

**The effects of political policies in the United  
States and the relation to foreign direct  
investment**

by

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B.S., University of Nebraska-Lincoln, 2020

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A THESIS

Submitted in partial fulfillment of the requirements

for the degree

**MASTER OF AGRIBUSINESS**

Department of Agricultural Economics

College of Agriculture

**KANSAS STATE UNIVERSITY**

Manhattan, Kansas

2025

Approved by:

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## ABSTRACT

Foreign Direct Investments (FDI) play a significant role in shaping economic growth. This thesis explores how the political landscape of the United States impacts Foreign Direct Investments. Specifically, how liberal or conservative leaning policies influence the increasing or decreasing of Net FDI inflows. This paper explores the complex relationship between FDI inflows, key macroeconomic factors, a political leaning index, and the effect of the variables on net FDI inflows into the United States.

Using a linear regression model, this study reports on the analysis FDI data over the course of 23 years from 2000 to 2022. The economic indicators selected to influence FDI include inflation, exchange rates, GDP per capita, lagged net FDI inflows, and a political leaning index—specific to the United States economy. Results indicate that macroeconomic factors of exchange rates, inflation, and GDP per capita, have a statistically significant influence on net FDI inflows, whereas the political policy index indicates no statistical or economic correlation. Contrary to the initial hypothesis, the findings suggest that macroeconomic conditions, shaped by policies implemented by policy makers in power at that time play a more critical role in determining FDI trends than overt liberal/conservative policies.

The results suggest that historical business strategy was better of prioritizing economic indicators over sharp political disparities when evaluating FDI opportunities. For policymakers, promoting a stable economic environment may be more effective in attracting foreign investment than focusing solely on political policies. Future research should explore sector-specific influences and international comparisons to deepen the understanding of FDI factors.

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## ACKNOWLEDGMENTS

I would like to acknowledge Dr. Joe Parcell for his commitment, patience, and confidence in me to complete my degree. I also would like to thank the Masters of Agribusiness Program staff and professors for your time and support in making this program successful. A great thank you to Janelle Perryman and Mary Bowen for everything they do to help the students and faculty make this program so great.

I would also like to thank all my classmates in the class of 2025 who I have built lifelong friendships with. Each one of you made an impact on my life in one way or another and I appreciate all the times we get to spend together out in Manhattan.

A huge thank you to my parents, Brett and Penny, siblings, Lyndsay, Tyler, and Kelsey, friends and colleagues who gave me the encouragement to get this master's degree and were always there for advice and wisdom to rely on. I could not have done it without your support.

Finally, I would like to give my sincerest gratitude to my wife, Emily. Her support, understanding, encouragement, and confidence were always present when I needed it most. She had helped me through the most challenging and difficult times in the duration of this program and owe her the world for it.

## CHAPTER I: INTRODUCTION

### 1.1 Foreign Direct Investment Defined

By the 1990s, capital inflows and outflows began to rise exponentially between countries as companies expanded their business interests abroad. The capital flows of business investment across borders are referred to as Foreign Direct Investment (FDI). FDI is unlike the investment practice of investing in stock portfolios or having minor equity roles (Alfaro and Chauvin 2017). Between countries, capital flows expand production of goods and services outside the home country. Goods such as appliances, steel, electronics, cars, are the most often thought of when studying FDI but also FDI flows are related to food production and food manufacturing.

FDI inflows increase productivity in the country receiving capital inflows while FDI outflows decrease productivity in the country originating the capital outflows. Therefore, managing FDI inflows and outflows can be an important economic tool for country leaders interested in managing sustained productivity growth. Because political parties differ in their approach to managing the levers affecting FDI flows, understanding how FDI flows are affected by changes in political leadership is important. The objective of the thesis research is to test whether liberal, or conservative, leaning governments have more success at increasing FDI inflows and stopping FDI outflows.

FDI is defined as an individual or company from one country allocating capital into an asset or a business of another country giving them ownership in facilities, control over operations, or direct control of management, and in short giving them controlling interests in foreign enterprises (Moore 2015). FDI is generally classified by owning ten percent or more of a company's voting stock or asset control (Moore 2015). This is not the same as

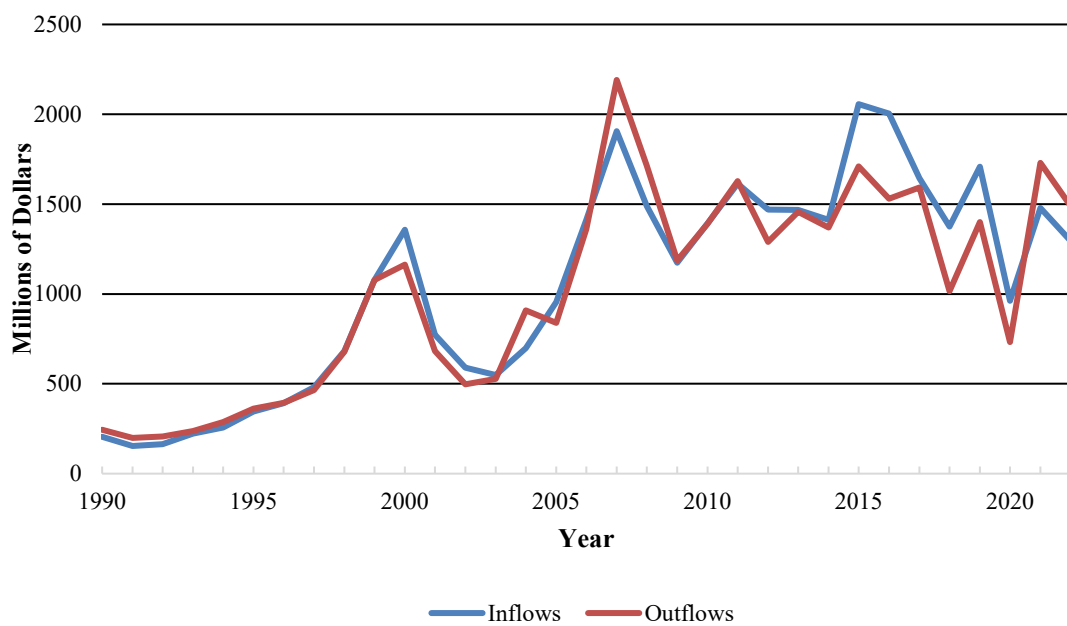
owning individual stocks or portfolio investments until an individual or company owns more than ten percent of that firm or asset and has a controlling interest. FDI flows are either inward flows (inflows) or outward flows (outflows) from one country to another country. Inflows are capital from a foreign country being funneled into assets and businesses domestically in the reporting economy (Bank 2009). Outflows, or direct investment abroad, is capital being invested into a foreign country to an asset or business in the reporting economy (Bank 2009).

Examples of FDI include mergers, acquisitions, joint ventures, or greenfield investments. Greenfield investments represent the scenario of an existing company expanding the company into another country through building assets or purchasing assets, such as starting a new business internationally and not domestically (Moore 2015). An acquisition is when a company purchases a portion or all of another company shares or assets. Acquisitions usually are taken place when a company wants to take control of and expand on the purchased company's capabilities and assets (CFI 2022). A merger is similar to an acquisition but has a few differences. The main difference is that the two companies involved in the merger take on a whole new entity, assuming the whole of the company of the sum is greater than the sum of the parts. An acquisition is when one company is absorbed by the purchasing company (U.S. Small Business Administration 2023). A joint venture is a business agreement where two or more companies agree to use each other's resources for a specific purpose and believe mutual benefit will be achieved. Joint ventures can help companies gain access to a new market and share costs and expertise on a specific purpose (Business School 101 2024).



Since the 1990s, FDI has had major impacts on the global economy. Between 1990 and 2022 FDI flow has increased by over 500% while cumulative inflation during this time was approximately 123%. In 2022, global foreign direct investment inflows reached \$1.3 trillion, while outflows reached \$1.49 trillion. This is a decrease from their respective peaks, of 2015 inflows of \$2.05 trillion and 2007 outflows of \$2.19 trillion (United Nations 2024).

**Figure 1.1: Global FDI Inflows and Outflows 1990 - 2022**



Source: UN Trade and Development

## **1.2 Conservative and Liberal Approaches to Managing FDI**

The United States of America is a democratic republic in which a two-party system controls the politics, laws, and governance within its borders. There are other 3<sup>rd</sup> parties, but the major two parties consist of the Democratic Party and the Republican Party, which trend to be liberal and conservative leaning, respectively. Since the signing of the Declaration of Independence in 1776, which severed political ties from Great Britain allowing The United States of America to become its own self-governing body, 98% of federal elected seats and positions have been won by either the Democratic or Republican party (Masket 2023).

The Democratic Party tends to be more of a liberal standing party, and in the case as it relates to FDI, favors corporate social responsibility, oversight of regulations, and taxes on large corporations. Oversights of regulation include but are not limited to labor and environmental laws that can inevitably increase a firm's costs. But these regulations can also provide work force stability with the influence on labor laws and can allow firms to receive incentives for being environmentally responsible via subsidies and tax incentives that work in line with regulations. These incentives traditionally have helped encourage firms focused on renewable energy and infrastructure industries. Liberal leaning policies have traditionally led to higher corporate taxes and eliminating tax loopholes which can have an impact on the interests of FDI in and out of the United States. These types of policies can encourage firms with sustainable and responsible investments but the effect of this can be added costs to the firms and more regulation hurdles to overcome.

The Republican Party tends to be more of a conservative party which focuses on deregulation, national security, and corporate tax incentives. National security and protectionism increase hurdles foreign firms may have to endure when trying to invest into

the United States in order to protect United States domestic interests. This can include but not limited to tariffs and sanctions that can impact the attractiveness of foreign firms' interest in investing in the United States. Deregulations have been traditional for the conservative party in which they reduce certain restrictions to attract foreign investments to enter the United States. This follows suit with corporate tax incentives in which lower tax rates and increased tax incentives and attract foreign firms. These types of policies can encourage firms that are looking for lower corporate taxes and lessen regulations creating a pro-capitalist environment. The effect of these policies can also deter firms of investment due to trade barriers and restrictions, political risks of nationalism protection, and the risk of national security scrutiny.

Each of these parties have influence in their own way on the interest of foreign firms and their appetite for FDI inflows into the United States as well as domestic firms and their interest into FDI outflows to foreign countries. Across industries, preference may differ on which party they may favor for their own benefit based on these political differences.

### **1.3 Motivations for Foreign Direct Investment**

The main driving force for Foreign Direct Investment is in short to increase a firm's profit by selecting investments that project offering a positive return on investment (ROI). Investing in a foreign country comes at a cost to the firm whether that is capital, resources, cultural differences, etc., but if it offers a positive return in recouping these costs, and some, firms will explore and take part in investing abroad. If firm has the opportunity to receive a positive ROI, despite costs and challenges that come with it, it will overall drive the motivation to participate in FDI (Alfaro and Chauvin 2017).

Foreign Direct Investment has been driven by motivational factors for companies and individuals to have an interest in taking part in this practice. As individuals and companies explore discovering new ways to expand and thrive in today's world, there must be motivation for them to allocate large amounts of capital abroad. These motivations include access to new markets and raw materials, opportunities to improve company efficiencies to lower costs, economic and political environments domestically and abroad, and diversification and risk management (Moore 2015). Companies or individuals may only be motivated by one of these factors, a combination of them, or even possibly all factors.

### *1.3.1 Access to Raw Materials and Resources*

Access to raw materials and resources is a major factor for companies to participate in FDI. Raw materials and resources are a critical component to many companies that offer physical and technological products. Materials and resources are typically scarce in the world such as precious metals, nonrenewable resources, natural resources, etc. As certain raw material resources are only available in geographical locations throughout the world, the cost for these materials has risen due to global demand. These materials could be available in a company's domestic country but may come at a high cost to harvest, scarcity concerns, and regulations preventing or limiting the amount of material or resources that can be available. Countries abroad may have easier access and have a larger supply of such materials and resources that can help fill the void of concern for such companies.

A Chinese firm, Ganfeng Lithium, is an example of a company exhibiting their motivation for FDI to acquire raw materials, and in this case, lithium. Lithium is a scarce resource that is not commonly found globally, and with an increasing demand for battery products, demand for lithium is directly correlated. Ganfeng Lithium is a mining company

that mines lithium and produces battery products for other companies that are then used in electric vehicles, which has had a steady increase in demand over recent years. In order to capture access to raw materials to meet the increasing demand for their products, Ganfeng had purchased a controlling interest in a Mali based lithium mine for \$343 million (USD), buying out an Australian lithium company for their 40% ownership, leaving Ganfeng as the majority and controlling owner of the mine just above the Mali Government who owns 35% (Ng 2024).

### *1.3.2 Access to New Markets*

Many companies look and are intrigued for the opportunity to expand into new markets to provide further company growth and to help improve their competitive advantage. Competitive advantage allows a firm to be in a more favorable position compared to rivals while increasing profits and providing a solution that differs from their competitors that creates more value for the consumer (S. R. Goldberg 2023). One of the main reasons for the motivation to gain access to new markets is by investing in foreign entities or assets, is to enter a larger pool of potential customers. This can allow a firm to be physically closer to a target market or offer products tailored to a local market.

Netflix is an example of a firm who in recent years has gained access to new markets by investing in other countries and local markets. Netflix is a streaming service company that offers entertainment products. As Netflix expanded into more countries, they were challenged with diversity problems by typically offering US entertainment production types in foreign markets. To overcome these challenges, Netflix invested in foreign local markets to offer content tailored to the local market. Netflix invested capital into the local entertainment industries, creating cultural content that aligned with local interests (James Sackey Marketing 2024). In 2107, Netflix invested over \$2 billion into the European

entertainment industry to accommodate foreign European interests. By making these types of investments, it has allowed them to expand their marketing into 190 countries and offered streaming products in 13 different languages (Feldman 2017). Following these investments, Netflix gained market share into these new markets and built more subscribers to their subscription-based product, streaming services (James Sackey Marketing 2024).

### *1.3.3 Operational Efficiencies*

Successful Companies strive to work and find efficiencies in their business to help them increase their bottom line and lower operational costs. In order to become more operationally efficient, one must find ways to lower operational costs and get more out of those costs. Operational costs consist of the Cost of Goods (COGS) and operating expenses (Murphy 2024). COGS are all direct costs, the inputs costs to create a product a company offers to consumers, which can consist of a combination of, raw materials, freight costs, labor, and these costs can either be fixed or variable (Beaver 2024). Operation costs include overhead rent, payroll, plant or office utility costs, insurance, marketing, travel expenses, office supplies, etc. (Murphy 2024).

As companies look to become more efficient in these expense areas, there are opportunities in foreign assets to accomplish this. Operating expenses in US corporations have steadily increased due to numerous reasons that are based on an individual basis. This increase in operation expenses is driven up by raw material costs, increase in wages, government policies, tariffs, etc. An article by Umer Khan and Ingrid Lexova with S&P Global states “The median ratio of operating expenses compared to total revenues for companies rated BBB- or higher rose to 83.7% in the fourth quarter of 2023 from 82.2% in the third quarter, according to the latest data from S&P Global Market Intelligence” (Khan and Lexova 2024). This increase of 1.82% of operating expense means that for every dollar a

company earned in the fourth quarter of 2023, 83.7 cents were covered by operation costs compared to the 82.2 cents to every dollar in the third quarter of 2023.

Every company has looked at increasing their operational efficiencies in one way or another. One major example of companies investing abroad to increase operational efficiency is outsourcing customer support and IT departments. Companies such as Target, Amazon, Google, and CapitalOne have invested in their customer support departments in countries like India and the Philippines to help decrease their labor costs, as well as increase their access to the talent pool available in these countries (Zapanta 2024). As companies are able to lower these expenses, they have been able to increase their bottom lines or allocate these savings to other departments to increase their efficiency and so on.

#### *1.3.4 Political and Economic Environments*

Political influences and policies can be a critical factor for an organization to invest abroad. The political environment represents current and expected areas of tax regulations, friendliness of doing business policies, and trade regulations (i.e., tariffs and quotas). This economic environment represents current and expected areas of inflation, interest rates, labor, and exchange rates.

One policy that has influenced FDI for organizations is tariffs. A tariff is a tax enforced on foreign made goods that are imported into a country. These tariffs are typically a flat rate of a certain percentage of the value of the good or product. Tariffs can also be a fixed amount tied to a specific good, such as fixed dollar price per unit imported into a country. Another type of tariff is a tariff-rate quota, which in short is when a specific threshold of a type of good is imported into a country, a tariff rate will then kick in (Chatzky, Siripurapu and Berman 2025). There also can simply be quotas placed on goods that limit the amount of goods that can be imported in a country, in theory to protect

domestic producers of these goods. Some products that are imported into the United States that are met with these quotas include sugar, tobacco, cotton, beef, animal feed, brooms, and many other products (U.S, Customs and Border Protection 2024 A).

With tariffs in place, they can become a major decision for an organization to invest domestically in a country to avoid this tax. For example, the United States has a 2.5% tariff on automobiles whether they are new or used on foreign manufacturers and sellers, respectively (U.S. Customs and Border Protection 2024 B). Volkswagen, headquartered in Germany, has invested into assembly factories in Mexico to produce vehicles for Canada, Mexico and the United States, with over 55% of those vehicles made in Mexico going into Canada and the United States (Tres 2018). In 2023, Volkswagen had sold just under one million vehicles to this region which is a major strategic reason why Volkswagen has made this investment into Mexico (Oemisch 2024). Between these North American countries there is a trade agreement called NAFTA, which is a free trade agreement that allows goods to cross each other's borders and to be sold with no tariff imposed on them. Volkswagen has taken advantage of avoiding this tariff by investing into these assembly plants in Mexico to do so (Tres 2018).

Political policies can either encourage or dissuade organizations from taking part in FDI into a country. Another example of political policies that has encouraged organizations to invest abroad would be tax regulations. Tax regulations can either attract or deter firms from entertaining the thought of investing in a country or not. One example of tax regulation is the Corporate Tax Rate. Corporate Tax is a tax that is applied on profits of a firm (Kagan 2025). Corporate tax can be a large cost a firm has to endure which can range depending on the country and industry. For example, the current federal corporate tax rate



in the United States is 21% (Kagan 2025) which is below the global average, hence encouraging FDI into the United States compared to countries with a much higher corporate tax rate. This has not always been the case for the United States. In 2017, the Tax Cut and Jobs Act had reduced the corporate tax rate from what was 31% down to today's 21% which resulted in larger firms raising their investments into the United States by 11% (Chodorow-Reich, Zidar and Zwick 2024).

A country's appeal for friendliness in doing business in, can be a major factor in a company's decision to invest in a foreign country. Factors that firms weigh when evaluating the friendliness in doing business in a foreign country can entail but are not limited to, high corruption, political instability (Doherty 2023), and lack of established rule and law enforcement (U.S. Department of State 2024). A firm's specific factors when weighing these factors may differ depending on the industry, government relations, etc. For example, McDonald's restaurants are positioned in over 100 countries with over 40,000 locations between them (Heady 2024). McDonald's has a franchise business model in which investors purchase franchise rights in order to put a brick-and-mortar McDonald's location down (Keaton, et al. 2016). As McDonald's is the world's largest fast-food chain (Behera 2024) many investors look to be a franchisee of the fast-food giant that has proven success with an already established marketing scheme and menus. An unnamed business located in the country of Tunisia had picked up the rights to franchise McDonald's restaurants within the country, but due to that unnamed business not having any connections to the ruling family of Tunisia, the Tunisia government prohibited the fast-food chain from entering in the country. From 1987 to 2011, President Ben Ali of Tunisia, created rules and regulations that firms needed to be granted permission to invest into

Tunisia, which ultimately lead to many other companies avoiding investment opportunities into the country that did not have relations with the ruling family or government, not a friendly gesture. Due to these rules and regulations, the Tunisian people had missed out on employment opportunities and further business investments from foreign firms to invest into the country (Rijkers, Freund and Nucifora 2014).

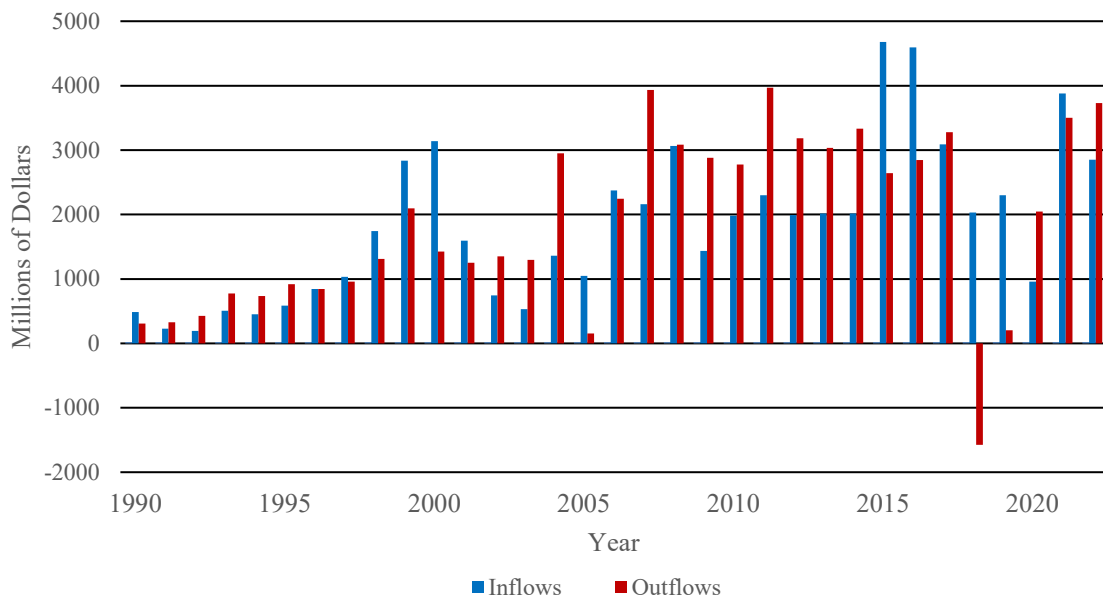
An economic environment that is to be considered by firms when looking at FDI is inflation in the domestic country as well as in foreign countries. Inflation alone does not impact FDI as much as other factors may but if a firm is looking into opening a new office or facility, the impact of inflation is magnified (Caon 2022) as high inflation wears down one's purchasing power hence leaving the country's currency less valuable to other currencies globally. The U.S. Department of Labor defines inflation as "the overall general upward price movement of goods and services in an economy" (U.S. Department of Labor 2025). As prices increase due to inflation, costs of inputs and wages begin to rise and consumer spending decreases at a faster rate than the firms offered price for a good, which lowers profit margins for firms in the short run. In the long run, high inflation will hurt household incomes and depress demand for goods and services (Pal 2024). The United States government tends to fight inflation with raising interest rates. As inflation gets high comparative to recent months and years and rising at a steep pace, the Federal Reserve tend to raise interest rates that slow the United States economy down. This inevitably incentivizes foreign firms to invest into the United States due to better real returns (Federal Reserve Bank of Cleveland 2025).

When high inflation occurs domestically, trends of a worsening exchange rate follow for the domestic country, reducing their purchasing power parity both in domestic

and foreign markets. This also becomes a correlated factor that firms consider when looking at FDI. According to the OECD “exchange rates are defined as the price of one country’s currency in relation to another country’s currency” (Organization for Economic Co-operation and Development 2022). Linda S. Goldberg, Vice President of the Federal Reserve Bank of New York, states that “if a country’s currency begins to devalue in comparison to another currency, the population’s wages and costs are decreased compared to the foreign currency”. Goldberg goes on to elaborate that “the country experiencing real currency depreciation has enhanced "locational advantage" or attractiveness as a location for receiving productive capacity investments. By this “relative wage” channel, the exchange rate depreciation improves the overall rate of return to foreigners contemplating an overseas investment project in this country.” (L. S. Goldberg n.d.). Based on Figure 1.2, there is a slight trend of inflow FDI into the United States when inflation is on the rise, hence providing sense to Goldberg’s comments in the short run leaving all else constant with no inflation movement in the foreign currency. With United States currency having experienced higher inflation from 2020 onward, this had made assets cheaper to firms outside of the United States to invest into the United States. In January of 2021, the Euro to USD exchange rate was 1.22 (World Currency Exchange Rates and Currency Exchange Rate History 2022). This allowed European firms that use the Euro as their currency to purchase assets in the United States at 78 cents on the dollar. Hence allowing those foreign firms to invest into the United States at a much lower cost than to invest into a country that is using the Euro. Figure 1.2 and 1.3 show that during this time of higher inflation in 2021, inflows of investment into the United States soared by over 400% compared to the previous year in 2020. As inflation continued to rise, there is a decrease in inflows in 2022 due to

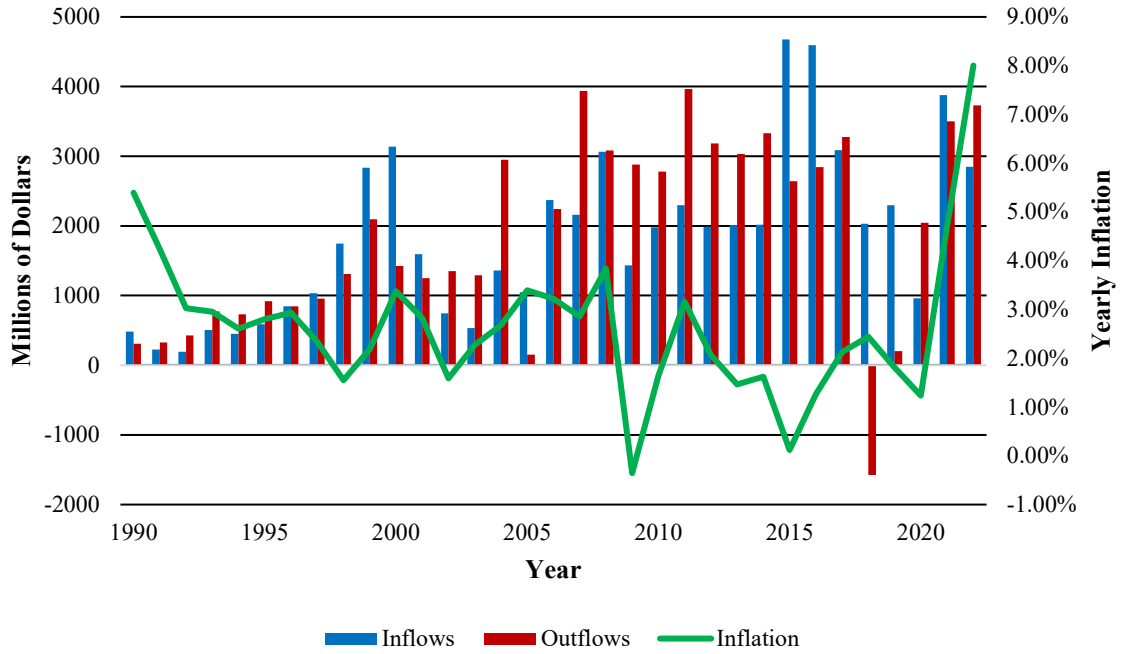
economic uncertainty in a volatile United States economy. Samsung is an example of a firm looking at this economic factor as in 2021 Samsung invested \$17 billion into building a semiconductor facility in Texas. This investment was due to a shortage of semiconductor production globally, but with the high USD inflation at the time, it allowed Samsung to purchase those assets at a more attractive price (Shead 2021).

**Figure 1.2: United States FDI Inflows and Outflows 1990 – 2022**



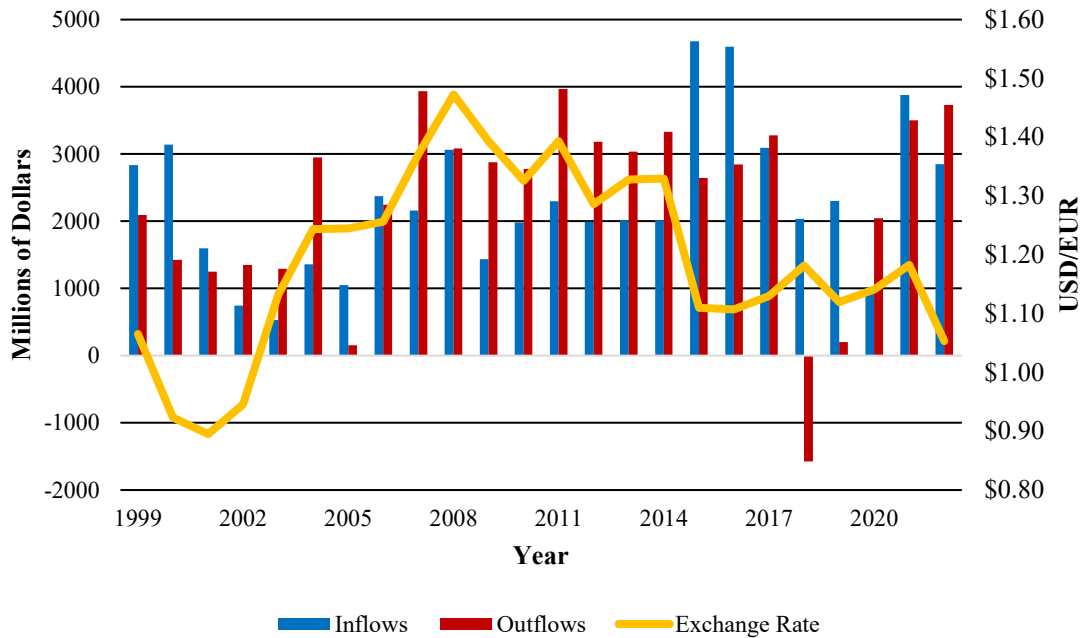
Source: UN Trade and Development

**Figure 1.3: United States FDI Inflows and Outflows vs. Inflation 1990 – 2022**



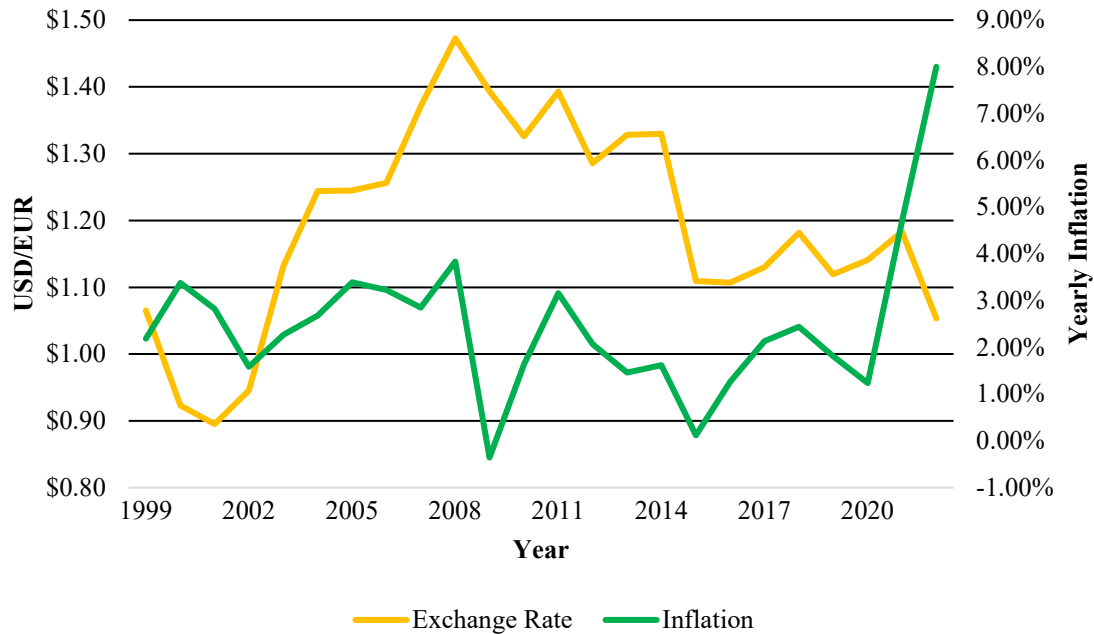
Sources: UN Trade and Development & FRED

**Figure 1.4: United States FDI Inflows and Outflows vs. USD/EUR Exchange Rate 1999 – 2022**



Sources: UN Trade and Development & FRED

**Figure 1.5: USD/EUR Exchange Rate vs. United States Inflation 1999 – 2022**



Source: FRED

The labor market economic environment plays a critical role in a firm’s decision whether or not they will participate in FDI. The labor market environment is affected by labor costs, access to skilled labor (Pettinger 2019), labor market flexibility (Javorcik and Spatareanu 2004), and competitive advantages in the labor market. Labor costs can be tied back to a firm wanting to increase operation efficiencies and lowering costs for labor. Since the 1980s, the United States and other developed countries have seen a large amount outflow of investments move into Asian countries, such as China, due to their lower labor costs. China has a massive pool of young and skilled labor compared to other developed countries which has intrigued companies such as Nike, Apple, and General Motors. These companies have moved production into China as they have been an attractive destination for manufacturing companies due to these lower labor costs. But the status quo may not always remain as there are risks involved and in recent years companies have been looking

at and have moved forward with moving production out of China due to the rising labor costs and economic instability with western countries (Atkins 2023).

Domestic and foreign interest rates are another factor firms consider and analyze when looking at FDI. Interest rates are a major factor in the cost of borrowing as well as the influence on the decision to borrow. Higher interest rates increase the costs of borrowing as the debt that is taken on becomes more expensive as interest rates continue to rise. If the United States Federal Reserve is holding or is continuing to raise interest rates, this can discourage investment in the form of inflows as foreign companies see that it takes more capital to invest into projects or expansions, especially in the short term (Reus 2024). Depending on the industry, some find that higher interest rates can be beneficial such as banks, insurance companies and brokerage firms who gain capital in higher interest markets (Bloomenthal 2024).

#### **1.4 Hypothesis**

This thesis explores whether political policies, either liberal or conservative leaning, in the United States have a significant impact on Foreign Direct Investment inflows and outflows in the United States. The hypothesis for the effect of political policies affecting inflows and outflows of capital in the United States is that the more liberal leaning a political policy is, more outflows of capital are seen from the United States and less inflows. On the opposite side of the aisle, the more conservative leaning political policy, the more inflows of capital are seen coming into the United States and a decrease in outflows will be observed.

## CHAPTER II: MODEL, VARIABLES, AND DATA

### 2.1 Model

The linear regression model below isolates the impacts of each variable while accounting for the covariance between variables. The model variables include, inflation, exchange rate, GDP per capita, political leaning index, and lagged net FDI inflows, against net FDI inflows. The model accounts for multiple economic factors in the United States economy over 23 years from 2000 to 2022. Table 2.1 shows the rationale of each variable in the model as well as its impact.

$$(1) \quad \text{Net FDI}_{it} = F(\text{Inflation}_{t,i}, \text{Exchange rate}_{t,i}, \text{Gross Domestic Product Per Capita}_{t,i}, \text{Political Leaning Index}_{t,i}, \text{Lagged Net FDI Inflows}_{t-1,i})$$

Subscripts  $t$  and  $i$  in equation (1) represent year ( $t$ ) and country ( $i$ ). The dependent variable Net FDI represents inflows minus outflows in a country on a per year basis.

The variable *inflation* is from the Federal Reserve Economic Data of St. Louis based on consumer prices. Inflation has been found to have a significant impact on FDI in the United States for both inflows and outflows (Federal Reserve Bank of Cleveland 2025). Inflation is expected to have positive impact on inflows and a negative impact to outflows in the United States. Based on the duration of inflation movements, this can also cause a negative impact due to economic instability, market uncertainty, and the overall cost of doing business domestically.

The variable *exchange rate* is from the Federal Reserve Economic Data of St. Louis, reporting from Real Broad Effective Exchange Rate for the United States. As the exchange rate increases there can be an expected impact on FDI due to purchasing power



parity taking effect. A higher foreign valued currency in the United States will have positive impact of inflows in the United States while a lower foreign valued currency will see a negative impact of inflows into the United States due to lower purchasing power.

The variable *Lagged FDI* is from the UN Trade and Development on inflows and outflows and calculated from the previous year's data. The lagged FDI is to have a positive impact on net FDI due to the persistence of the previous year's investment has large investments will be decided on signals from the historical data, in this case, the prior year.

*Political Leaning Index* variable is sourced from Our World in Data which displays an index from 0 to 1 with the higher the index value the more liberal policy that is in place. As the political index increases there is an impact to net FDI and is expected to see a decrease in net inflows for the United States due to a more libertarian and free markets viewpoint.

*GDP Per Capita* variable is from the Federal Reserve Economic Data of St. Louis and indicates the economic output per person in a country. As GDP per capita rises, this is a signal of economic growth in which more inflows can be expected vice versa if the GDP per capita decreases, there is a signal of stagnant or a decreasing economy.

**Table 2.1: Variables and Expected Impact on Net FDI Inflows**

<b>Variable</b>	<b>Expected Impact on Net FDI Inflows</b>	<b>Rationale</b>
Inflation	Positive/Negative	Positive - Interest Rate Parity; Negative – Economic instability, confidence, cost of doing business
Exchange Rate	Positive/Negative	Positive - Purchasing Power Parity – Higher Value/USD Negative - Purchasing Power Parity – USD/Lower Value
Lagged FDI	Positive	Persistency of previous year investment
Political Leaning Index	Negative	Liberal Policy (higher index value) tends to have increased outflows
GDP Per Capita	Positive	Indicates a growing economy (positive outlook for investment)

## 2.2 Description of Data and Summary Statistics

Summary statistics are given in Table 2.2, with each variable having 23 observations, one per year from 2000 to 2022. The research datasets come from three different sources, Federal Reserve Economic Data of St. Louis, Our World in Data, and The UN Trade and Development.

Net FDI inflows is expressed as FDI inflows – FDI outflows. Data was collected from UN Trade and Development statistics and trends. Net inflows were used to indicate whether investments during a particular year are more likely to move into or out of the United States.

Net FDI Inflows, Lagged Net FDI Inflows, and populations are all in millions, USD and people respectively. Where the mean values indicate the plus or negative value in dollars or population respectively. Net FDI inflows and lagged Net FDI inflows both are representing a negative mean, in which over the course of the 23 observations, the mean of

inflow minus outflows were negative stating that more outflows of capital investment were exiting the United States vs. entering the United States. Net inflows and lagged net inflows both have a larger standard deviation where one standard deviation outside of the mean can either further bring the mean negative or even pull it positive. Population has a mean population of over 31 million in the United States with a smaller standard deviation of 1.62, meaning that measure around the mean, one standard deviation can be either plus or minus 1.62 million people. Since 2000 the lowest population the United States endured was over 282 million people with its peak reaching at 333 million. Net Inflows and lagged Inflows bottomed out at -\$395 billion and in later years reached over \$360 billion in net inflows. From 2000 to 2022 there have been drastic swings in net inflows based on the summary statistics in Table 2.2.

GDP Per Capita is measured in thousands of USD. The mean of GDP Per Capita is over \$55,000 with the largest year over \$64,000 and the lowest at \$48,500 per capita. With the standard deviation of \$4,522 being above or below the mean.

**Table 2.2: Summary Statistics of Variables Used in Analysis**

Variable	Mean	Std. Dev.	Min	Max	Obs
Net FDI Inflows (Million \$s)	-117354.753	205543.6788	-395339.6	360640	23
Lagged Net FDI Inflows (Million \$s)	-122613.437	206302.6937	-395339.6	360640	23
Political Leaning Index	0.806086957	0.044853208	0.729	0.856	23
Exchange Rates	93.73391304	8.159338063	80.12	106.72	23
GDP Per Capita (000 \$s)	55.04283663	4.522830467	48.59742461	64.3421179	23
Inflation	2.49321495	1.664072224	-0.35554627	8.00279982	23
Population (millions)	31.01672137	1.625140449	28.2162411	33.3271411	23

Inflation is measured in percentage with the mean of inflation being 2.49% over the 23 observations. There have been years of negative inflation where inflation was at -.35% but also reached over 8% at its peak. One standard deviation outside of the mean is at 1.66%.

Exchange rates are measured in the Euro to USD. The mean is observed that on average the Euro has been worth \$0.93 to USD and becoming as low as \$0.80 and as high as over \$1.06. One standard deviation outside of the mean is \$0.08.

The description of the Political Policy Index (Our World in Data 2025) is:

“The liberal principle of democracy emphasizes the importance of protecting individual and minority rights against the tyranny of the state and the tyranny of the majority. The liberal model takes a "negative" view of political power insofar as it judges the quality of democracy by the limits placed on government. This is achieved by constitutionally protected civil liberties, strong rule of law, an independent judiciary, and effective checks and balances that, together, limit the exercise of executive power. To make this a measure of liberal democracy, the index also takes the level of electoral democracy into account.

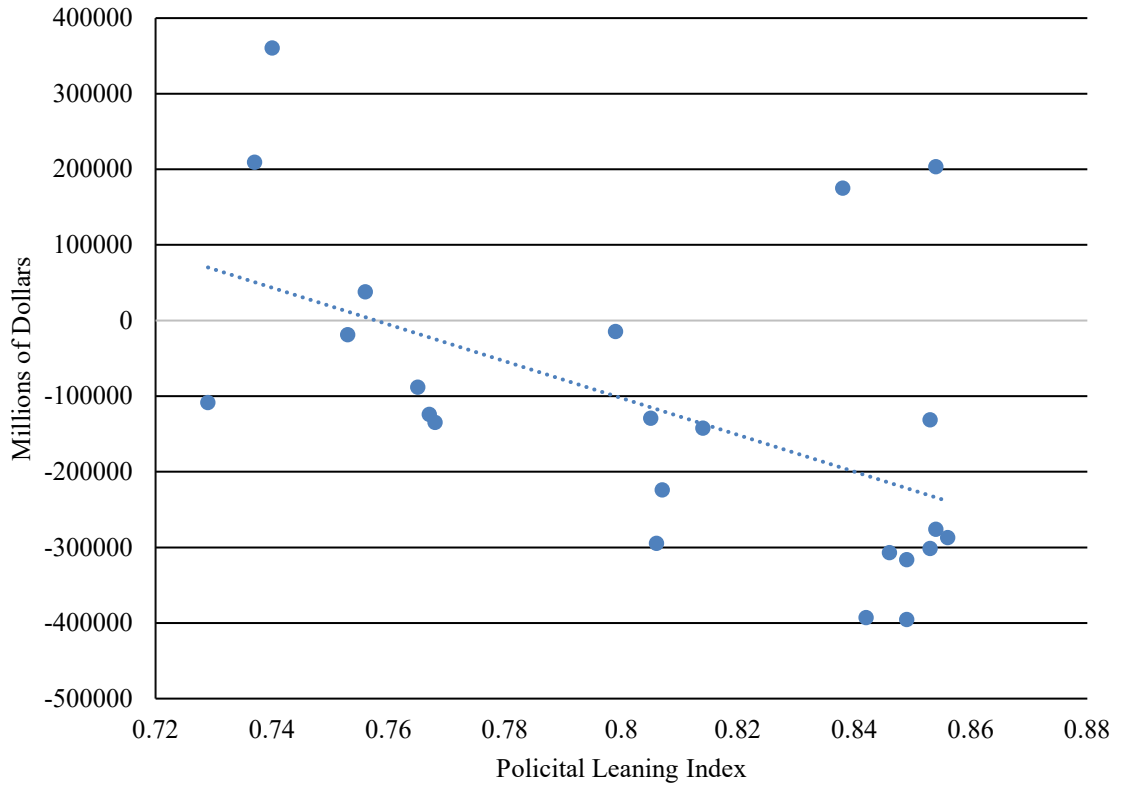
Scale: Interval, from low to high (0-1).”

The Liberal Democracy Index, where the higher the index the more liberal leaning policy in place, has had a mean of 0.80. The index has reached as high as 0.856 and as low as 0.729, which is well above the average from a global perspective per country all with a low standard deviation of 0.004.

Figure 2.1 shows a scatter of the 23 observations where the Political Policy Index has fallen as related to United States Net FDI inflows. When exploring FDI net inflows and the Political Leaning Index only there is noticeable inverse relationship between a more liberal leaning US political environment and FDI net inflows. Alternatively, figure 2.1

shows that a relative less liberal (or more conservative) political environment tends to correlate with higher FDI net inflows.

**Figure 2.1: United States FDI Net Inflows vs Political Leaning Index (Higher Index Indicates More Liberal Leaning)**



## CHAPTER III: RESULTS

### 3.1 Regression Results

The regression model was estimated in Excel. The regression model reviews the relationship between the net FDI inflows and the key economic factors of lagged net FDI inflows, political leaning index, exchange rates, GDP per capita, and inflation. Table 3.1 reflects the results of this regression. The regression has a R-squared value of 0.63, suggesting that 63% of the variation in the dependent variable is explained from the independent variables observed. Based on this R-squared value, there are other economic, political, and global factors that contribute to net FDI inflows. The model expresses three variables with a profound impact on net FDI inflows while two variables do not have a considerable impact on net FDI inflows.

The independent variable of *exchange rate* shows to be statistically significant with a P-value of 0.04. With the variable also expressing a positive t-stat, this explains that the variable has a positive impact on net FDI inflows. These results imply, as noted in the literature review, that as foreign currencies depreciate to the USD, the United States becomes a more attractive place to invest into as that foreign currency becomes more valuable in the United States. Based on this model, the *exchange rate* is a strong positive signal for net FDI inflows.

*GDP per capita* also expresses itself to be statistically significant with a P-value of 0.01. This variable expresses a positive t-stat as well explaining that the *GDP per capita* has a positive impact on net FDI inflows. This variable overall explains the overall economic health of a country, and in this case the United States. As this economic metric rises, it infers that incomes are on the rise. As *GDP per capita* increases, it has a positive

effect on net FDI inflows as this indicates stronger consumer demand. Based on the model, *GDP per capita* is a strong positive signal for increased net FDI inflows.

The independent variable *inflation* also proves to be statistically significant with a P-value of 0.02. In the case of *inflation* there is an opposite relationship with net FDI inflows, compared to the previous two variables, with a negative t-stat inferring that *inflation* has a negative impact on net FDI inflows. As *inflation* increases, this can erode the value of real returns a firm may have on an investment and provide economic uncertainty for investors. This variable has a strong negative signal for increased net FDI inflows.

The *lagged net FDI inflow* variable is seen to not have a statistically significant impact on net FDI inflows with a P-value of 0.65. *Lagged net FDI inflows* are measuring if past levels of foreign investment are contributing to net FDI inflows the following year. Based on the model, investors may not be making their decisions on historical patterns but on the current economic landscape.

The independent variable *Political Leaning Index* also expresses to not be statistically significant with a P-value of 0.99. The results of this variable in the model indicate that foreign investors do not prioritize political leaning policy in their decision making for unknown reasons that are not captured in the model. A possible reason could be that investors view the United States political landscape as ‘stable’ and prioritize economic factors over overt policy decisions and relatively short election cycles.

These results suggest that the economic factors such as, exchange rates, inflation, and GDP per capita are playing a more critical role in net FDI inflows vs. political factors

in the United States democracy which seem to not have as strong of an effect on net FDI inflows.



**Table 3.1: Model of United States Net Foreign Direct Investment Inflows**

*Regression Statistics*

Multiple R	0.79
R Square	0.63
Adjusted R Square	0.52
Standard Error	142,789
Observations	23

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	-3228413.81	1796748.00	-1.80	0.09
Lagged Net FDI Inflows (Million \$s)	-0.13	0.29	-0.46	0.65
Political Leaning Index	13541.39	1252123.46	0.01	0.99
Exchange Rates (other currencies to US \$s)	16095.61	7121.47	2.26	0.04
GDP Per Capita (000 \$s)	31270.58	10763.09	2.91	0.01
Inflation	-58667.93	23777.09	-2.47	0.02

## CHAPTER IV: CONCLUSION

### 4.1 Conclusion and Recommendations

This thesis explored the complex relationship between net FDI inflows and key macroeconomic factors, a political leaning index, and the effect of the variables on inflows and outflows into the United States. The hypothesis states that the political leaning index will have a significant impact on net FDI inflows, and when liberal leaning policies are in position, there will be a negative correlation with net FDI inflows.

Foreign Direct Investment (FDI) is defined as an individual or company from one country allocating capital into an asset or a business of another country giving them ownership in facilities, control over operations, or direct control of management, and in short giving them controlling interests in foreign enterprises (Moore 2015). FDI is still in its infancy as FDI only began to increase in measurable numbers during the early 1990s. Firms were motivated by many different factors to participate in FDI such as, looking for access to raw materials and resources, access to new markets, finding robust operational efficiencies outside of their domestic borders, and considering the political and economic environment for ways to improve their business. FDI has a major impact on the global economy and can be used as a measuring tool for firms to make FDI decisions on a per country basis based on the motivations listed in chapter one. Firms look at these motivations and choose which to focus on depending on the industry, economic climate of the domestic and international markets, and needs of the firm, to determine if they will participate in FDI.

A linear regression model was used to test and measure the relationship between the dependent variable of net FDI inflows and the independent variables of lagged FDI,

inflation, exchange rates, GDP per capita, and a political leaning index whereas the closer the index is the numerical value of one, the more liberal leaning the index is. The data for the model was collected over 23 years from 2000 to 2022. Descriptive statistics on the five variables give context to each variable's data and also lays out the expected impact of each variable based on prior research and economic theories.

The model suggested that the independent variables explained 63% of the dependent variable, implying that the majority of the variation in the dependent variable is explained by the independent variables. This also implies that there are other factors and variables that contribute to net FDI inflows which are not captured in the model. The results explain that the macroeconomic variables of exchange rates, inflation, and GDP per capita, were observed to have a statistically significant impact ( $P = < 0.05$ ) on net FDI inflows. GDP per capita and exchange rates resulted in a positive impact on net FDI inflows and reversely inflation had a negative impact on net FDI inflows. In contrast, lagged FDI inflows and the political leaning index were not statistically significant and showed little influence on net FDI flows.

The findings of this model challenges and provides significant evidence against the null hypothesis that the political leaning index will have a statistically significant impact on net FDI inflows and that a more liberal leaning index will result in less net FDI inflows in the United States. Based on the results of the model, the recommendations to investors looking into participating in FDI, should be more inclined to focus in on macroeconomic factors and core economic climates versus political leaning policies in the United States. Thus, policy makers shall prioritize policies that directly impact these macroeconomic variables to attract inflows of capital into the United States.

With the data set only have 23 observations, this lowers the statistical power of the model which comes as a limitation. As FDI is measured in years to come, more data needs to be considered for the model to become more robust and reliable. Finding other variables that play into net FDI, such certain tax reforms and regulations, shall be explored and brought into the model in order to capture more of the variation of the dependent variable. If looking into a specific industry, capturing data by sector may reveal more political influence and affects in the model. International comparisons across countries that have differing political structures and philosophies may indicate further explanation and movement in net FDI inflows.

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