a</sup> (.022)	-.140 <sup>a</sup> (.021)
ln(rgdp/pc)	.283 <sup>a</sup> (.018)	.938 <sup>a</sup> (.037)	.863 <sup>a</sup> (.036)
Importer Dummies	Yes	Yes	Yes
Exporter Dummies	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes
Adj-R <sup>2</sup>	.70	.663	.61
Observations	96,228	96,228	96,228

**Table 2: Bilateral Investment Treaties and Bilateral Country Imports, 1975-2000.  
Differential effects by Country Income.**

	Dependent Variable		
	ln(Bilateral Import)	ln(Bilateral Capital Goods Import)	ln(Bilateral Differentiated Goods Import)
BIT Treaty w/ Trade Partner*High Income Importer	-.047 <sup>c</sup> (.026)	0.841 <sup>a</sup> (.055)	.360 <sup>a</sup> (.053)
BIT Treaty w/ Trade Partner*Low Income Importer	.685 <sup>a</sup> (.047)	1.813 <sup>a</sup> (.099)	1.632 <sup>a</sup> (.097)
F(High BITs = Low BITs)	200.76 [.004]	77.94 [.000]	140.09 [.000]
Importer High Income WTO Member	.369 <sup>a</sup> (.086)	.147 (.183)	-.247 <sup>a</sup> (.178)
Importer Low Income WTO Member	.655 <sup>a</sup> (.040)	.425 <sup>a</sup> (.085)	.804 <sup>a</sup> (.083)
Exporter WTO Member	.028 (.025)	.351 <sup>a</sup> (.054)	.205 <sup>a</sup> (.052)
Regional Trade Agreement	.621 <sup>a</sup> (.052)	.724 <sup>a</sup> (.110)	.947 <sup>a</sup> (.107)
GSP	.082 <sup>a</sup> (.021)	.043 (.044)	.455 <sup>a</sup> (.044)
ln(Dist)	-1.338 <sup>a</sup> (.010)	-2.401 <sup>a</sup> (.022)	-2.286 <sup>a</sup> (.021)
ln(rgdp)	-.020 <sup>a</sup> (.010)	-.128 <sup>a</sup> (.022)	-.137 <sup>a</sup> (.021)
ln(rgdp/pc)	.294 <sup>a</sup> (.018)	.952 <sup>a</sup> (.037)	.888 <sup>a</sup> (.036)
Importer Dummies	Yes	Yes	Yes
Exporter Dummies	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes
Adj-R <sup>2</sup>	.70	.663	.61
Observations	96,220	96,220	96,220

**Table 3: BITs and Country Imports – Robustness Checks – Differential effects by country income.**

	Dependent Variable		
	ln(Bilateral Import)	ln(Bilateral Capital Goods Import)	ln(Bilateral Differentiated Goods Import)
BIT Treaty w/ Trade Partner*High Income Importer	-.029 (.026)	0.845 <sup>a</sup> (.055)	.397 <sup>a</sup> (.054)
BIT Treaty w/ Trade Partner*Low Income Importer	.560 <sup>a</sup> (.047)	1.608 <sup>a</sup> (.100)	1.359 <sup>a</sup> (.098)
Importer High Income WTO Member	.378 <sup>a</sup> (.086)	.081 (.182)	-.228 (.178)
Importer Low Income WTO Member	.658 <sup>a</sup> (.040)	.543 <sup>a</sup> (.085)	.816 <sup>a</sup> (.083)
Exporter WTO Member* High Income Importer	.059 <sup>b</sup> (.027)	.488 <sup>a</sup> (.058)	.322 <sup>a</sup> (.056)
Exporter WTO Member* Low Income Importer	-.041 (.029)	.097 (.062)	-.034 (.061)
Regional Trade Agreement* High Income Importer	.077 (.061)	-.558 <sup>a</sup> (.130)	.347 <sup>a</sup> (.127)
Regional Trade Agreement* Low Income Importer	1.950 <sup>a</sup> (.094)	3.915 <sup>a</sup> (.200)	2.531 <sup>a</sup> (.196)
GSP	.067 <sup>a</sup> (.021)	.047 (.045)	.396 <sup>a</sup> (.044)
ln(Dist) * High Income Importer	-1.241 <sup>a</sup> (.015)	-2.044 <sup>a</sup> (.031)	-1.950 <sup>a</sup> (.031)
ln(Dist) * Low Income Importer	-1.410 <sup>a</sup> (.014)	-2.642 <sup>a</sup> (.030)	-2.562 <sup>a</sup> (.029)
ln(rgdp) * High Income Importer	-.040 <sup>a</sup> (.011)	-.147 <sup>a</sup> (.022)	-.168 <sup>a</sup> (.022)
ln(rgdp) * Low Income Importer	.015 (.011)	-.061 <sup>a</sup> (.024)	-.061 <sup>a</sup> (.023)
ln(rgdp/pc) * High Income Importer	.285 <sup>a</sup> (.018)	1.039 <sup>a</sup> (.039)	.806 <sup>a</sup> (.038)
ln(rgdp/pc) * Low Income Importer	.314 <sup>a</sup> (.019)	.826 <sup>a</sup> (.041)	.967 <sup>a</sup> (.040)
Importer Country Dummies	Yes	Yes	Yes
Exporter Country Dummies	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes
Adj-R <sup>2</sup>	.70	.67	.61
Observations	96,220	96,220	96,220

<b>Table 4: Robustness Checks – Alternative Specifications.</b>				
Dep Variable: <i>Bilateral Imports</i>	BIT Treaty* High Income Importer	BIT Treaty* Low Income Importer	WTO Member* High Income Importer	WTO Member* Low Income Importer
<b>Importer-Exporter Dyad RE**</b>				
ln(Total)	-.162 <sup>a</sup> (.026)	.673 <sup>a</sup> (.040)	.356 <sup>a</sup> (.064)	.727 <sup>a</sup> (.030)
ln(Capital Goods)	.688 <sup>a</sup> (.064)	1.725 <sup>a</sup> (.099)	-.264 <sup>c</sup> (.064)	.504 <sup>a</sup> (.075)
ln(Differentiated Goods)	.011 (.013)	.129 <sup>a</sup> (.021)	.787 <sup>a</sup> (.036)	.097 <sup>a</sup> (.017)
<b>Importer-Exporter Dyad FE***</b>				
ln(Total)	-.173 <sup>a</sup> (.027)	.665 <sup>a</sup> (.041)	.353 <sup>a</sup> (.063)	.736 <sup>a</sup> (.030)
ln(Capital Goods)	.608 <sup>a</sup> (.067)	1.626 <sup>a</sup> (.103)	-.353 <sup>b</sup> (.160)	.557 <sup>a</sup> (.077)
ln(Differentiated Goods)	.269 (.064)	1.227 <sup>a</sup> (.098)	-.248 (.036)	.768 <sup>a</sup> (.073)
<b>Importer &amp; Exporter variables, no exporter WTO variables</b>				
ln(Total)	-.047 <sup>c</sup> (.026)	.685 <sup>a</sup> (.047)	.368 <sup>a</sup> (.086)	.654 <sup>a</sup> (.040)
ln(Capital Goods)	.837 <sup>a</sup> (.055)	1.813 <sup>a</sup> (.099)	.136 <sup>b</sup> (.183)	.423 <sup>a</sup> (.085)
ln(Differentiated Goods)	.358 <sup>a</sup> (.054)	1.632 <sup>a</sup> (.097)	-.253 (.178)	.803 <sup>a</sup> (.083)

\*\* Includes full set of importer and exporter fixed effects. \*\*\* Due to FE estimation, no importer or exporter fixed effects.

<b>Table 5: Robustness Checks – Aggregate Host FDI or Import.</b>				
	Dependent Variable			
	ln(FDI)	ln(Total Import Value)	ln(Capital Goods Import)	ln(differentiated Goods Import)
Number of BITs* High Income Importer	.026 <sup>a</sup> (.003)	.021 <sup>a</sup> (.001)	.073 <sup>a</sup> (.007)	.026 <sup>a</sup> (.002)
WTO Member* High Income Importer	.477 <sup>a</sup> (.210)	.640 <sup>a</sup> (.122)	1.092 <sup>a</sup> (.603)	.618 <sup>a</sup> (.160)
WTO Member* Low Income Importer	.386 <sup>a</sup> (.070)	.157 <sup>a</sup> (.039)	1.391 <sup>a</sup> (.190)	.132 <sup>a</sup> (.050)
Importer Dummies	Yes	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes	Yes
Adj-R <sup>2</sup>	.92	.95	.59	.63
Observations	2,656	3,747	3,747	3,747

<b>Table 6: Robustness Checks – Aggregate Host FDI or Import.</b>				
	Dependent Variable			
	ln(FDI)	ln(Total Import Value)	ln(Capital Goods Import)	ln(differentiated Goods Import)
Number of BITs* High Income Importer	.020 <sup>a</sup> (.004)	.012 <sup>a</sup> (.002)	.049 <sup>a</sup> (.010)	.019 <sup>a</sup> (.003)
Number of BITs* Low Income Importer	.032 <sup>a</sup> (.003)	.026 <sup>a</sup> (.002)	.087 <sup>a</sup> (.008)	.030 <sup>a</sup> (.002)
F(High BITs = Low BITs)	8.14 [.004]	38.39 [.000]	11.32 [.000]	15.45 [.000]
WTO Member* High Income Importer	.524 <sup>a</sup> (.211)	.699 <sup>a</sup> (.122)	1.250 <sup>a</sup> (.604)	.667 <sup>a</sup> (.160)
WTO Member* Low Income Importer	.366 <sup>a</sup> (.071)	.129 <sup>a</sup> (.039)	1.315 <sup>a</sup> (.192)	.109 <sup>a</sup> (.051)
Importer Dummies	Yes	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes	Yes
Adj-R <sup>2</sup>	.92	.95	.59	.63
Observations	2,656	3,747	3,747	3,747

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