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Executive Summary

This thesis asks a simple question with complex answers: when do government narrative signals, as official messages about reform, openness, and sector priorities, translate into inward FDI, and when do they not? The central claim is that narrative is a conditional driver. Messages attract investment only when they rest on credible institutions, unfold along a sustained trajectory rather than one-off peaks, and are sufficiently distinctive to stand out in a competitive information space. Where these conditions are absent, more communication tends to move attention rather than capital and can even erode trust as repetition accumulates. The inquiry matters because governments spend political capital and public resources to communicate with global investors. In practice, the same narratives can help, do nothing, or, if poorly timed or detached from delivery, generate fatigue and backlash. Understanding the conditions under which narrative works converts communication from a cost center into a tool for shaping expectations, which is the first step toward mobilizing real investment. The analysis is organized around three mechanisms. First, credibility acts as the filter that turns talk into enforceable expectations. In the empirical work, credibility is proxied by widely used governance aggregates: Rule of Law and Government Effectiveness, which stand in for the legal and administrative capacities that make commitments believable. Second, time structures attention. Investors respond more strongly to sustained trajectories than to isolated surges. Announcements tied to visible assets and services have a longer shelf-life, whereas repetition without new evidence shows diminishing and eventually negative returns, a process described as saturation. Third, countries do not speak alone. In periods when close peers announce similar ambitions, attention fragments; the marginal effect of any one message shrinks, especially if content is generic. Differentiation: sectoral focus, concrete milestones, and clear problem, solution framing, helps a country cut through. To test these ideas, the study builds auditable measures of narrative intensity and trajectory from public texts and matches them to a 20-country panel of emerging economies from 2000 to 2023. The measures capture momentum and decay in messaging; a peer-narrative indicator summarizes how intense competing messages are within the same period and region. The outcome is aggregate FDI inflows, with the recognition that greenfield and mergers and acquisitions can react differently; standard macro controls enter the model to absorb common shocks. Coding rules, transformations, and stability checks are documented to enable replication and comparison. The empirical strategy uses a two-way fixed-effects framework with country and year effects, interactions, and flexible curvature to allow for non-linearities. Inference is robust to serial and cross-sectional dependence. The analysis emphasizes effect profiles and state dependence, how the marginal influence of narrative changes with credibility, time, and competitive noise, rather than single threshold tests. A dynamic GMM specification is reported as a qualitative check, not as the basis for identification. Findings are consistent and intuitive. Narrative pays where credibility

is high: as institutional quality strengthens, the marginal association between messaging and FDI rises. Time matters in a specific way: trajectories sustained for roughly three to five years outperform one-off peaks, and the return to additional communication declines as repetition accumulates. Competition matters too: when several close peers speak loudly at the same time, attention dilutes and the payoff to any one country's message falls, unless the content is sharply differentiated and anchored in delivered milestones. These patterns remain directionally stable across alternative functional forms and peer-set constructions; sensitivity increases near the boundaries of the data, so turning points are read with caution. Throughout, estimates are interpreted as disciplined associations, not point-causal effects. The India-China comparison makes the mechanisms concrete without treating either country as a universal model. India's improvements in institutional indicators increase the marginal payoff to signaling, especially when announcements coincide with tangible delivery and when cadence is paced rather than continuous. China's earlier credibility and disciplined delivery cadence help explain larger historical payoffs to narrative, particularly where messages were sequenced to avoid crowded windows and tied to operating assets. The lesson is not that one strategy always dominates, but that similar messages travel through different institutional filters and competitive landscapes, producing different returns. These results translate into a practical policy playbook. The first principle is to legislate credibility before amplification: investment codes that ensure non-discrimination, repatriation, and reliable dispute resolution convert claims into commitments and enlarge the payoff to any subsequent communication. The second is to speak at milestones. Press cycles should coincide with assets and services that are already live, sites-ready, power and utilities in place, service standards published, so that messaging rides on visible delivery. Third, specialize. Concentrating on two or three sectoral niches where capabilities and supplier depth are demonstrable allows countries to differentiate content and avoid the saturation that follows from broad slogans. Fourth, professionalize cadence and transparency. Above a threshold of administrative effectiveness, a lean, regular cadence backed by public delivery dashboards builds credibility; below that threshold, it is better to slow announcements and fix bottlenecks first. Fifth, manage peer windows by monitoring regional narrative intensity and staggering timing to avoid crowded periods. The thesis contributes on three fronts. Conceptually, it reframes narrative as a conditional signal filtered by credibility, shaped by reputational memory, and priced in a market for attention. Empirically, it offers reproducible measures of narrative intensity and trajectory and brings peer crowding into the analysis of FDI, an aspect often left implicit. Methodologically, it privileges state-dependent effect profiles over headline coefficients and treats dynamic GMM as a qualitative robustness device rather than as a weak identification crutch. Limits are acknowledged and shape interpretation. Narrative indices drawn from public texts cannot perfectly capture irony, nuance, or private communications; governance aggregates do not observe the fine-grained enforcement outcomes that matter most to firms (permit times, utility reliability, case-level execution). Endogeneity risks remain despite fixed effects and robust inference;

greenfield and M&A are pooled for coverage, constraining channel-specific inference; external validity reflects the countries and years with usable textual material. For these reasons, the claims are carefully framed as structured associations. Looking ahead, the agenda is straightforward. A shared, auditable Narrative Signaling Index, built on a multilingual corpus with visibility metadata and versioned code, would make like-for-like comparisons routine. Applying the framework to advanced economies would test scope conditions where credibility is already high and may reveal whether narrative matters more through sector timing and targeting. Because official digital records thin before 2000, the practical path is forward monitoring with regular updates. Platform dynamics and the rise of generative AI should be tracked directly, distinguishing broad attention from investor conversion and flagging AI-assisted content where feasible. Most importantly, evidence should follow the path from message to decision through short, well-timed surveys of investors and site selectors, simple traces around announcements (analyst notes, data-room activity), and links to firm-level outcomes by sector and technology. Subnational panels that pair messaging with basic service-delivery indicators can show where stories align with execution on the ground. Light but clear identification, before-and-after contrasts around dated policy changes or single-window launches, can provide credible comparisons without heavy machinery. Collaboration with investment-promotion agencies through small field trials on timing, cadence, and specificity, tracked with public KPIs, would build cumulative, operational knowledge. In sum, the thesis offers both measurement and guidance. Narrative pays when it is credible, sustained, and well-timed relative to peers. Governments that legislate credibility before amplifying it, speak at milestones, specialize, and manage cadence and peer windows are more likely to convert attention into commitment, and commitment into investment.

"Narrative Power and Institutional Credibility in FDI:

Can India Become the 'Next China'?

A Strategic Test of Narrative Discipline and Institutional Maturity."

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Chapter 1 - Introduction

1.1 Background and Motivation

The economy increasingly hinges on public image and the management of expectations. The pressure created on individuals by the social media and the globalization can make people rise to the top really fast and then annihilate their career in the blink of an eye. The question in which this thesis is rooted comes from the knowledge of the strategic communication of people and companies, but how do governments communicate? What are the effects of their narratives on foreign investors? Governments shape messages about reform, openness, and technology, beyond merely setting media frameworks. Investors, then, come into contact with these stories via media, policy papers, and official statements.

Credibility thus becomes a crucial asset and in line with this also the timing and consistency of these messages. But investors do not "forget" and do not "forgive", leading to the idea that the performance of any state communication campaign is influenced by past performances.

A further salient issue is that in a crowded information space the winners are those that can differentiate themselves from peers. This is especially acute in emerging markets.

Emerging markets drive global FDI, yet the link between official narratives and investor behavior remains under-specified. Two recent mapping reviews clarify where the field stands and where a focused, measurement- driven study like this thesis can add value. A comprehensive bibliometric review in the International Journal of Emerging Markets (IJOEM) assembled 533 articles (1974- 2020) and shows the field's intellectual core still clusters around FDI determinants, entry mode, Multinational Enterprises (MNE) performance, and internationalization, mapped via Preferred Reporting Items for Systematic Reviews and Meta- Analyses (PRISMA) and science- mapping methods. The authors explicitly note that, before their contribution, they "could not find literature reviews focused only on FDI by Multinational Corporations (MNCs) in emerging economies." This underscores both fragmentation and the recency of synthesis in this niche. A second systematic mapping of the period 1987- 2023, comprehensive of 1386 articles and 457 journals, shows a post- 2010 acceleration, and calls for increased research to genuinely mainstream green innovation, digital transformation and associated with issues within the FDI/IB core, rather than being perceived as peripheral [1] [2]. These reviews reveal two actionable gaps: a comparable time-identified measure of government signaling and its integration into panel models. Together with this making the transition from

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[1] Nazzal, Ahmed & Sánchez- Rebull, María- Victoria & Niñerola, Angels. (2023). Foreign direct investment by multinational corporations in emerging economies: a comprehensive bibliometric analysis. International Journal of Emerging Markets. 20. 10.1108/IJOEM- 12- 2021- 1878.

[2] Nazzal, Ahmed and Niñerola, Angels Monserrat and Sanchez Rebull, M. Victoria and Barberà Mariné, Maria Glòria, A Systematic Mapping Review of Foreign Direct Investment by Multinational Corporations in Emerging Economies. Available at SSRN: https://ssrn.com/abstract=4858301 or http://dx.doi.org/10.2139/ssrn.4858301

static lists to dynamic comparative tests by studying reputational memory, saturation and Competitive Narrative Crowding, with a particular focus on the face- off between the two global giants, China and India.

The China-India comparison concretizes these forces as both countries grew basing their strategy on outward-looking liberalizations, but have followed very different institutional paths and styles of communication. China, for example, has integrated institution-stable signals and disciplined narrative cadences with visible and concrete industrial policies. India, on the other hand, has amplified the volume and visibility of signaling, but its reputation precedes it, unveiling a past of struggles with rule-of-law credibility and signal consistency. Seeing this dualism in real time against the backdrop of the surge in investor interest in artificial intelligence (AI), digital infrastructure and sustainability offers both a substantive motivation (why similar communication leads to different FDI pay- offs) and a methodological opportunity (trying to quantify narrative signaling, and test how it interacts with credibility, time and peer noise).

This thesis is therefore driven by two main elements. First, it empirically demonstrates that investors respond not just to static fundamentals but to credible, well-timed and well-sequenced policy communication. Methodologically, to bridge bibliometric mappings and policy discourse with operational narrative indices and identified macro-panel strategies that can be replicated. In doing so, the study answers the reviews' call to integrate new signaling dimensions into the FDI core, while grounding the analysis in the institutional complementarity that the literature has long recognized. The result is a research agenda that is both of its moment attuned to the salience of narrative in the public sphere and of the field responsive to documented scholarly gaps.

These observations crystallize the research problem: to determine under which institutional and competitive conditions official narrative signals translate into higher inward FDI, and when cadence or peer noise make them counterproductive

1.2 Research Problem

The FDI literature explains cross- country heterogeneity predominantly in terms of fundamentals (market size, openness, costs, institutions strengths and weaknesses), whereas policy practice should also rely on strategic

communication, reform announcement, branding campaign so as to influence investors perception (Miskimmon, O'Loughlin, 2018, pp.4) [3].

Government narrative signaling is defined and ad- hoc measured as a set of observable communications and policy messages issued by public authorities, as strategy documents, national plans, slogans, official speeches and announcements, which all have in common the broader aim of shaping investors' decisions. The signaling effort of each country has been measured with a new method, never seen in the literature. It merges information from official releases and policy texts, extracted from government portals, official gazettes and investment- promotion agencies. Each item extracted has been time- stamped and harmonized, resulting in annual series of data that have been then linked to an econometric panel.

The three measures used to quantify government narrative signaling have been identified in cadence, credibility and timing.

 Cadence refers to the visibility and repetition of policy messages over time. In quantitative communication, frequency is used as a standard proxy to measure the salience of information relevant for policies. An example is the Economic Policy Uncertainty (EPU) index. It is built by calculating the frequency of some terms as "economic", "uncertainty", "legislation", "regulation" in the top 10 leading newspapers in the U.S., so as to measure policy uncertainty (Baker, Bloom, 2016, pp.1594) [4]. In addition to this, the cadence and repetition element has been investigated by Schiller in 2017 highlighting that from a narrative- economics perspective diffusion and decay of narratives are central to their impact. This justifies the modelling of dynamic features as (persistence and possible saturation, that will be further explained in this work) rather than relying on single announcements (Shiller,2017, pp.978)[5].

Credibility captures whether audiences (in this case investors) treat messages as enforceable commitments rather than cheap talk. In the empirical implementation it is proxied by Worldwide Governance indicators (WGI), extracted from World Bank's data, as Government Effectiveness and Rule of Law. The latter, for example "captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well

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[3] Miskimmon, A., O'Loughlin, B., & Roselle, L. (2018). Strategic Narrative: 21st Century Diplomatic Statecraft / Narrativa estratégica: el arte de la diplomacia en el siglo XXI. Revista Mexicana de Política Exterior, 113.
[4] Baker, Bloom, Davies, The Quarterly Journal of Economics (2016), 1593- 1636. doi:10.1093/qje/qjw024. Advance Access publication on July 11, 2016.
[5] Shiller, Robert J. 2017. "Narrative Economics." American Economic Review 107 (4): 967- 1004.DOI: 10.1257/aer.107.4.967

as the likelihood of crime and violence." (World Bank)[6]. These indexes, as it will be explained in the section 4.2.4 , have been used very frequently in the empirical analysis of FDI and are usually associated with a positive effect on investments. Part of the same credibility logic are also: bilateral investment treaties (BITs) or high quality investment promotion, BITs are, in fact, associated with higher FDI towards developing countries (Neumayer, Spess, 2007 pp.1582) [7].

Timing reflects when messages are issued relative to investors' decision windows and to the broader news environment. News- based measures of policy uncertainty show sharp and event- time spikes. This documents that the same message can be discontinued or amplified depending on the timing of communication and when it lands (Baker, Bloom, 2016, pp.1593- 97). Shifting to the policy side, the investment promotion literature shows that targeted outreach and the timeliness of responses to investor inquiries materially affect location choices. Underscoring, again, the importance of timing and execution (Harding, Javorik, 2012, pp.6)[8].

What is yet to be understood is if such narrative signaling has a stand- alone, economically meaningful impact on FDI after time- invariant heterogeneity is absorbed. If so, when it works, when it does not work and how it reacts in the presence of competitors' messages.

The first challenge is **measurement**. There is no official indicator of a country's policy narrative measuring its intensity, cadence and content that is comparable across countries and time. Another gasp is given by **identification**: if stories are endogenous to economic cycles and reforms, identifying their impact demands designs that tap into within- country variation and correct for serial and cross- sectional dependence. A third challenge is **strategic context**. Investors hear competing messages from different countries, creating crowding and dilution risks. The thesis operationalizes government signaling from official communications and policy discourse. Then including them in fixed- effects models that explicitly estimate through the aid of interaction terms three channels: the credibility synthesized as narrative × institutional quality, saturation as narrative × time and competitive crowding in terms narrative × peers. The analysis is performed on a twenty country panel embracing more than two decades of data , controlling for standard FDI drivers and ensuring that inference is robust through Driscoll–Kraay and CR2.

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[6] World Bank: https://www.worldbank.org/content/dam/sites/govindicators/doc/rl.pdf
[7] Eric Neumayer, Laura Spess, Do bilateral investment treaties increase foreign direct investment to developing countries?, World Development,Volume 33, Issue 10,2005,Ppes 1567- 1585,ISSN 0305- 750X,https://doi.org/10.1016/j.worlddev.2005.07.001.
[8] Harding, Torfinn and Javorcik, Beata, (2013), Investment Promotion and FDI Inflows: Quality Matters, CESifo Economic Studies, 59, issue 2, p. 337- 359, https://EconPapers.repec.org/RePEc:oup:cesifo:v:59:y:2013:i:2:p:337- 359.

Table 1.1 - Research Motivation: Phenomenon- Unknowns- Consequences (pp.13)

Phenomenon 9	Governments increasingly deploy strategic narratives (visions, slogans, reform packages) to attract investors; investors react, but not uniformly, they discount or reward messages based on perceived credibility, timing, and the surrounding noise from peer countries.
Unknown 10, 11, 12	There is a lack of: an operational measurement of national narrative signals that is consistent across countries and time; a mapping from narratives to marginal FDI responses that is conditional on institutional credibility; evidence on dynamic features (persistence/decay and potential saturation of narrative returns); and a quantitative assessment of peer crowding (how simultaneous narratives from competitors shift or compress the payoff to one country's signaling).
Consequence	Without measurement discipline and conditional identification, policy benchmarks risk confusing volume with effectiveness, over-signaling into diminishing returns, or neglecting the credibility channels that determine whether narratives convert into investment. This thesis addresses these gaps with a panel design centered on marginal-effect estimation and non-linear responses.

[9] (Miskimmon,O'Loughlin 2025, pp. 2) [10] (Shiller,2017, pp.32), [11] (Baker, Bloom, Davies, 2016, pp.1634) [12] (Blonigen,Davies, 2007, pp.132).

Therefore a measurement- based identified panel design which can identify narrative signals to marginal FDI responses in the presence of credibility, time and peer competition is needed.

To render the problem analytically tractable, it is first necessary to specify what the literature does not yet provide; the next section maps the concrete gaps that motivate this study.

1.3 Literature Gap

Despite a rich tradition in FDI economics, narrative mechanisms remain thinly specified.

There is **no comparable time- variant measure of government narrative** (intensity, cadence and topics) that helps distinguish government signaling from media noise and to assert whether consistency holds or weakens over time. This pairs up with the lack of knowledge about operational thresholds: when does talking more become counterproductive?

[9] Miskimmon, A., & O'Loughlin, B. (2025). Strategic narrative and public diplomacy: What Artificial Intelligence Means for the Endless Problem of Plural Meanings of Plural Things. In S. Aday (Ed.), *Handbook on Public Diplomacy* (pp. 34- 46). Edward Elgar.
[10] Shiller, Robert J. 2017. "Narrative Economics." American Economic Review 107 (4): 967- 1004.DOI: 10.1257/aer.107.4.967
[11] Baker, Bloom, Davies, 2016 *The Quarterly Journal of Economics*, Volume 131, Issue 4, November 2016, Ppes 1593-1636, https://doi.org/10.1093/qje/qjw024
[12] Bruce A. Blonigen, Ronald B. Davies, Glen R. Waddell, Helen T. Naughton,FDI in space: Spatial autoregressive relationships in foreign direct investment,European Economic Review,Volume 51, Issue 5,2007,Ppes 1303- 1325,ISSN 0014- 2921, https://doi.org/10.1016/j.euroecorev.2006.08.006.

Causal designs are rare; **inference** often ignores cross-section dependence and persistence. Macro panels are usually characterized by serial and cross- sectional dependence, which is, again, usually, not accounted for with adequate inference.

Most existing studies estimate mean effects of such "reform announcements" and do not express the **circumstances** in which communication should matter. In this framework narrative should work more where institutions are strong, credibility should be affected by saturation. Repetition can induce diminishing or negative returns through saturation and attention fatigue.

Comparisons, like in this work, China-India are usually **anecdotal or case-wise** because of the lack of a coherent and systematic panel approach that connects elasticities to the country-specific returns. This may compromise generalizability and undermine the ability to translate findings to actionable targets for policymakers and multinationals.

Taken together, these gaps motivate a focused research question and four testable sub-questions that convert the proposed mechanisms: credibility, saturation, crowding, and comparative heterogeneity, into falsifiable claims.

1.4 Research Questions

In this work, governmental communication is treated as a strategic signal that can shift investors' expectations yet whose effectiveness is conditional on context. To anchor the empirical design and keep the contribution falsifiable, the inquiry is framed around one focused research question and four operational sub- questions that translate theory into testable components.

The **research question** that drives the thesis is: Under what institutional and competitive conditions do government narrative signals raise inward foreign direct investment. And when do they instead backfire because of saturation or the crowding effects of rival countries' narratives?

Because narratives affect FDI through distinct mechanisms and average effects conceal heterogeneity, the research question is split into four operational sub- questions:

The **first sub- question** concerns **credibility**. The payoff of narrative signals is expected to be mediated by institutional quality: where rule- of- law and government effectiveness are stronger, official communication should carry more informational content and be more readily incorporated into investment decisions. Where enforcement is weak, identical messages are likely to be discounted. The analysis tests whether Rule of Law

moderates the elasticity of FDI to narratives. The **second sub- question** addresses **saturation**. Returns to communication are unlikely to be linear. Repetition over time can exhaust attention, induce skepticism, and erode marginal credibility in the absence of commensurate delivery. The analysis investigates whether there exists a turning point beyond which additional narrative intensity ceases to raise FDI and begins to depress it. It does so by using flexible functional forms and time- weighted exposure to identify such Non-linearities. The **third sub- question** focuses on **crowding**. Narratives unfold in a competitive arena in which peer countries communicate simultaneously. As rivals amplify their messages, a country's share- of- voice may shrink and the marginal effect of its own signaling may attenuate or vanish. The empirical strategy therefore introduces peer- weighted measures of external signaling pressure to quantify how competing narratives reshape the country- specific payoff. The **fourth sub- question** considers **heterogeneity** through a structured comparison between India and China. Even when formal signals appear similar, their elasticities with respect to FDI can diverge because of institutional history, reputational memory, and cumulative enforcement. The thesis therefore examines why ostensibly comparable narratives map into different FDI responses across these two cases, clarifying the roles of institutional maturity, narrative discipline, and competitive context.

These sub- questions dictate **the objectives of the study**. To answer the credibility, saturation, and crowding components in a way that is replicable, the first objective is **measurement**: to construct a transparent, reproducible panel in which narrative phenomena intensity, alignment with institutions, temporal persistence and decay, and peer attention, are operationalized with documented coding rules and transformations over the 2000-2023 window. To make the answers econometrically defensible with observational macro data, the second objective is **identification consistent with the data structure**. To estimate fixed- effects models with Driscoll–Kraay inference, to embed the theoretically motivated interactions that target the mechanisms specified by the sub- questions, and to deploy flexible forms, such as splines, where theory predicts curvature while preserving comparability across specifications. To render the answers decision- relevant rather than merely statistical, the third objective is **quantitative interpretability**: to recover marginal effects, Johnson-Neyman regions, and turning points that translate the empirical results into guidance on sequencing ("legislate credibility before amplifying"), cadence (avoiding fatigue), and positioning vis- à- vis peers. Finally, in order to give substantive depth to the heterogeneity component, the fourth objective is **comparative interpretation**: using India and China as structured reference cases for understanding how narrative signals interact with institutional credibility and external noise. Thus distinguishing superficial analogies from conditions under which convergence in effectiveness is feasible.

The objectives, in turn, determine the **scope and the non-objectives**. The analysis is macro-comparative at the country-year level for a group of emerging economies from 2000 to 2023, with inward FDI transformed via

inverse hyperbolic sine as the dependent variable. The focus is on associations between government narratives, measured through documented indices, and FDI, conditional on institutional quality, temporal dynamics, and peer competition. By design, the thesis does not attempt micro- causal identification at the firm or project level, does not analyze outward FDI or sectoral allocation within countries, and does not claim structural causal effects beyond what is credible with observational data. Dynamic GMM is employed only as a robustness device to probe persistence and potential endogeneity, with instrument diagnostics reported, but it is not positioned as the primary identification strategy. This delineation ensures that results are interpreted as disciplined, mechanism- oriented estimates within an observational macro framework, consistent with the questions motivating the study.

Table 1.2 - Research Questions and Hypothesis Mapping (RQ1- RQ4 → H1- H7)

Research Question		
Under what institutional and competitive conditions do government narrative signals raise inward foreign direct investment, and when do they instead backfire because of saturation or the crowding effects of rival countries' narratives?		

	Research Question	Mapping
RQ1 (Credibility and Regime Asymmetry)	How does institutional credibility condition the marginal return of national narrative signaling on FDI, and does this conditioning differ across regime types (democracies vs autocracies)?	H1 and H4
RQ2 (Dynamics and Saturation)	Do narrative signals display persistence, decay, or diminishing returns consistent with reputational memory and saturation?	H2, H3 and H6
RQ3 (Execution Constraints)	How do implementation capacity and veto complexity mediate the translation of signaling into FDI outcomes?	H5
RQ4 (Peer Crowding)	How does peer narrative intensity affect a country's own signaling payoff, net of fundamentals and institutions?	H7

Given this agenda, the contributions are articulated next, distinguishing the conceptual advances from the policy-relevant implications derived from the framework.

1.5 Contributions

This thesis advances the theory around the intersection between FDI, political economy and strategic narratives, by a formalization of the contexts in which narratives generate and move capital and investments and when they do not, translating the contexts in insights, and those insights in implementable guidelines for governments and multinational investor, with a ground of evidence made of thresholds, sequencing and strategies that improve the result of signaling campaigns.

1.5.1 Theoretical contributions

Existing accounts emphasize fundamentals (market size, costs, institutions) but largely treat official communication as noise. This dissertation aims at a demonstration that **narrative signaling** is not universally

strong nor is it futile; it **is contingent**, with its pay-off being dependent on institutional credibility. With the introduction and operationalization of the concept of reputational memory through moving averages of institutional quality and with the consistency of historical signaling, this thesis attempts to measure the extent to which **investors learn from the evolution of the quality environment**.

Important features are the narrative dynamics. **Saturation**, the declining marginal effect of repeated messages, is identified and estimated, the **competitive crowding**: when peer countries intensify their narratives, the marginal payoff to a country's own narrative falls and can turn negative.

By endogenizing narratives and institutions with regime characteristics as democracy level and veto complexity the thesis aims to explain why the same message delivers different effects across different countries. The analysis clarifies when talk fails to translate into investment.

The thesis develops new indicators of narrative intensity and consistency, and a peer-narrative construct that helps quantifying Competitive Narrative Crowding in global and regional markets. Coupled with marginal-effect analyses, these measures make narrative channels empirically testable.

In the end bringing everything under the lens of the comparative analysis of India and China shows how identical signaling increments deliver different FDI payoffs given country-specific credibility baselines, histories, and competitive noise.

Beyond the theoretical advances, the framework yields operational guidance for practice; the following subsection distils actionable implications and targets for policy and implementation.

1.5.2 Practical and policy contributions

The practical ambition of this thesis is to translate the empirical results into actionable targets for policy and strategy. Rather than offering generic recommendations, the analysis seeks to identify thresholds that separate effective from counter-productive narrative strategies. Other goals are to specify numeric objectives that governments and investors can use as waypoints (e.g., credibility cut-offs, turning points for signaling cadence, peer-noise levels beyond which returns diminish), and to derive sequenced playbooks grounded in historical success cases. The emphasis is on replicable rules of thumb: when to amplify, when to pause, and which institutional pre-conditions must be met, so that emerging markets can calibrate signaling efforts to their credibility baseline and competitive context. A focused comparative lens on India complements the general insights: the study frames testable targets and a sequence of steps consistent with India's institutional constraints and opportunity set, while indicating where convergence with top performers is realistically attainable. The full set of targets, thresholds, and implementation guidance is developed and justified in Chapter 6 (6.1.2- 6.1.3), where quantitative evidence is mapped into policy-relevant benchmarks and timelines.

Delivering on these contributions requires transparent measurement and consistent identification; the next section details the panel, variables, and estimators that operationalize the claims.

1.6 Methodological Design and Approach

A twenty country panel, spanning twenty four years of data, covering the 2000-2023 period has been created. Then it was deployed to understand when, why and what is the extension of the influence of policy narratives on the inward flows of FDI, taking into account institutional credibility, timing, reputational memory and competition benchmark.

Core macro controls as GDP per capita, trade openness, infrastructure, political stability have been drawn from standard international sources. Institutional quality is proxied by Rule of Law and Government Effectiveness; regime features use a democracy index and a veto- complexity proxy. Narrative constructs are project- built and auditable: Narrative_Intensity (salience/volume of reform communication), a consistency index (low rolling variance of signaling), reputational memory (3- and 5- year moving averages of institutional quality), and peer narrative (yearly average narrative intensity among a country's competitors excluding the focal country). For the China- India comparisons, country- specific medians and interquartile ranges have been computed on the same centered scale used in the panel so that marginal effects can be read against observed support. To ensure interpretability and reduce spurious collinearity in interactions, continuous regressors are standardized where appropriate; interaction terms are built after centering. Missing values have been treated with specific attention, as explained in the following chapters. The workhorse specification is a within- country fixed- effects model (plm/fixest) that absorbs time- invariant country heterogeneity and, when identification allows, includes year fixed effects. Driscoll–Kraay standard errors with maxlag=3 are used throughout as the baseline inference method to account for serial correlation and cross- sectional dependence typical of macro panels. For stringent sensitivity, key models with CR2 (clubSandwich) country- clustered standard errors were re- estimated. This inference protocol is kept constant across hypotheses so that differences in results reflect substantive mechanisms, not estimator incompatibilities.

H1 models the complementarity between signaling and credibility via an interaction of Strategic Signaling with Rule of Law; marginal effects are reported at country- specific institutional medians to anchor comparative readings. H2 introduces reputational memory using moving averages of Rule of Law and an India dummy interaction to test for country- specific learning effects. H3 studies reform- noise and its moderation by Government Effectiveness. H4 considers the interaction of Rule of Law with the regime type. H5 examines

the interaction effect of epistemic clarity with veto complexity. H6 tests *Narrative Saturation Collapse*: diminishing/negative returns to signaling over time, operationalized via Narrative_Intensity × time_w and via spline models. H7 investigates Competitive Narrative Crowding, in terms of a quadratic of peer narrative and its interaction with own narrative, to explain crowding. For robustness, the thesis estimates dynamic FE variations with a lagged dependent variable, taking into account short- T Nickell bias and interpreting results as robustness rather than identification . Throughout, identification is partial and there is no claim about causal effects beyond the thresholds and borders of this analysis. To retain identification of trend- interaction terms (e.g., Narrative × time), year fixed effects are not included in those models and are instead substituted by the appropriate time functions. Comparable specifications with year fixed effects are reported where applicable. Serial correlation and cross- sectional dependence were checked for, leverage and residual distributions were examined. A verification that key results were not pandemic- specific (≤2019 subsamples) or outlier- driven (winsorized outcomes) was conducted and then confirmed. Proxies at the institutional level (Rule of Law vs Government Effectiveness) were switched and the definitions of peers differ (global vs regional/income groups) to check proxy- and construction invariance. On the rare occasions that CR2 increases intervals , this was noted, and the discussion was restricted to marginal- effects profiles that are qualitatively stable. It is relevant to highlight that Dynamic GMM (Generalized Method of Moments) estimators have been employed only as qualitative robustness tests. Instruments have been collapsed, lag ranges limited, and validity assessed via the deployment of Arellano–Bond test for second- order serial correlation (AR(2)) and Hansen/Sargan tests. Together with this coefficient magnitudes have not been used for substantive inference.

All models are implemented in R with widely used packages (plm, fixest, lmtest, sandwich, clubSandwich, ggplot2, splines). Code is modularized by hypothesis, commented in- line, and yields coefficient tables and marginal- effect graphs. All key preprocessing steps (zero- centering, normalization, peer- coupling) are scripted as opposed to being manual/canvassed to ensure re- runnability. The storytelling measures are reported and are re- calculable from underlying event logs, all transformations (e.g., moving average, dispersion- based consistency) are given completely.

With scope, measures, and estimators established, the chapter closes by outlining how the remainder of the thesis proceeds.

1.7 Structure of the Thesis

This thesis is organized to move from motivation and theory to measurement, identification, results, and implications, with each chapter building the logic for the next.

Chapter 1 introduces the problem, situates it in the recent evolution of FDI scholarship and practice, states the research questions, and previews the contributions. It also summarizes the methodological architecture and provides a roadmap for the reader.

In Chapter 2 the literature is surveyed and there is a deep examination of foundational FDI theory, credibility and institutional quality, policy signaling and reputational dynamics and Competitive Narrative Crowding in global capital markets. It operationalizes the discontents that drive the study and formulates the seven testable hypotheses that organize the empirical analysis.

In Chapter 3 there is the theoretical framework and the rationale behind the hypotheses . It describes sources, the construction of the original narrative measures (intensity, consistency, reputational memory, peer narrative), scaling and centering choices, and the country coverage. It also details data checks, missing values handling, and descriptive diagnostics that anchor the plausibility of the measures and findings.

Chapter 4 describes the empirical approach and anticipated findings. This chapter assigns each hypothesis to a regression form (linear interactions; splines; and quadratics, where theory suggests there should be curvature), explains identification claims and constraints, and provides ex- ante directional expectations that frame ex-post interpretation of Chapter 5. It also derives marginal- effect formulas and explains how they are evaluated.

Chapter 5 presents the results, specifically section 5.2 presents, for each hypothesis, the estimates at the core, marginal- effect profiles with confidence bands and country- anchored readings (with a sustained attention to India- China where informative).

Chapter 6, discusses what the results mean for theory and practice. Section 6.1 synthesizes the main finding, and gives India specific guidelines and numeric targets to achieve, which are then, in Section 6.1.5 converted into policy-relevant targets and suggestions for India . Section 6.2 discusses the theoretical implications; Section 6.3 formulates policy recommendations for developing economies; Section 6.4 presents the limitations; and Section 6.5 identifies avenues for future research.

Before delving into the second chapter, in order to facilitate the understanding of this work, the various abbreviations employed are enumerated in the table below with their full terms.

Table 1.3 - Abbreviations and acronyms (expanded terms)

Abbreviation	Expanded term
AI	Artificial Intelligence
AR(2)	Arellano–Bond test for second- order serial correlation (in GMM)
BRICS	Brazil, Russia, India, China, South Africa
COVID- 19	Coronavirus Disease 2019 (pandemic)
CR2	Cluster- robust variance estimator (bias- reduced linearization)
DK	Driscoll–Kraay (heteroskedasticity & cross- section dependence robust) standard errors
FDI	Foreign Direct Investment(s)
G7	Group of Seven (advanced economies)
GMM	Generalized Method of Moments
H1- H7	Internal labels for the 7 formal hypotheses
IJOEM	International Journal of Emerging Markets
IMF	International Monetary Fund
MNC	Multinational Corporation(s)
MNE	Multinational Enterprise(s)
N- 11	Next Eleven (emerging economies grouping)
OECD	Organization for Economic Co-operation and Development
PWT	Penn World Table (macro dataset)
POLCON	Political Constraints Index
PRISMA	Preferred Reporting Items for Systematic Reviews and Meta- Analyses (protocol for mapping reviews)
R	Statistics software and programming language R
TWFE	Two-Way Fixed Effects
UNCTAD	United Nations Conference on Trade and Development
VCOV	Variance- covariance matrix
WDI	World Development Indicators (World Bank)
WGI	Worldwide Governance Indicators (World Bank)
WTO	World Trade Organization
YoY	Annual rate of change

The same table has been replicated for the abbreviations of the variables.

Table 1.4 - Variables codes (core dataset)

Variable code	Operational definition
GDPpc	Gross Domestic Product per capita
Rule_Law	Rule of Law (WGI index)
Political_Stability	Political Stability (WGI Index)
Trade_Open	Trade Openness (Measure of commercial openness)
Infra_Index	Infrastructure Index
HighTech_Exports	High- Technology Exports (%)
Narrative_Intensity	Narrative/signal intensity index
Peer_Narrative_Intensity	Peer narrative crowding (competitors' narrative intensity)
Consistency	Narrative consistency (alignment over time)
Memory	Reputational memory (3- 5- year moving average of institutions)
Gov_Effectiveness / Gov_Effectiveness	Government Effectiveness (WGI index)

Motivation and research questions have been established, highlighting information frictions around state communication and investor beliefs. A theoretical framework is now required to formalize how fundamentals, signaling, and credibility interact to shape FDI.

Chapter 2 - Theoretical Framework on FDI and Signaling in Emerging Economies

Chapter 2 sets out the theoretical architecture: OLI, transaction-cost economics, institutional quality, and the resource-based view, and positions official communication within these lenses as a credibility-constrained signal.

Search and Selection Strategy

The review follows a compact, transparent protocol. Sources were identified in Scopus (Elsevier), Web of Science (Clarivate), and EconLit (American Economic Association), focusing on FDI, policy signaling, strategic narratives, and nation branding. For recent, communication- centered and empirical literature, searches were run within 2000- 2025 to capture the latest developments. By contrast, for foundational FDI theory and canonical determinants (e.g., eclectic/OLI, early empirical drivers) no lower time bound was imposed. Seminal works published before 2000, together with recognized handbooks, were explicitly included as anchors. Inclusion criteria required peer- reviewed outlets. Studies had to report an empirical link to inward FDI (elasticities, marginal effects, or directional tests) or to at least one of the three mechanisms structuring this thesis: credibility filters, saturation/decay, and competitive crowding. When multiple surveys existed for a construct, one anchor survey was retained, and primary studies were sampled to ensure methodological diversity (panel vs. cross- section; different country sets). Grey literature was used only to document data definitions (e.g., WGI, WDI), not to substantiate causal claims. A concise evidence map then organizes convergences and disagreements and feeds directly into H1- H7 and the model design in Chapters 3- 4.

2.1 Foundations of Foreign Direct Investment (FDI)

2.1.1 Definitions, forms, and macroeconomic relevance

Foreign Direct Investment refers to a cross-border investment through which an entity of one country acquires a lasting interest and significant influence in an enterprise in another country. In statistical terms, the standard threshold for the so called "lasting interest" is associated with an ownership of at least 10% of the voting power in the foreign business. This specific equity stake implies that the investor has the intention to exert management control or influence. This is done by setting apart the FDI as a long term relationship between the investing firm, known as the Multinational Enterprise (MNE) and the host enterprise (Organisation for Economic Co-operation and Development (OECD), 2025)[13]. Through the establishment of affiliates and subsidiaries, MNE serves themselves of FDI so as to expand their international reach and integrate markets, so

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[13]OECD: https://www.oecd.org/en/publications/oecd-economic-outlook-volume-2025-issue-1_83363382-en.html

the FDI is seen as key driver of global economic integration. The benefits of it do not stop only at capital, but comprehend also technology, jobs and access to world market, thus contributing to the development of the hosting country. Over time FDI covered a role increasingly relevant in the global landscape, global FDI flows achieved a staggering value of $1.3 trillion in 2022 according to the United Nations Conference on Trade and Development (UNCTAD) World Investment Report (UNCTAD, 2023)[14]. The accumulated global stock of FDI reached instead $44 trillion covering so the 44% of world GDP (UNCTAD, 2023).

The several forms of FDI are usually associated with the mode of entry and nature of the investment. One mode is the greenfield investment, through which the investor establishes a new enterprise or a facility in the host country from the ground up. These projects inject fresh capital and create new jobs in the hosting country developing its productive capacity (OECD, 2025). Another form of FDI can occur via cross border merger and acquisitions (M&A). In this approach the foreign investor do not start from scratch but merges or acquires an already existent and established local company, usually entailing just a transfer of ownership rather than creation of new capacity. This last mentioned aspect makes usually M&A FDI less accepted and welcomed by hosting countries than Greenfield. It is also important to understand the potential rationale and strategy behind these two different approaches. While Greenfield FDI is more associated with horizontal, market-seeking investments, aiming to a local production, M&A FDI are instead pursuing asset seeking and exploitation of already existing assets like established brands, technologies and distribution networks.

FDI can also be categorized by direction. Inward FDI are investments coming into a country from abroad, outward FDI are investments by domestic firms abroad. Another criteria is the degree of ownership: wholly owned subsidiaries or joint venture with local partners.

Bringing the analysis to a macroeconomic level, FDI play a pivotal role in the development of the hosting countries, as they serve as critical source of external finance and capital formation, and almost always outstripping other external flows like aid or portfolio equity. Together with this, FDI are more stable and long term than usual short term capital flows and are usually associated with positive spillovers of technology, managerial know- how and access to international markets. An IMF study emphasized on the positive impact of FDI on economic growth of the receiving country on condition that the latter is ready to accommodate the new flows efficiently (Campos & Kinoshita, 2003, pp.21)[15]. The macroeconomic relevance of FDI is evident in its scale and impact, for example developing countries received 70% of global FDI inflows in 2022, highlighting the central role of FDI in the development of emerging economies (UNCTAD, 2023).

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[14] UNCTAD: World Investment Report 2023
[15] Campos, N. F., & Kinoshita, Y. (2003). Why does FDI go where it goes? New evidence from the transition economies. International Monetary Fund.

With the forms and macro relevance of FDI clarified, attention turns to the underlying motives: market-seeking, resource-seeking, and efficiency-seeking, that determine why firms internationalize.

2.1.2 Motives for FDI: market-seeking, resource-seeking, efficiency- seeking

John Dunning in 1998 conceptualized and proposed the classification of FDI motives in: Market-seeking, Resource-seeking and Efficiency- seeking (Dunning, 1998, pp.53)[16]. All the three types have a specific underlying logic, and the rationale of the motives influence the nature of the FDI as well as the impact on the host country.

Market seeking FDI (or Horizontal FDI) is a copy of the operation of the firm at home, in a third country, thus serving local and regional markets (Campos & Kinoshita, 2003, pp.5). Typically, the most important drivers for this approach are the size and potential for growth of the hosting market, proximity to customers and potential to adjust products to local preferences. With this approach other benefits to take into consideration are the overcome of trade barriers as tariffs and import quotas and the bypass of transportation costs, all a series of factors that make exporting less competitive. What investors search as main determinants are the market size, the income levels and potential and expected demand growth in hosting countries. The aforementioned studies also show that a major attraction of FDI comes from countries with a higher GDP, since investors seek to capitalize on those markets. Also the presence of regional integration can be an amplificatory of this approach as a firm might gain access to a broader regional market.

Resource-seeking FDI is an approach that comes to rescue when specific resources or inputs are either not available or too costly at home (Campos & Kinoshita, 2003). Usually resources involved are natural ones as oil, mineral, timber or agricultural products or even human resources that range from low cost to specialized labor. Indeed some literature combines the resource seeking and efficiency seeking, under the broader notion of factor seeking as soon as both involve cost advantages in inputs. The host country, so, is seen as source of supply for the investing company's global operations.

Efficiency seeking FDI lowers unit costs and raises productivity by exploiting scale and cross-border specialization . Ultimately the vision is to have operations consolidated either regionally or globally so that each location is doing only the thing it has a strong comparative advantage doing. These advantages can be cost differentials between countries, adequate infrastructure supply and trade openness in form of a policy environment easing the transport of intermediate goods over borders. The close resemblance between this and

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[16] Dunning, J. Location and the Multinational Enterprise: A Neglected Factor? J Int Bus Stud 29, 45- 66 (1998). https://doi.org/10.1057/palgrave.jibs.8490024

the resource seeking one becomes evident. Donaldson and Joffe explain more clearly how much differs in their contingencies strategic fit analysis. They emphasize that in case of resources seeking the priority is reducing raw materials' price, while in the efficiency seeking the pursuit of the economies of scale is the goal. (Donaldson & Joffe, 2014, pp.40)[17]

2.1.3 Emerging economies as FDI destinations: structural opportunities and vulnerabilities

As already stated in chapter 1.1.1 emerging and developing economies have become increasingly significant destinations for FDI as they offer an attractive mix of high growth opportunities and structural challenges. Many emerging economies provide some fundamentals that are particularly attractive for foreign investors as the fact of being large and growing domestic markets, young populations, abundant natural resources and rising industrial capabilities. This reflects and explains the rationale behind the rapid growth and market potential of major emerging economies as China, India, Brazil, Indonesia, and others, which , over time, have become prime targets for investments. These countries are also characterized by expanding middle classes and urbanization trends that translate into increasing demand for goods and services, bringing multinationals to evaluate the establishment of local production facilities and stronger and widespread retail presence. Together with this many economies have liberalized their investment regimes, improved their business climates, implemented investment promotion policies, eased restrictions, improved infrastructure and also joined international trade agreements. Some countries have set themselves as major export manufacturing hubs as Vietnam for electronics and Bangladesh for textile benefitting from efficiency related FDI.

The path here, as always, is not without its obstacles, in fact a series of structural vulnerabilities characterize the emerging economies. A first vulnerability is brought to light by the aforementioned UNCTAD report. FDI flows to developing countries are not evenly distributed, but are concentrated in few large markets. Less developed countries (LDCs) in fact do not see such important inflows as in other cases. Another relevant vulnerability is the strong dependence on only a narrow set of FDI types. In fact, some emerging economies rely almost entirely on resource- sector FDI or a single industry, which makes them particularly vulnerable to commodity price swings or shocks in those specific sectors. This volatility is a well- known challenge, and research has found that the capital flows directed towards emerging economies are riskier and more volatile than the ones directed towards developed countries. Even if FDI should be more stable compared to short term capital, it is not immune to global economic cycles and risk perception as the idea of the "boom- bust" cycle

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[17] Donaldson, L., & Joffe, G. (2014). Fit- the key to organizational design. Journal of Organization Design, 3(3), 38- 45.

in some emerging markets that can deter the long- term commitments that FDI requires. (Byun et al., 2012, pp.15- 16)[18]

Another challenge is related to infrastructure and capacity constraints as many emerging economies have deficits in hard infrastructure (transport, energy, logistics) and soft infrastructure (skilled labor, R&D capability) that can limit the absorption of FDI or the scale of projects feasible. While foreign investors may help build infrastructure, inadequate infrastructure raises the cost of doing business and may divert FDI to more prepared locations. Likewise, the cost of capital in emerging economies can be prohibitively high due to higher country risk premiums. Investors financing projects in low- income countries often face sharply higher borrowing costs in fact LDCs may pay several times more than developed countries to raise funds on international capital markets (UNCTAD, 2023). These kind of financial problems make certain types of FDI especially infrastructure intensive ones, more difficult to realize in weaker economies. Other factors as currency instability and macroeconomic volatility including inflation spikes and debt crises have periodically hurt some emerging plagued some emerging markets, thus leading to additional risk into FDI.

Institutional quality and governance is the most significant structural vulnerability. A stable and transparent institutional environment is crucial for attracting and retaining FDI. However, many factors related to that can strongly undermine investor confidence and are for example unpredictable legal systems, bureaucratic red tape, corruption or political instability.

Good governance and rule of law draw in more FDI, whereas weak or underenforced institutions tend to discourage foreign investors as they need stronger guarantees that contracts will be kept and assets will be protected. In fact, investors , in case an emerging economy has a track record of policy uncertainty or weak protection of property rights, may either demand a higher return so as to compensate for risk or they directly avoid the country. Globerman has identified factors that plays a significant role in predicting FDI flows towards developing countries such as government effectiveness, regulatory quality, rule of law, and corruption control (Globerman, 2002, pp.1915)[19]. This has practical relevance since institutional weaknesses can result in sudden stops, or even reversal, of FDI, as foreign firms pull back or exit when exposure to risks increases. A second important instrument available to policymakers is a credible and narrative signaling mechanism, which is why governments in emerging economies often have to expend a lot of effort convincing foreign investors that they are committed to stable, business friendly policies.

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[18] Byun, H. S., Lee, H. H., & Park, C. Y. (2012). Assessing factors affecting M&As versus Greenfield FDI in emerging countries (No. 293). ADB Economics Working Paper Series.

[19] Globerman, Steven & Shapiro, Daniel. (2002). Global Foreign Direct Investment Flows: The Role of Governance Infrastructure. World Development. 30. 1899- 1919. 10.1016/S0305- 750X (02)00110- 9.

Context alone does not determine outcomes. A theoretical architecture is required to explain how firm advantages, transaction frictions, and institutional quality convert opportunities and risks into cross-border commitments.

2.2 Classical and Modern Theories of FDI

Within the international literature a range of classical and modern theoretical frameworks have been developed to explain why and how MNEs undertake FDI. These theories provide complementary perspectives on the strategic rationale from a microeconomic point of view (so from the firm's standpoint) including leveraging firm specific assets and advantages or minimizing transaction costs, and from a macroeconomic point of view (the country's standpoint) including the influence of host country factors and institutional environments.

2.2.1 Dunning's Eclectic Paradigm (OLI Framework)

One of the most influential frameworks for explaining FDI is the OLI framework, also known as the Dunning's Eclectic Paradigm. Firstly introduced by Dunning in 1977, and then re- elaborated in 1980, this model encapsulates a series of earlier thoughts into an holistic model of why firms engage in Foreign Direct Investment (Dunning,1977)[20]. This framework posits that a firm will undertake FDI because of three different tiers of advantages: Ownership, Location and Internalization. In Dunning's words, *"first, the extent to which it possesses (or can acquire, on more favorable terms) assets1 which its competitors (or potential competitors) do not possess; second, whether it is in its interest to sell or lease these assets to other firms, or make use of-internalize- them itself; and third, how far it is profitable to exploit these assets in conjunction with the indigenous resources of foreign countries rather than those of the home country"* (Dunning,1980)[21].

Ownership advantages (O): refer to firm- specific assets or capabilities that give the MNE a competitive edge in foreign markets[22]. These are typically intangible resources such as proprietary technology, brand reputation, managerial know- how, or other firm- specific competencies. Dunning built on Hymer's seminal insight that firms investing abroad must possess monopolistic or firm- specific advantages sufficient to overcome the inherent "liability of foreignness" . It consists in the extra costs of operating in an unfamiliar environment

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[20] Dunning, J.H. (1977). Trade, Location of Economic Activity and the MNE: A Search for an Eclectic Approach. In: Ohlin, B., Hesselborn, PO., Wijkman, P.M. (eds) The International Allocation of Economic Activity. Palgrave Macmillan, London. https://doi.org/10.1007/978- 1- 349- 03196- 2_38

[21] Dunning, J. H. (1980). Toward an eclectic theory of international production: Some empirical tests. In The eclectic paradigm: A framework for synthesizing and comparing theories of international business from different disciplines or perspectives (pp. 23- 49). London: Palgrave Macmillan UK.

[22] https://www.investopedia.com/terms/e/eclecticparadigm.asp#:~:text=The%20first%20consideration%2C%20ownership%20advantages%2C,as%20a%20reputation%20for%20reliability

(Kishor et al., 2020)[23]. So to compete successfully overseas, an MNE needs unique assets not available to local firms.

Location advantages (L), instead, comprehends the favorable features characterizing the host countries that may attract FDI. Even if a firm possesses a strong "O" advantage, it will choose FDI only if the target country offers benefits that make production there more advantageous than domestic production. Location advantages comprehend natural resource, large or developing consumer markets, inexpensive or skilled labor and government incentives in the host economies. Dunning's theory starts from the classic trade theories studies on cross country differences in factor endowments, recognizing that countries provide immobile inputs and contextual advantages, as minerals, favorable climate or supportive business environments.

Internalization advantages (I) consist in the set of advantages a firm can obtain by internalizing foreign business activities within its own organization, rather than relying on licensing, outsourcing, or other potential transactions. This element of the paradigm has been influenced by the transaction cost theory, that will be analyzed in paragraph 1.2.2. The basic rationale behind this advantage is that if the external market for the firm's know- how or intermediate products is inefficient or failure- prone, the firm will prefer to establish an internal hierarchy (as a foreign subsidiary for example) to capitalize on its advantages. Dunning noted that if the *"net benefits of internalizing cross-border intermediate product markets"* are high, a firm will choose FDI over arm's- length arrangements.

2.2.2 Transaction Cost Theory (TCT) and internalization theory

These two theories are closely related and provide a micro analytic explanation of why firms tend to expand themselves abroad via ownership rather than contracting, essentially developing a "make or buy" decision in international contexts. The roots of this theory lies in Ronald Coase's classic question: "Why do firms exist?" (Coase, 1937, pp.388- 390)[24] arguing that firms emerge to internalize transactions when using the market is costly or impractical. Building on this idea, Oliver Williamson formalized TCE by identifying sources of market transaction costs such as asset specificity, opportunism, and information asymmetries that can make market exchanges inefficient or risky (Williamson, 1988, pp. 65- 67)[25] and (Williamson, 1993 pp.67- 68)[26]. Applying TCE to FDI, the core argument is that multinational firms undertake FDI in order to internalize cross-border transactions that would incur prohibitive costs if organized through external markets or contracts.

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[23] Kishor, N., Sanjeev, A. & Khan, M., (2020) "Impact of motives of inward FDI on benefits perceived by foreign multinational enterprises investing in India", American Review of Political Economy 15(1). doi: https://doi.org/10.38024/arpe.kks.6.28.204
[24] Coase, R. H. (1937). The Nature of the Firm. Economica, 4(16), 386- 405. https://doi.org/10.2307/2626876
[25] Williamson, O. E. (1988). The logic of economic organization. The Journal of Law, Economics, and Organization, 4(1), 65- 93.
[26] Williamson, O. E. (1993). Transaction cost economics meets posnerian law and economics. Journal of Institutional and Theoretical Economics (JITE)/Zeitschrift für die gesamte Staatswissenschaft, 149(1), 99- 118.

Internalization theory, developed in the 1970s by Peter Buckley and Mark Casson is essentially an application of TCE specifically to the MNE and FDI context. It questions the reason why firms internalize transactions across national borders (becoming MNEs) instead of transacting through the market. The answer to this fundamental question lies in the existence of internalization advantages, which overlap with the "I" in Dunning's OLI. Buckley and Casson's seminal work proposed that MNEs arise because firms can increase efficiency by internalizing the market for intermediate products, knowledge, or technology when external markets for these inputs fail (Buckley & Casson, 2020, pp.249)[27]

From a country- level perspective, TCE and internalization theory shed light on how features of a host country's market and institutional environment can influence FDI entry modes. If a host country is characterized by weak contract enforcement or high corruption or strict regulations that will surely complicate partnerships. This will lead foreign companies to be more avoid FDI, keeping operations in- house so as to avoid unreliable external partners. The easiness to carry out market transactions is usually explained through parameters such as solid legal protections for contracts and intellectual property protections. In these cases companies may feel safer using licensing, franchising, or supplier agreements instead of foreign direct investment (FDI). In this way, transaction costs relate to institutional conditions: a country with a strong institutional framework effectively lowers transaction costs for market exchanges, reducing the need for complete ownership entry. In contrast, a poorly governed environment drives companies toward controlling FDI despite the challenges it brings.

Because the cost of transacting depends on rules and enforcement, institutional quality enters as a filter that raises or lowers perceived risk.

2.2.3 Institutional Theory and regulatory environments

While the OLI approach emphasizes economic efficiency and firm centric factors, institutional delves into a deeper analysis of institutional and regulatory environments. Institutions are commonly identified in the literature as "the rules of the game in a society, or more formally, the humanly devised constraints that shape human interaction" following the definition North in 1990[28]. They both include formal laws, regulations and policies, and informal laws, cultures and local business practices. This perspective focuses on the idea that FDI location and mode choices are heavily influenced by the institutional context of home and host countries, and in particular by the quality of host's country institutions and regulatory framework.

From the side of the country the evidence is consistent: more FDI are attracted by strong, stable and transparent institutions, while unsound or unpredictable institutions play instead a negative role. Competition in the host

[27] Buckley, P. J., & Casson, M. (2020). The internalization theory of the multinational enterprise: Past, present and future. British Journal of Management, 31(2), 239- 252.
[28] North DC. Institutions, Institutional Change and Economic Performance. Cambridge University Press; 1990.

country producing a good rule of law, investors' protection, contracts enforcement, corruption, political stability and an effective bureaucracy reduces the level of risk and uncertainty those firms are likely to face in the host country. For example, Bailey in 2018, has been able to prove that positive effects to FDI relates to institutional variables such as political stability, democratic governance as well as robust rule of law, while negative factors as corruption, weak legal systems, and excessive taxation tend to discourage FDI (Bailey, 2018, pp.146)[29]. As such, MNEs have more incentive to allocate resources to those countries if they consider their investments safe from expropriation or ad hoc policy changes. Clear and business- friendly countries so can drive down operations costs for foreign companies as well. On the contrary, whereas foreign investors might avoid countries with a very unfriendly, unregulated environment or with poor contract enforcement, they might opt for entry modes that minimize their exposure like joint venture, or not investing at all in the target.

Firms not only seek economic efficiency in a host country but also strive for legitimacy in the eyes of local stakeholders, as customers, governments, communities by adhering to local institutional norms (Powell & DiMaggio, 1991, pp.26- 30)[30] and (Kostova & Zaheer, 1999, pp.76- 78)[31]

Beyond contracting and rules, durable attraction reflects location-specific resources and capabilities; the resource-based view addresses this persistence.

2.2.4 Resource-Based View (RBV): strategic assets and location- specific advantages

This theory offers a management perspective on FDI, with a specific focus on how a firm's resources and capabilities serve as drivers of its international expansion and how foreign locations provide access to valuable resources. The RBV, proposed by scholars like Wernerfelt and Barney, argues that **lasting competitive advantage** comes from having and effectively using **valuable, rare, inimitable, and non- substitutable (VRIN)** resources (Wernerfelt, 1984, pp.173- 176)[32] (Barney, 1991, pp.102- 103) [33]. At first, RBV mainly focused on firms. It highlighted internal strengths such as technological knowledge, human talent, intellectual property, and better organizational processes as key factors for success. In the context of FDI, this view naturally aligns with Dunning's Ownership advantages: firms that go abroad often do so *because they have strong proprietary assets* that they can leverage in foreign markets

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[29] Bailey, N. (2018). Exploring the relationship between institutional factors and FDI attractiveness: A meta- analytic review. International Business Review, 27(1), 139- 148.

[30] DiMaggio, P. J., & Powell, W. W. (1991). Introduction. The new institutionalism in organizational analysis. The new institutionalism in organizational analysis,

[31] Kostova, T., & Zaheer, S. (1999). Organizational legitimacy under conditions of complexity: The case of the multinational enterprise. Academy of Management review, 24(1), 64- 81.

[32] Wernerfelt, B. (1984). A resource-based view of the firm. Strategic management journal, 5(2), 171- 180.

[33] Barney, J. (1991). Firm Resources and Sustained Competitive Advantage. Journal of Management, 17(1), 99- 120. https://doi.org/10.1177/014920639101700108

Firms will choose host countries and entry modes that allow them to utilize what they have and acquire what they need in the best way possible.

Classical frameworks under-specify the information channel. Official communication is therefore framed as a credibility-constrained signal that can shift beliefs when delivery is observable

2.3 Strategic Signaling, Nation Branding, and Narrative Dynamics

2.3.1 Signaling Theory and Credibility Channels in FDI Attraction

In the economics of information, according to the definition of Spence, signaling theory explains how actors convey credible information under conditions of asymmetry and uncertainty (Spence, 1973). Signals are observable actions or attributes that send messages about non- observable qualities or intentions. In the context of FDI host countries are the signalers in order to assure foreign investors about their stability, openness and commitment of market friendly policies. A signal, to be effective, must be **credible** and **costly** or in any way that can keep unreliable hosts **away from mimic**. Investors easily discount cheap talk and mere proclamations unless they are backed by tangible commitments. Conversely signals entailing significant costs or institutional constraints are usually taken more seriously (Zhang & Fan, 2025, pp.6- 8)[34] (Berger et al., 2010)[35]. Governments usually rely on formal international agreements and policy frameworks so as to signal credibility. A really costly signal of commitment to property rights, instead, is embodied by the signing of **Bilateral Investment Treaties** (BITs) with strong investor protection and international arbitration clauses. The credibility of the BITs lies in the idea that these treaties help emerging economies overcome their reputation deficit by binding themselves to transparent rule of law standards thus leading to a greater FDI attraction. Actions like joining the World Trade Organization (WTO) or implementing strict monetary and fiscal rules can be further signals aimed at assuring investors about future policy trajectories.

In addition to these legal commitments, several channels of communication between governments and investors affect perceptions. Good economic policy is its own reward, through reliance on indicators of macroeconomic health like low inflation, stable currencies, or investment- grade credit ratings. A higher governance index score or a stronger anti- corruption ranking constitutes an institutional signal.

Signaling via mega- events is also a popular strategy, and holding large international events helps to transmit information about stability, and openness.

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[34] Zhang, Hejie and Fan, Hongzhong, Signaling and FDI: Evidence from the International Mega- Events in China (June 30, 2022). Available at SSRN: https://ssrn.com/abstract=5043700 or http://dx.doi.org/10.2139/ssrn.5043700
[35] Berger: WTO https://www.wto.org/english/res_e/reser_e/ersd201010_e.htm

In a globally competitive environment, signaling is a race. With many countries following the same neoliberal reforms or tax incentives, investors may find it difficult to differentiate credibility from mere mimicry. In these situations, countries vie to be noticed by increasing signal intensity and consistency.

Game- theoretic models show that the patience and time horizons of policymakers influence this behavior: impatient governments may over- promise or emulate credible signals short- term, but risk losing trust if they cannot sustain them (Griebeler & Wagner, 2017, pp.3)[36]. The upshot is that effective FDI signaling requires not just sending *signals*, but doing so in a way that is costly to fake and sustained over time, so that outsiders update their beliefs about the host's type.

If signaling provides the logic of credibility, nation branding supplies the narrative vehicle through which that credibility is packaged and perceived.

2.3.2 Nation branding as a reputational asset: theory, practice, and indices

If signaling theory provides the logic of conveying credibility, nation branding provides the narrative and imagery through which that credibility is culturally packaged and communicated. Nation branding refers to the strategic self- management of a country's international image and reputation, using marketing principles to shape how global audiences perceive the nation (Maiz- Bar et al., 2025, pp.10)[37].

As Simon Anholt , who first coined the term "nation brand" in 1996, famously argued, in an interconnected world "becoming a brand is not merely an option but an essential necessity" for countries. The core idea is that a country's brand image, the sum of external perceptions about its people, culture, governance, and economy , constitutes a form of national soft power and competitive advantage. A strong nation brand can function as a valuable reputational asset, facilitating diplomacy, trade, tourism, and investment, whereas a weak or negative image can handicap a nation's economic prospects[38]. Nation branding, then attempts to curate the national reputation so that it is a fair, balanced, and useful reflection of the country's realities and aspirations.

From a theoretical standpoint, nation branding intersects with Joseph Nye's concept of soft power. Soft power is the ability to achieve desired outcomes through attraction rather than coercion or payment. Nye defines soft power as "the ability to get others to want the outcomes that you want", essentially shaping others' preferences through appeal and legitimacy leading others to embrace the desired preferences(Nye, 1990). So many countries incorporate soft power practices into their branding efforts.

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[36] Griebeler, M. D. C., & Wagner, E. M. (2017). A signaling model of foreign direct investment attraction. EconomiA, 18(3), 344-358.
[37] https://www.mdpi.com/2673-8392/5/2/43#:~:text=Nation%20branding%20refers%20to%20the,namely%2C%20general%20nation%20branding%20indexes
[38] Anholt, S. (1996). Making a brand travel. Journal of Brand Management, 3(6), 357- 364.

In the last two decades various nation brand indices and rankings have emerged as relevant measures of nation branding as they quantify and compare national reputations. Probably the most established and renowned index is the Anholt Nation Brand Index launched in 2005[39]. Each year, the survey polls a sample representing more than 70% of the world's population (and over 80% of its economy) on its perceptions of 50 countries. The study includes more than 40 detailed questions and demographic indicators. These indicators enable researchers to map tightly defined global population segments to their perceptions across six key dimensions (the Nation Brand Hexagon): Exports (products and services), Governance, Culture and heritage, People (e.g., friendliness, talent), Tourism, and Investment & Immigration appeal.

Reputation can be over-used: as similar claims proliferate, authenticity is questioned and marginal impact declines, raising the risk of narrative saturation.

2.3.3 Narrative saturation, authenticity, and backlash: when signaling fails

Through strategic signaling and nation branding, narrative saturation is one of the key dangers. Narrative saturation arises because of the fact that nowadays every country promotes itself by announcing characteristics and assets that are tempting for investors. Yet, as this process goes on, and reaches points of over proliferation target audiences can start questioning the authenticity of every communication, and so the effect of the signaling campaign is impacted. So, when too many countries brand themselves in similar terms, the narrative space becomes crowded, diluting the impact of any single campaign. To stand out some countries escalate their signaling with bigger ads, bolder slogans, but usually this backfire by appearing desperate or not authentic. Investors are in fact skilled in understanding the inconsistency of countries, this creates a perception- action gap. Together with this not only misaligned, non- credible signal are ignored, but they create severe reputational damages.

Another important aspect is that nation branding campaign tend to oversimplify a nation's identity into a single narrative. Actually this approach might be good for marketing, with its reductionism, but in this case bears the strong risk of omitting uncomfortable truths.

Professor Melissa Aronczyk has noted that nation- branding tends to favor a single, totalizing script of national identity, one that is invariably marketable, rather than pluralist. This mode assumes that each national environment possesses a single, unified "essence", and subsequently ignores internal difference or dissent etc.[40]. Trust is difficult to create and simple to destroy, and all it will take is a solitary profile event that can

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[39] https://www.anholt.co/nbi

[40] London School of Economics (LSE): Nation branding to promote states in the global market has serious consequences for social diversity

seriously damage an image that has been built up for so long by investors who are, one bitten twice shy, likely to become more critical of the untrustworthy country.

2.3.4 Time, memory, and narrative lock- in: reputational effects and signaling inertia and hysteresis

Reputation is a stock variable that accumulates or depletes over time. Past behavior and narrative history of a country play a significant role in interpreting new signals in attraction of FDI. The dynamic generates a form of narrative lock- in or reputational path- dependence: once a country's identity crystallizes in the international imagination, it typically has a certain momentum that is helpful and yet also potentially inhibiting in future signaling. A good reputation can corrupt into a kind of capital that assist a country in absorbing short- term blows. Reputational memory can be used when a necessary condition of a long- term trusted country's stability or business friendliness is disturbed by the occasional political hiccup. Negative and dated reputation, on the other hand, tends to have more of a stubborn stickiness and it can take time, money and resources to change it.

An example of hysteresis is the reputation inertia effect, whereby once a reputation is gained, even in the absence of that trait, the reputation tends to persist over time. Time consistent, must be accompanied with Credible commitment based on the fact that a country should not just have to signal credibility but it should have to prove the credibility over the time (Simonin, 2008, pp.29- 33)[41].

The idea of narrative lock- in also implies that once a certain story about a country takes hold globally, it conditions and shapes future events, with mixed results. For the positive story, it means developments will be read generously. For a negative story, it means new positives can be ignored or treated as exceptions. To escape from a negative lock- in, countries typically require some kind of dramatic jolt or sustained campaign that incrementally moves the narrative baseline. One strategy is to use time and memory strategically: Nations appeal to historical achievements or long- term goals to replot their arc of narrative. The use of anniversaries of nationhood, emerging "visions 2030" as national grand designs or heritage branding (such as celebrating some grand cultural past) can help root a new narrative in something more than just current policy decrees and hence readjust memory.

A second element of time is this of signaling inertia from the sender as governments themselves can become locked in with their narratives and past signals. Once a country has heavily invested in a particular brand (e.g., "the green energy champion" or "financial services capital"), there is institutional and political inertia to stay

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[41] Simonin, B. L. (2008). Nation branding and public diplomacy: Challenges and opportunities. Fletcher F. World Aff., 32, 19.

on that course, even if external conditions change or the narrative proves limiting. Shifting a nation's brand is costly and risky; policymakers fear losing whatever equity has been built.

2.4 AI Readiness, Digitalization, and New Signaling Frontiers

As global investment capital increasingly focuses on knowledge- and high tech, a country's readiness in artificial intelligence and degree of digitalization have also emerged as crucial symbols in the country's story to investors. In the time of image, countries project image of themselves as school of technology to enhance the credibility of institution and to attract foreign direct investment (FDI). Digital infrastructure and A.I. capabilities are not just means of development; they also play strategic signaling roles. Developing economies are incorporating AI and digital tech into their development plans, integrating them into national priorities and validating investment stories with tangible digital achievements[42].

2.4.1 Technological infrastructure and digital assets as competitive signals

Currently, the attractiveness of FDI depends on the technological infrastructure and digital assets of a country that are the main signals of competitiveness in the networked economy. Strong digital infrastructure, from broadband networks and data centers to mobile connectivity and power for IT, cuts transaction costs and uncertainty for investors, just as physical infrastructure has historically done. A report by the World Bank had revealed that, for example, high speed internet can enhance the performance of the firms and their market outreach. This creates a perception of the returns in the country is higher and then the investor start believing that returns are high. Then more is the flow of the FDI out there (Mensah & Traore, 2022, pp.20- 21)[43].

So when a country demonstrates that it has the digital backbone to support modern business (fast internet, reliable telecom, fintech ecosystems, etc.), it sends a credible signal of a conducive environment for growth, together with other digital assets such as skilled tech workforce, fertile startup scenes and e- government platforms. So both hard infrastructure and softer digital ecosystem assets form a strong signal, that is usually fundamental for MNEs, which in the last years have created strong flow of digital FDI into markets with strong tech fundamentals, also in emerging economies. It can be seen in the fact that from 2022 to 2024 the U.S. tech-giants as Amazon, Microsoft and Google have pledged collectively over $25 billion to ICT and internet infrastructure in developing countries[44].

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[42] https://www.fcltglobal.org/resource/rethinking- the- emerging- markets- exit- ai- supply- chains- and- the- case- for-patience/#:~:text=The%20idea%20that%20AI%20will,underappreciated%E2%80%94driver%20of%20future%20value%20in

[43] Mensah, J. T., & Traore, N. (2022). Infrastructure quality and FDI inflows. Working paper.

[44] https://www.fdiintelligence.com/content/87c1c50c- ea21- 58ea- 8ac0-5d543baaf554#:~:text=,in%20geostrategic%20countries%20and%20regions

2.4.2 AI benchmarks, international rankings, and credibility

Both in the world of public relations, AI- driven measurement standards and global digital rankings are now critical determinants of credibility in international repute. While countries declare their aspirations to lead in AI or to be "the next Silicon Valley," independent metrics and rankings offer a reality check, or a validation, of such narratives. AI benchmarks and index rankings reflects outward validations which may validate or contest a nation's self- perception. Smart money and institutions closely follow these signs, making them a critical part of the signaling arsenal.

One of the worlds most respected and trusted indexes is the annual Stanford AI Index, which monitors national investment in AI research. Although the United States continues to be the predominant source of world- leading AI models, China is rapidly narrowing the gap in quality. In 2024, AI models developed in China matched the performance of U.S. models on foundational benchmarks, as opposed to trailing by a significant margin in the previous year, the 2025 report said. What's more, China leads the way on some critical indicators of production, being responsible for nearly 70% of the world's AI patent applications by 2023[45]. These hard metrics lend significant credibility to China's narrative of becoming an AI superpower.

Conversely, an inconsistency between narrative and rankings can undermine credibility. A pertinent case is India. India has actively promoted itself as a rising digital power, with initiatives like "Digital India" and an official AI strategy , and indeed it boasts strengths such as a vast IT talent pool. In the Tortoise Global AI Index 2024, India broke into the top 10 for the first time, signaling its growing capabilities[46]. Critically, it placed very high on sub- dimensions of talent availability and operating environment (reportedly 2nd on those), the result of good human capital and policy environment for AI, respectively. But other measures, including the same index, also show gaps that complicate this story. India finds it difficult to convert its human capital into proportional AI investment and infrastructure. It ranks much lower in categories such as computing capacity and R&D spending. Just for comparison, on the Oxford Insights 2024 AI_Readiness Index India is ranked 46th in the world, not just the Western leaders but even behind China. China, on the other hand, has consistently scored in the top 5 in such rankings historically and so could be said to represent full spectrum capabilities[47]. These ranking difference act as a kind of confidence signal for investors: India's self- narrative of being "the

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[45]STANFORD: AI Index Report 2025 https://hai.stanford.edu/assets/files/hai_ai_index_report_2025.pdf
[46]TORTOISE: The Global AI Index 2024 https://www.tortoisemedia.com/data/global- ai
[47] OXFORD INSIGHTS: Government AI Readiness Index https://oxfordinsights.com/ai- readiness/ai- readiness- index/

new China" for tech has some basis in reality: the country's current capacity still doesn't completely live up to its ambitious branding.

2.5 Comparative Institutional Narratives: The Case of China and India

Emerging giants China and India offer a compelling comparison of how different institutional pathways and reform strategies influence FDI attraction. Both countries embarked on liberalization, at different times, under divergent governance systems, leading, so, to different institutional narratives for foreign investors.

2.5.1 Divergent reform strategies and historical trajectories

At the beginning of the 80's China and India were alike in several respects. They had huge populations, low per- capita incomes and after decades of central planning, became economies that were heavily regulated, however the paths of their reforms were to be very different.

China began market- oriented economic reforms in 1978 as a one- party socialist state. Then, despite the risk of full- blown liberalization, has attempted to achieve a gradual level of liberalization, with both a devotion to an export- led industrialization model, and to a policy involving external expansion, such as substantial investment in infrastructure. Although the reforms were not yet formal, they were gradual and experimental. Taking as an example the establishment of Special Economic Zones (SEZs) in China in the 1980s to trial foreign investment and market policies. This approach, also known as "gradualism", enabled China to develop a long road to reform and not a shock therapy makeover. India, however, did its big economic liberalization later, in 1991, when a balance- of- payments crisis created enormous pressure for change. India's reforms were enacted within a democratic polity and deployed in the "big- bang" liberalization package that consisted in the deregulation of industries, opening to trade/FDI and that dramatically changed policy clime after the state- led License Raj' regime (of tight controls) had been in force for decades. There are other reasons why India didn't experience the same fall as its regional peers. Its post 1991 growth model was more services- led trying to achieve competitive advantages in information technology and business process outsourcing rather than manufacturing- export led like China's rise (Prabhakar, 2025, pp.23- 27)[48].

As history shows these divergent paths led to evident differences in FDI patterns and industrial structure. From the '80 onward, China's leadership actively made FDI a pillar of development, offering generous incentives and establishing one- stop bureaucratic mechanisms in the SEZs to facilitate foreign ventures. The impact was astonishing. By 2010, China's special zones accounted for nearly half of the country's incoming FDI and about

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[48]Prabhakar,2025: https://www.richtmann.org/journal/index.php/jicd/article/view/14317

60% of exports[49]. By 2010 manufacturing constituted almost 30% of Chinese GDP, roughly double of India's one that was 15% share. This helped China to turn into a global manufacturing base, India inversely, saw more modest FDI uptake. Its reforms, while significant, were gradual and often sector- specific due to political and bureaucratic negotiations. India was also really limited at attracting large scale manufacturing FDI because of bureaucratic hurdles and infrastructure gaps. Empirical data illustrate that even as late as the early 2010s, China was receiving annual FDI inflows several times larger than India. In 2013, for instance, China absorbed about $111 billion of inbound FDI, compared to only $22 billion in India. Over decades, China became the world's second- largest FDI recipient (behind only the US) .

A key reason of India's lower result compared to China's one, it was its reluctance to bring in foreign capital, which meant that in the early 2000s, when China rapidly integrated with global value chains and also upgraded its industry at a much quicker pace than India, this left India far behind. India's FDI rose, but until recent years this was concentrated especially in service sectors. The composition was very different: investment was more concentrated in sectors as IT, finance and telecommunications, on the other hand China's FDI were more focused on export manufacturing and assembly operations.

Institutional and political differences underlying the divergent reform models played a role in determining the consistency and credibility of policies.

From China's point of view, the centralized one- party system enabled faster decision- making and top- down policy enforcement, which then proved effective and efficient in the execution of long- term development plans. Together with this the tight control of the Chinese Communist Party's tight meant that once the leadership committed to something, lower levels of government were incentivized to align with that agenda. This approach helped China implementing difficult reforms without facing the usual delays of coalition politics. The democratic and federal system of India , led to a slower and more gradual pace of reform and frequent negotiation among diverse stakeholders and policy changes and reform proposals in India were always delayed blunted or diluted as they had to navigate parliament, ministries, state governments, and public debate. Bardhan in 2010 argued that China's centralized model provided a very focused economic management, whereas India's pluralistic setup required balancing heterogeneous interests, contributing to stop- and- go reform momentum[50]. These institutional contrasts also affected investors' experiences: where Chinese officials

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[49] International Growth Centre (IGC): https://www.theigc.org/sites/default/files/2019/11/WEB_SEZ- synthesis- paper- 2019.pdf

[50] https://www.project- syndicate.org/commentary/china- model- xi- jinping- new- option- to- democracy- by- pranab- bardhan- 2017- 12

could cut red tape to approve major FDI projects quickly, especially in the SEZs, India developed a reputation for bureaucratic red tape and slower approvals, as decisions moved through multiple layers of administration. Indeed, researchers have observed that persistent administrative delays and regulatory complexity in India, the remnants of the old "License Raj" culture, constrained FDI for years after 1991(Fan et al., 2009)[51].

China managed to attract massive FDI despite historically weaker formal institutions in areas like legal transparency and property rights protection. General wisdom asserts that strong institutions should foster investor confidence, so India, as a democracy, should have had an institutional advantage at least on paper. Yet China's success suggests that a credible reform track record and investor- friendly signals can, to an extent, compensate for institutional deficiencies. Following the reforms of 1978 and in the years following Deng Xiaoping's 1992 "Southern Tour" re- affirming market reforms, China developed a strong track record of high growth and policy continuity, convincing foreign investors that their investments would be lucrative even if formal protections were not foolproof. Cross- country analyses show that if China's rapid change of the 1990s is taken into account then Chinese FDI is not particularly unusual, it attracted roughly as much FDI as would have been anticipated given its growth and reform path, like other former socialist economies that liberalized well. In sum, the institutional divergence: Communist one- party state vs Federal democracy set China and India on varied reform paths.

China's decisive early opening and unified institutional push gave it a head- start in FDI industrialization, whereas India's delayed and politically negotiated reforms meant a slower build- up of foreign investment. By the late 2000s, China was far ahead in cumulative FDI stock, yet it is notable that global investors never lost hope in India's potential**.** Surveys of multinational enterprises consistently ranked China and India among the top prospective FDI destinations (China often #1, India among the top 3), reflecting that investors viewed India as a major future market despite its past difficulties.

2.5.2 Branding control, policy coherence, and investor perception

In addition to actual policies, strategic communication and "national branding" have also played a huge role in constructing foreign investor perceptions of China and India. China being China, and always erring on the side of control, it projected the image of stability, opportunity, and long- term vision on to foreign audience, up to and including its' citizens. Since 80s, China has always maintained an image of being open for business. All

[51] Fan, J. P., Morck, R., Xu, L. C., & Yeung, B. (2009). Institutions and foreign direct investment: China versus the rest of the world. World development, 37(4), 852- 865

the way from buzzwords like "socialist market economy" to actual acts as hosting international expos, creating investment promotion agencies under MOFCOM. This left no doubt in anyone's mind that China's aimed to please and would accept any funds coming their way.

Even when concerns around political events or policy shifts arose, the central government moved quickly to reinforce messaging that China remained committed to economic liberalization. Deng Xiaoping, for example, in 1992 did a tour of southern China explicitly aimed at reviving reform momentum and convincing both locals and foreigners that China would stay on its opening- up path. This kind of top- down narrative control, enabled by state- run media and unified political leadership, has allowed China to "brand" itself as a consistent investment environment. In contrast, India's democratic soul entails a far more decentralized and plural narrative comprehensive of multiple voices, opposition parties, media, civil society. Thus contributing to the discourse on economic policy, which can send mixed signals to investors. For almost two decades (90s- 00s) India did not have a single coordinated message on FDI. This led to perceptions that India's policy direction was uncertain, as foreign firms heard both welcoming and cautionary signals from different corners of the government. This disadvantage prompted Indian governments in recent years to raise its marketed profile as an investment destination, through campaigns such as 2014's "Make in India". This was an attempt to promote India as an FDI (FDI Foreign Direct Investment) destination, selling India's story to the world, with very strong media branding of India through advertisements across the world. These pushes to brand, along with establishing Invest India (a sort of central investment promotion agency) were strong attempts to better control of the story and have a single, investor- friendly message to send.

China's posture towards FDI has followed its development strategy in a number of ways. Beginning with the use of incentives to attract FDI into special zones and the spending of significant public money on port, power, and transport infrastructure in support of export- oriented industry. For decades, the legal system of FDI in China was slowly liberalized (permitting WFOEs, simplifying JV regulations etc.), in line with the country's WTO entry and external obligations - actions that indicated a clear path to openness

Scholars refer to this deliberate, centrally coordinated approach as "national investment policymaking," implying a high level of policy coherence across government agencies and levels. The result has been that foreign investors largely view Chinese policy announcements as credible commitments; for instance, when China set up new Free Trade Zones or announced tax breaks for foreign tech firms, investors responded swiftly, trusting that those policies would be implemented as advertised. India's experience has been that smooth, while aiming at attracting FDI mainly to help finance current account deficits and spur growth, the implementation and consistency of FDI- related policies have often been a serious problem . One issue was the frequent changes

and complex sectoral rules - over the years, India maintained varying caps and approval requirements for FDI from retail to insurance to defense, which were loosened gradually. This piecemeal liberalization sometimes created confusion and required investors to navigate a maze of regulations. A prominent case of damaging events was India's 2012 retrospective taxation law, which allowed the government to claim taxes on past foreign corporate transactions. This law was enacted suddenly after a court ruling went against the tax authority and shocked foreign investors thus creating some concerns about the investment climate by undermining trust in the stability of rules. High- profile disputes ensued (e.g., involving Vodafone and Cairn Energy), and investor sentiment toward India took a hit. As Reuters reported, scrapping the retroactive tax and refunding affected companies was expected to "boost investor confidence" by reaffirming India's commitment to fair and predictable rules [52]. This episode highlights how inconsistent policy moves can damage a country's brand, and how repairing credibility is essential for attracting FDI. On a broader scale, India's federal structure has also at times led to incoherence - for example, a state government might cancel a large land deal or power purchase agreement, sending negative signals that clash with New Delhi's pro- investment message. In recent years, however, efforts have been made to improve coherence: the introduction of a national Goods and Services Tax (GST) simplified the tax regime across states, and the central government implemented single- window clearance systems for investors in several sectors. According to the World Economic Forum, after 2014 India accelerated approval procedures and infrastructure projects to attract investment, reversing a period of inaction and improving its global competitiveness ranking [53]. These steps indicate movement toward greater policy alignment with India's investment promotion goals.

China's ability to speak with one voice and back it up with coordinated policy action has given and still gives foreign investors a strong sense of policy certainty. Even during periods of global turmoil or domestic economic rebalancing, China continued to see robust FDI inflows, for instance, FDI rose to a record $179 billion in 2021 despite the COVID- 19 pandemic, buoyed by investors' confidence in China's stability and market size[54]. India, by contrast, while consistently being among the top prospective FDI destinations in investor surveys, has often experienced a gap between perceived potential and actual inflows. For investors, India has for a long

[52] https://www.reuters.com/world/india/india- proposes- refunds- retrospective- tax- disputes- 2021- 08-05/#:~:text=controversial%20law%20that%20taxed%20companies,and%20Vodafone%20%20104
[53] https://www.weforum.org/stories/2016/09/indias- growth- is- outpacing- chinas- heres- how- they- did-it/#:~:text=Another%20improvement%20over%20the%20past,returned%20to%20its%202007%20level
[54] https://unctad.org/news/global- foreign- direct- investment- rebounded- strongly- 2021- recovery- highly-uneven#:~:text=Global%20foreign%20direct%20investment%20rebounded,58%20billion%20from%20a

time remained highly desirable due to its market and resources, but the concerns over regulatory uncertainty and infrastructure created the perception of something that puts a break to investors' excitement.

Moreover, much of India's FDI has flowed into services and technology alliances, whereas China's more coherent industrial strategy channeled FDI into manufacturing clusters, creating deeper supply chain linkages. China, thus, offers the appeal of an entrenched manufacturing ecosystem and supportive local governments, whereas India often markets itself on democracy, legal protections, and an English- speaking workforce all kind of advantages that can be substantial, but which must be coupled with credible reforms. Indeed, there are all signs that investors perception can be reversed and improved as India strengthens its policy coherence and ease of doing business. The removal of major irritants like the retrospective tax and the push for consistency in FDI policy have been welcomed as steps toward a more reliable investment climate.

The review isolates three recurrent mechanisms: credibility (and reputational memory), narrative saturation through repetition, and competitive narrative crowding in peer environments. These mechanisms yield precise empirical claims and boundary conditions.

Chapter 3 - Theoretical Framework and Hypotheses

3.1 Introduction

This chapter translates Chapter 2's mechanisms into testable hypotheses, specifying the causal channels, expected signs, and scope conditions to be taken to data.

The literature shows diverse FDI drivers: market size, openness, and institutional quality, but underplays symbolic, narrative, and reputational dimensions. Conventional models have tended to consider institutional and economic fundamentals as rigid determinants, with investors appraising host- country characteristics in a static and contemporaneous perspective. But, as explained in Chapter 2.3, both narratives, credibility filters and reputational trajectories add a further level of complexity for which structural factors are not determining. Against this backdrop, the chapter formulates seven hypotheses on how signaling, institutional credibility, and narrative dynamics shape FDI attraction and retention.

The hypotheses are structured around three analytical dimensions. The first refers to the conditional credibility of strategic signals, by underlining to what extent state- led narratives rely on their institutionalization to work (H1) and on historical memory about the credibility trajectories (H2). A second dimension examines the boundaries of reform and narrative strategies. It considers that excessive and disarrayed reforms (H3) and problems of governance in democracies in relation to autocracies (H4) cause mixed or dissimilar responses from the investors. Lastly, the third dimension investigates how narrative overuse and competition play out. It focuses on how clear ideas interact with institutional veto players (H5), how too much repetition damages credibility (H6), and how competing narratives among countries push each other out in the global reputation market (H7). By organizing the discussion in this way, the chapter adds value both in theory and practice. Theoretically, it builds on signaling theory (Spence, 1973) and institutional economics (North, 1990) in the context of international political economy. It shows that investor reactions are Non-linear, conditional, and dependent on past events.

3.1.1 Extending the Introduction: From Classical Determinants to Narrative Complexity

Classical FDI theory emphasizes structural determinants: market size, openness, resource abundance, and institutional quality. Yet these approaches share a limit: they treat factors as given and depict investors as context-free. This structural orientation is inherent in models that are based on the OLI paradigm (Dunning, 1988) or gravity models (Brainard, 1993). They emphasize measurable fundamentals, while ignoring the symbolic and timing dimension of state behavior.

As noted in Chapter 2, this structural view is increasingly not enough to explain FDI flows in emerging economies. In this context, the volatility, the weak institutions, and the global competition contribute to increase the uncertainty. Here, material factors collide with less obvious, but no less powerful forces such as narrative power, reputation dynamics and credibility filters.

Governments are not just arbiters of structural conditions; they actively use branding strategies, reform promises and narrative signals to influence the expectations of market actors. But the power of these signals is contingent; it depends on institutional embeddedness and the historical paths of credibility as well.

Building on the credibility logic outlined above, this section formalizes a Strategic Signaling Equilibrium in which the informational value of official narratives depends on their institutional embedding; Rule of Law and Government Effectiveness operate as credibility multipliers for narrative payoffs.

3.2 H1 - Strategic Signaling Equilibrium

3.2.1 Theoretical Background and Mechanism

The theoretical background of this hypothesis is rooted in the analysis developed in chapter 2, where signaling theory (Spence, 1973) was introduced so as to explain how informational asymmetries shape and influence interactions between investors and states. As in financial and labor markets, signals serve to allow agents to infer hidden qualities and reduce uncertainties. In international political economies terms, governments act as signalers, through industrial plans, pro-investment reforms, and branding, so as to reduce perceived risk.

As highlighted in Chapter 2.3.1 state- led narratives are structurally vulnerable to credibility constraints as investors cannot directly observe the extent to which these announcements will be actually implemented. They must infer credibility from contextual cues, as the strength of institutional frameworks, the same can't be said for market based narratives.

This leads the discussion to the domain of institutional economics, where Rule of Law emerges as a pivotal credibility filter (North,1990). Signals are interpreted as a binding commitment particularly when issued in environments characterized by strong enforcement of contracts and predictable legal systems. On the other hand in weak governance context, the risk is to be dismissed as a mere cheap talk, as seen in chapter 2.3.2.

This mechanism can be formalized as:

Table 3.1 - Conceptual Model of Credibility Moderation (Signal × Credibility → Investment Response)

MODERATOR
Credibility
The institutional frameworks acts as a credibility multiplier, especially the Rule of Law. What ensures signals to be perceived as enforceable commitments is the robust legal system. Conversely, in the absence of such guarantees, repeated announcements may erode trust and even contribute to narrative fatigue

moderation: S×Credibility (β_{S×Z} > 0)

INPUT		OUTPUT
Signal		**Investment Response**
Visibility, coherence and intensity of strategic narratives (Narrative_Intensity). This dimension reflects, together with the the frequency of the policy, the ability to project a consistent long term vision	effect of narrative (β_S)	The behavioral reaction of international investors, captured empirically through FDI inflows (logFDI_in). By lowering uncertainty and reducing risk premia, credible signals accelerate capital allocation decisions and enhance the attractiveness of the host country.

The mechanism depicted above represents the moderation of credibility. The country's policy signals are the input, as the represent the visibility, the coherence and intensity of strategic narratives over time, capturing how much and how consistently a government talks, and whether the projects it talks about are comprehended in a long- term vision. The output is the investors' response, operationalized as the inward flows of FDI. Credibility serves as the moderator of this interaction. It conditions how investors interpret the signal: higher credibility leads to messages being read as credible commitments, with a lower credibility these signals may generate small or null effects and eventually also lead to fatigue if repeated without delivery.

3.2.2 Limits of Existing Models and Contribution of H1

The formulation of this hypothesis stems from a theoretical and empirical gap identified in the existing literature. While signaling theory has been widely applied to firms and financial markets, its extension to sovereign states as narrators is relatively underexplored. Most studies on FDI determinants emphasize structural variables (e.g., market size, trade openness, institutional quality), while symbolic and narrative dimensions remain secondary. Academics also are likely to suppose signals to be somewhat linear and explicit and to undervalue the conditional nature of the credibility filters.

The gap discovered is particularly central in emerging economies, where ambitious announcements of reform are usually more easily accompanied by weak institutions. Yet in the end even traditional methods risk overestimating the cross- sectional effects of narrative strategies, while failing to account for the interaction between signals and institutional credibility at all.

The Strategic Signaling Equilibrium model addresses this directly by assuming that narratives and institutions sometimes interact in a multiplicative, not additive fashion. This view pushes us beyond a simple "these are signals that matter" story towards a more nuanced "signals that only matter insofar as they pass through credible

institutions" story. Against this background, the construct can be seen to make a new theoretical contribution, bringing the literature on narrative power together with institutional economics, and provides a construct more suited to explaining the diverse FDI responses found across countries.

3.2.3 Reputational Equilibria and the dynamics of consistency

A further layer is reputational equilibrium: investors' beliefs adjust to governments 'past behavior. Consistent credible signals, even modest actions, raise the Bayesian probability[55] investors assign to government credibility. such that the probability attributed to credibility rises. This process of updating makes the country ever more attractive than before for investment and creates a self- perpetuating cycle: with credible signals comes reputational capital, reputational capital brings down perceived risk and with reduced risk the future signals become ever more trustworthy and cheaper to deliver. The virtuous mechanism is similar to a reputation effect in repeated games (Kreps & Wilson, 1982,pp 275- 277)[56] whereby credible actions today construct expectations tomorrow, such that compliance and trust are supported even by unobserved actions so long as there is a social equilibrium. In the context of FDI this means that if a government has built up some level of reputational credibility, then even marginal or ambiguous signals will be interpreted positively due to the trust established and so responsible for anchoring effects.

In contrast, under low institutional credibility, repeated announcements without a visibly enforcement induce negative reputational equilibria. Investors gradually dismiss further signals, viewing them as nothing more than "cheap talk" out until the nominal point where credible reform efforts are ignored. This dynamic can lead to a form of narrative lock- in, already explained in 2.3.4, where overly used narratives lose their signaling and even become counterproductive. At this point, governments may have fallen into a reputational trap: rather than encouraging investment, that signal leads to more and more negative signals, reinforcing investor skepticism and increasing the cost of restoring credibility.

Reputational equilibria reveal the dynamic-consistency problem: narratives are judged in light of past credibility, not in isolation. Hence the Strategic Signaling Equilibrium: narrative effectiveness depends on institutional embedding and reputational trajectories.

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[55] Bayesian probability: a method of statistical inference in which Bayes' theorem is used to calculate a probability of a hypothesis, given prior evidence, and update it as more information becomes available. In this context, it means updating a prior belief about government credibility when new evidence arrives, weighting that evidence by how informative it is. If what is observed is more likely under a credible government than under a non- credible one, the belief is revised upward; otherwise, it is revised downward.
[56] Kreps, D. M., & Wilson, R. (1982). Reputation and imperfect information. Journal of economic theory, 27(2), 253- 279.

3.2.4 Formal statement of Hypothesis 1

These insights lead to the statement of the Strategic Signaling Equilibrium hypothesis:

H1 - Strategic Signaling Equilibrium:

H1a (Main): Narrative signals (visibility, coherence) are positively associated with FDI inflows.
H1b (Moderator): The positive effect of narrative signals on FDI inflows is amplified when institutional credibility (Rule of Law, Government Effectiveness) is high.

Empirical Test Schema
IV = Narrative Signals
DV = FDI Inflows
Moderator(s) = Institutional Credibility (Rule of Law; Government Effectiveness)

If signals are priced through credibility, they are also filtered through history. The next hypothesis introduces reputational memory, operationalized via multi-year trajectories, to test whether present reforms are discounted when past delivery has been volatile.

3.3 H2 - Expectational Inertia Trap

3.3.1 Theoretical Background and Dynamic Mechanism

The theoretical background of this hypothesis stands in the literature about time inconsistency (Kydland & Prescott, 1977, pp.486- 487)[57] and about the broader field of reputational political economy. In their work Kydland and Prescott showed how governments may face an incentive to deviate from announced policies, leading to a misalignment between declared intentions and actual behavior. This gap generates credibility problems that can persist over time, since rational agents incorporate the risk of reversal into their expectations. Translating this into the FDI field, this suggests that investors discount present reforms if relevant inconsistencies were found in past trajectories, thus reinforcing the inertia mechanism, the core of this hypothesis. Even with new reforms, prior volatility makes investors cautious.

The mechanism, in this case, is:

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[57] Kydland, F. E., & Prescott, E. C. (1977). Rules rather than discretion: The inconsistency of optimal plans. Journal of political economy, 85(3), 473- 491.

Table 3.2 - Conceptual Model of Reputational Memory (Trajectory Accumulation and Discounted Spot Effects)
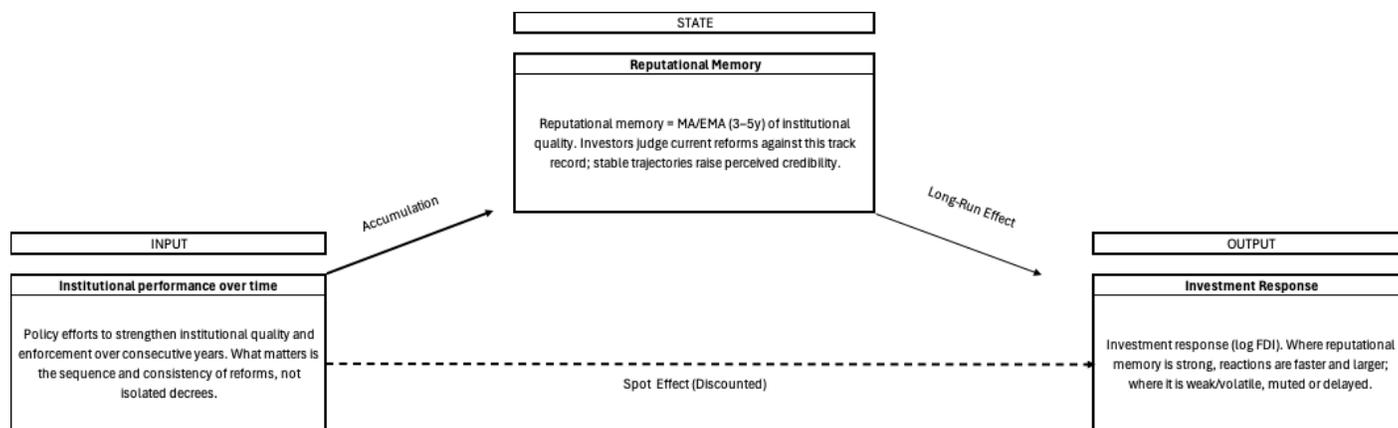
*The logic is linked to the literature on hysteresis in economics (Blanchard & Lawrence,1986)[58]. In this model the input is the institutional performance over time, assessed for consistency and duration over time. Reputational memory is a moderating state variable, proxied by a 3–5-year moving average of institutional quality. With strong reputational memory, identical reforms read as enforceable and elicit stronger FDI; with weak memory, responses are delayed or negligible. In a nutshell, investors reward trajectories, not isolated signals: history conditions the payoff of today's policies.

3.3.2 Limits of Existing Models and Contribution of H2

The formulation of this hypothesis emerges from a critical gap in the FDI literature. The majority of empirical models on the determinants of FDI, however, use the current period's measure of institutional quality and assume implicitly that investors respond linearly to current conditions. This omits the point that international capital is practiced not in multi- signaling conditions of uncertainty of news and memory and that it matters also the "reputational trajectory", not only the actual and present information.

As presented in chapter two, market size, openness and governance as the independent and static determinants of FDI do not take into account the intertemporal aspect of credibility. This hypothesis seeks to determine whether, investors discount current reforms of countries in which past credibility has been low or unstable.

The Expectational Inertia Trap, therefore, fills this gap in the literature by exploring a historic persistence analysis. It proposes that a reform is worth only if it is set in a credible way along a long path of government reputation, so that the responsiveness of FDI to reforms is conditional to the use by the latter of reputational memory.

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[58] Blanchard, O. J., & Summers, L. H. (1986). Hysteresis and the European unemployment problem. NBER macroeconomics annual, 1, 15- 78.

3.3.3 Path Dependence and the Risk of Reputational Traps

This process could even be responsible for a Reputational Trap. That is when a country accumulates a long history of weak enforcements, together with inconsistent signals, thus leading investors to discount new information and adjust their priors downward. This is a Bayesian process to say that while a country may make real reforms, its history of volatility shapes and overwhelms investors' mindset.

The path dependence concept is pivotal in this case: it is difficult to reverse the self- reinforcing dynamics generated by the entrenchment of negative expectations. Investors need a repeated evidence that the series is reasonable before they actually update their beliefs. This can produce a paralysis trap: regaining credibility costs more than the marginal payoff of the next reform.

3.3.4 Formal Statement of Hypothesis 2

On this theoretical background, the EIT hypothesis may be formally expressed as follows:

H2 - Expectational Inertia Trap:

H2a (Main): Present- day improvements in institutional quality (Rule of Law, Government Effectiveness) do not immediately translate into higher FDI inflows.

H2b (Interaction): The responsiveness of FDI to current narrative signals is conditioned by reputational memory, such that historical volatility or inconsistency in governance weakens present responsiveness.

Empirical Test Schema

IV = Narrative Signals

DV = FDI Inflows

Moderator(s) = Institutional Credibility (Reputational Memory of Rule of Law)

This is what the core claim is about: the effectiveness of reforms is not judged on the present alone, but filtered by reputational memory.

Once beliefs incorporate trajectories, cadence becomes consequential: frequent and overlapping reform announcements can shift the signal from commitment to noise, implying an inverted-U relationship between reform activity and FDI that is steeper under weak capacity.

3.4 H3 - Reform Fatigue Paradox

3.4.1 Theoretical Background and Mechanism

The theoretical roots of this hypothesis lie at the intersection of signaling theory and the political economy of reforms. As examined in chapter 2.3.3 governments deploy reform announcements as a form of strategic signaling. However, differently from market size and openness, reforms are not self- validating signals, as their credibility depends on coherence and sequencing.

The Reform Fatigue Paradox comes into play there: those reforms implemented in rapid succession or without clear prioritization, may create opposite effects by signaling instability and volatility rather than commitment. leading investor to the perception of policy uncertainty and political opportunism.

This process is consistent with the over- signaling literature (Connelly et al., 2010, pp.62- 63)[59], which suggests that signals become too diluted, ultimately resulting in an increase in noise and little payoff. This paradox is also reflected in theories on institutional overload (Rose, 1980, pp. 506- 509)[60] and bounded rationality in policy making (Simon, 1978, pp.499- 500)[61]. Both posit that a policy agenda that is overly crowded because of lack of sequencing will be counterproductive not only for domestic institutions but for external observers as well. Oscillation, from the viewpoint of investors, periodic erratic feverish changes do not promote but diminish the perception of stability. Contrary to expectations it appears that, such constant, repeating and fast reflex uncoordinated bomb- throwing just undermines policy credibility.

This can be summarized as follows:

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[59] Connelly, B.L., Certo, S.T., Ireland, R.D. and Reutzel, C.R. (2010) Signaling Theory: A Review and Assessment. Journal of Management, 37, 39- 67.https://doi.org/10.1177/0149206310388419

[60] McEnroe T. Challenge to Governance: Studies in Overloaded Polities. Edited by Richard Rose. (Beverly Hills: Sage Publications, 1980. Pp. 238. Sage research series in European politics, Vol. I. \$20.00, cloth; \$9.95, paper.). American Political Science Review. 1981;75(2):554- 555. doi:10.2307/1961463

[61] Simon, H. A. (1979). Rational Decision Making in Business Organizations. The American Economic Review, 69(4), 493- 513. http://www.jstor.org/stable/1808698

Table 3.3 - Conceptual Model of Capacity- Moderated Saturation (Reform Activity → Inverted- U, Turning Point t)
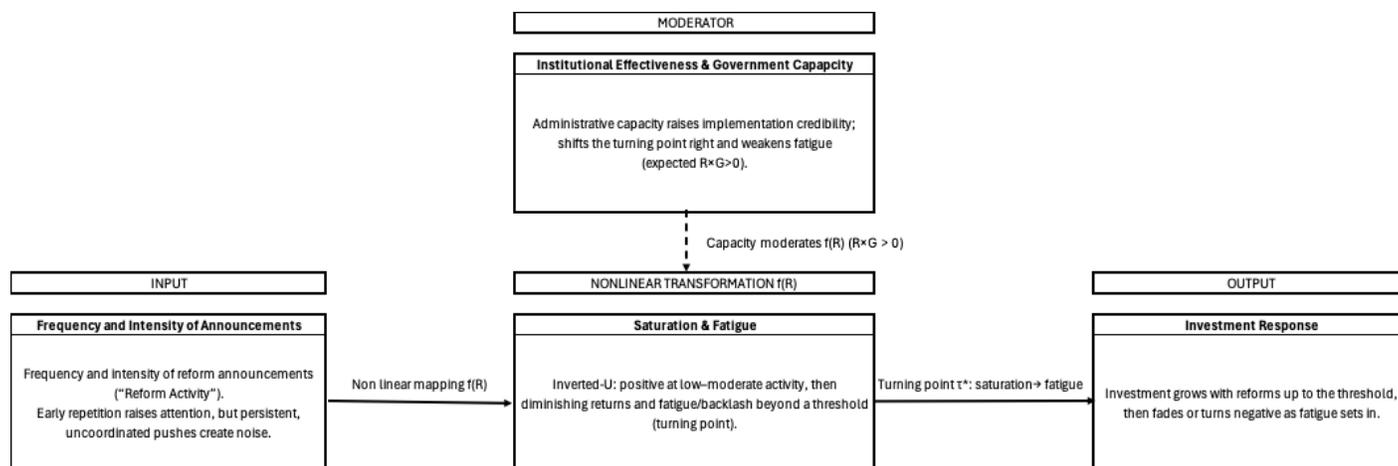
In case of H3 the model differ from the previous analyzed, as the input is the reform activity, so the frequency and intensity of reform announcements. The link from reforms to investment is non linear, since similar announcements accumulate without sufficient delivery of coordination, marginal returns shrink and can become negative. The mechanism is captured by an inverted- U transformation f(R), in practice there should be a turning point beyond which additional pushes create noise and skepticism, generating reform "fatigue". Institutional effectiveness moderates the curve: higher capacity improves implementation and monitoring, so investors read repeated reforms as commitments, not cheap talk. In countries with weak institutions the volume of announcements reaches the threshold earlier and the penalty from over- messaging gets stronger.

3.4.2 Limits of Existing Models and Contribution of H3

Although classical studies on FDI determinants acknowledge the positive influence of reforms on competitiveness and the quality of institutions, they overlook the possible negative marginal impact of excessive reforms on FDI. The empirical literature mostly takes for granted a monotonic relationship: more reforms yield more credibility and appeal. However, in practice, reform processes in the emerging world tend too frequently to over- activate, using repeated waves of reforms. Existing literature about reform overload and policy instability indicates that, under these conditions, excessive measures and policies can destabilize the predictability of policies and erode confidence among investors. There is thus a need for the Reform Fatigue Paradox to theorize and empirically identify an effect to distinguish the effects of reforms which are not linear positive since their impact rapidly decreases after a given level of "toxic" reform if the latter is not institutionally anchored.

The political- economy literature explains why reforms are delayed or contested (war- of- attrition; status- quo bias) and stresses that sequencing and coherence matter more than the sheer number of measures (Alesina &

Drazen, 1991; Fernández & Rodrik, 1991; McKinnon, 1993)[62] [63] [64]. Yet, to our knowledge, there is no direct empirical test of a Non-linear (e.g., inverted- U) relationship between the intensity/frequency of reforms and FDI inflows, conditional on institutional capacity. Existing studies on economic policy uncertainty show that uncertainty depresses investment and cross-border flows. Yet they do not identify whether over- activation of reforms itself acts as a source of perceived policy volatility that generates diminishing returns on FDI. This is the gap addressed by H3

3.4.3 Reform Saturation, Investor Perceptions and Long- Term Risks

A further dimension of this paradox concerns the reputational consequences of reform saturation. Investors assess reforms in isolation but also interpret them within broader temporal trajectories. Frequent changes in policy direction, especially if poorly coordinated, can create an impression of volatility that becomes embedded in the reputational memory of a country.

This line of reasoning is consistent with the theoretical ideas explored by Alesina & Drazen (1991) on 'war of attrition' models of reform that excessive fight and feuding over policy changes , and a balkanized way in which policy changes are implemented, renders policy change ineffective. So also Fernandez and Rodrik (1990) stress that reforms not rooted in social and institutional consensus won't last. In the FDI context, this yields declining, or even negative, benefits to reform efforts after saturation and instability are registered by investors.

3.4.4 Formal Statement of Hypothesis 3

Building on these insights, the Reform Fatigue Paradox can be formally stated as follows:

H3 - Reform Fatigue Paradox:

H3a (Main): The relationship between reform activity and FDI inflows follows an inverted- U pattern: initial increases attract FDI, but excessive repetition reduces responsiveness.

H3b (Moderator): Government effectiveness moderates this relationship: higher administrative capacity delays the onset of reform fatigue and extends the range of positive returns.

Empirical Test Schema

IV = Narrative Signals (Reform Cadence)

[62] Alesina, A., & Drazen, A. (1991). Why are Stabilizations Delayed? The American Economic Review, 81(5), 1170- 1188. http://www.jstor.org/stable/2006912

[63] Resistance to Reform: Status Quo Bias in the Presence of Individual- Specific Uncertainty (RePEc:aea:aecrev:v:81:y:1991:i:5:p:1146- 55) by Fernandez, Raquel & Rodrik, Dani <https://ideas.repec.org/a/aea/aecrev/v81y1991i5p1146- 55.html>

[64] Burkett, P., Lotspeich, R. Review Article: Financial Liberalization, Development, and Marketization: A Review of McKinnon's The Order of Economic Liberalization: Financial Control in the Transition to a Market Economy (1991). Comp Econ Stud 35, 59- 84 (1993). https://doi.org/10.1057/ces.1993.3

DV = FDI Inflows

Moderator(s) = Institutional Credibility (Government Effectiveness)

This conjecture emphasizes a basic paradox of the political economy of reforms. Whereas reforms are typically considered to be a good thing for investor confidence, their signaling value is dependent on sequence, coherence, and institutional anchoring

Beyond cadence, expectations differ across regimes. The next hypothesis assesses whether identical governance weaknesses carry sharper penalties in democracies—where higher standards are priced—than in autocracies, yielding asymmetric trust losses

3.5 H4 - Trust Penalty Asymmetry

3.5.1 Theoretical Background and Mechanism

As seen in chapter 2.2.2 democracies and autocracies are different not only under an institutional design point of view, but also about expectations of international investors. Signaling theory (Spence, 1973) emphasizes that the credibility of a signal depends on the observer's prior beliefs. FDI context democratic regimes are generally associated with higher transparency, accountability and institutional predictability, creating, so, a benchmark on how investors expect stronger governance and more reliability from democracies.

But this belief causes an asymmetry in penalties. When democracies underperform on enforcement or stability, disappointment is sharper and FDI attractiveness falls more steeply. Autocracies, in contrast, start from lower priors; weak institutions are already priced in, so similar failures trigger less additional distrust.

This mechanism can be expressed as:

Table 3.4 - Conceptual Model of Regime- Type Moderation (Rule of Law × Democracy → Investment Response)
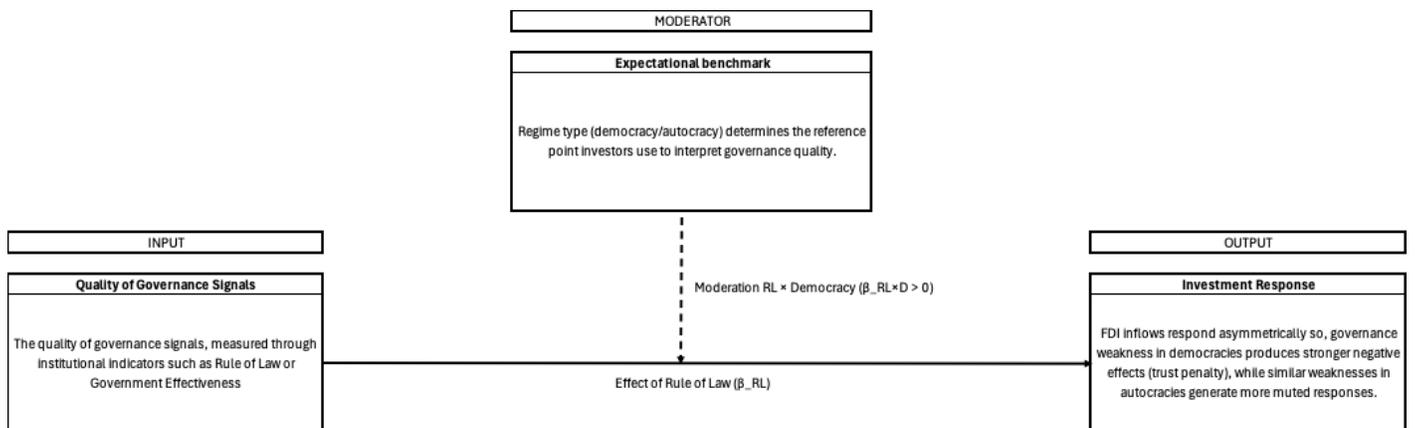
The model here presents as input the quality of governance signals, the output is the investment response. The moderator is the regime type (democracy or autocracy) as it sets an investors' expectational benchmark. In democracies the structure of it (courts, parliament, free press), the judicial independence, the fact that rules are harder to reverse makes commitments more believable triggering faster responses by investors. In autocracies, leader-dependent commitments lack enforceability; signals are discounted and require larger, longer proofs.

3.5.2 Limits of Existing Models and Contribution of H4

Scholars have generated mixed results about this topic, as some argue that democracies attract FDI because of institutional protection and reduced expropriation risk. Others argue that autocracies offer targeted incentives or suppress labor unrest.

Here the unexplored field is the conditional interaction between institutional quality and regime type. Existing works often treat democracy and governance indicators as additive factors, assuming, for instance, that democracy plus Rule of Law simply make FDI rise. Yet this neglects the asymmetry in investor expectations: weak governance in a democracy is perceived as a breach of promise, while the same weakness in an autocracy is interpreted as "business as usual". This theory therefore fills the void by rephrasing the question from "Which regime receives great FDI?" to "When institutional weakness hurts more?". That theory would posit that democracies suffer greater reputational costs when disappoint expectations.

3.5.3 Asymmetric Expectations and Comparative Dynamics

Beyond the static penalty, this asymmetry also carries dynamic consequences for reputational trajectories. As discussed in Chapter 2.3.4, reputational memory plays a crucial role in shaping investors' long- term beliefs. For democracies, repeated episodes of governance weakness as inconsistent reforms, corruption scandals and judicial inefficiency lead to an accumulation into a pattern of broken expectations. This undermines the very democratic advantage in attracting FDI, leading to a reputational erosion that is particularly difficult to reverse. Autocracies, on the other hand, may paradoxically benefit from "soft bigotry of low expectations."

As investors expect lower institutional quality, an excessive reward even for marginal improvements may encourage a positive signaling payoff.

3.5.4 Formal Statement of Hypothesis 4

The Trust Penalty Asymmetry hypothesis can be stated as follows:

H4 - Trust Penalty Asymmetry

H4a (Main): Breakdowns in institutional credibility reduce the effectiveness of narrative signals in attracting FDI.

H4b (Moderator): The penalty for weak credibility is asymmetric: identical reforms yield greater FDI inflows in high- credibility contexts than in low- credibility contexts.

Empirical Test Schema

IV = Narrative Signals

DV = FDI Inflows

Moderator(s) = Regime Type (Democracy vs. Autocracy).

Here the kernel is that governance weakness does not bear the same impact on each regime, but rather they are evaluated in relation to the normative standards that investors attribute to each political system. This hypothesis leverages signaling theory and the comparative politics of regime types to introduce a new mechanism that explains cross- democratic and autocratic variation on the part of FDI reactions.

The following section tests whether epistemic clarity in policy communication offsets the credibility drag imposed by dense veto structures, restoring interpretability and enforceability.

3.6 H5 - Epistemic Clarity vs Veto Complexity

3.6.1 Theoretical Background and Mechanism

Veto player theory, (Tsebelis,2011) [65], suggests that to a greater number of actors with the power to block or amend policies, will correspond a higher likelihood of institutional gridlock and instability under a political point of view. In these environments signals, issued by the government, are diluted or contradicted by competing actors, resulting in a downward trajectory of the credibility perceived by investors.

Following signaling theory, a signal to be effective must be perceived as both clear and enforceable, so in complex institutional contexts where multiple veto players operate, signals are prone to ambiguity and inconsistency.

Epistemic clarity here becomes central, as it represents the government's capacity to formulate and communicate an intelligible, coherent and actionable view of the strategic environment. With high epistemic clarity, complex institutions can still coordinate; without it, veto players turn signals into "cheap talk". This logic can be represented as:

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[65] König, T., Tsebelis, G., & Debus, M. (Eds.). (2011). Reform processes and policy change : veto players and decision- making in modern democracies. Springer.

Table 3.5 - Conceptual Model of Institutional Complexity & Clarity Moderation (Signals × Veto/Clarity → Investment Response)
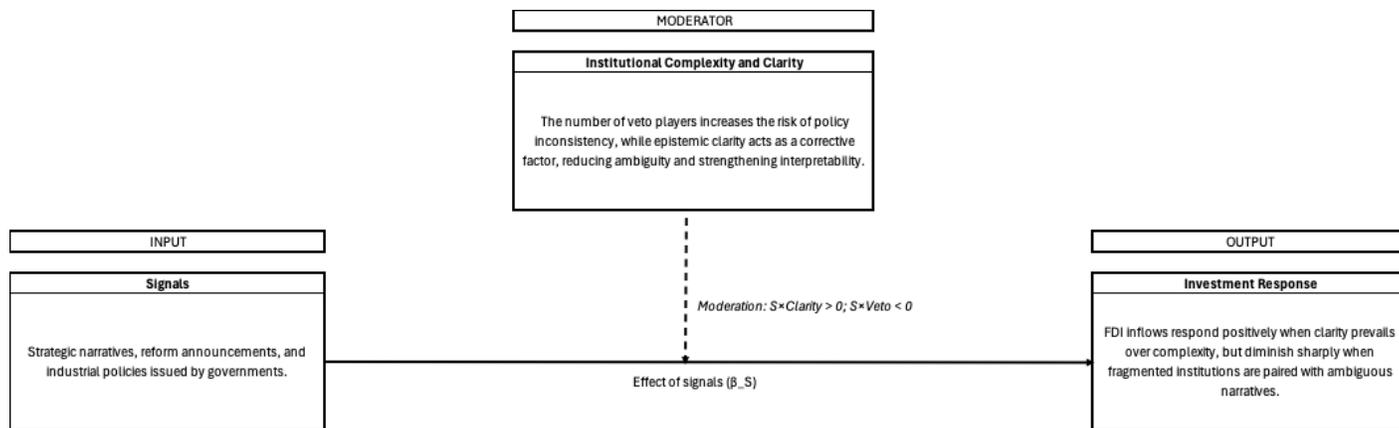
This model examines whether the payoff of policy signals, the input, depends on how easy it is to implement them in a fragmented political system and how clear the message is. The output as before, is the investment response. The moderator combines two forces that pull in opposite directions: veto complexity and epistemic clarity. About the first one , there are many actors with blocking power, this adds coordination and implementation risk, epistemic clarity instead, with precise targets, timelines, instruments and accountability, works as a counterweight. Clear plans, so, reduce ambiguity, assign responsibility and make progress verifiable.

3.6.2 Limits of Existing Models and Contribution of H5

The literature on FDI determinants does not neglect the importance of institutional quality but it is still quite underdeveloped about the interaction between veto complexity and narrative clarity. Henisz (2000 pp.53- 59)[66] has created the Political Constraints Index (POLCON), that is a measure of the number of independent veto points in a political system. According to his findings greater veto complexity limits policy flexibility. However, he does not explore how governments could balance this with a clear narratives strategy. This is the gap that this hypothesis tries to address.

Research on signaling tends to assume that signals are either credible or not, without accounting for the mediating role of clarity in shaping how investors interpret signals in fragmented systems.

This hypothesis addresses this gap by proposing a conditional relationship. Veto complexity weakens signaling effectiveness unless counterbalanced by high epistemic clarity, so institutional fragmentation is not fatal for investor confidence, it just needs to be backed by stronger narrative discipline.

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[66] Hoffmann, N. (2010). Political institutions and policy outcomes: The political constraints approach of Henisz. CESifo DICE Report, 8(2), 53- 59.

3.6.3 Clarity as a Counterbalance to Institutional Fragmentation

The dynamic aspects of this hypothesis are particularly important in emerging countries as in these economies political fragmentation is normally the rule.

Where there is a lack in epistemic clarity, the more complex the veto is , the more volatility there is in policy, the more turnarounds and reputational erosion are experienced. Investors start to dismiss new announcements as they view them as not trustworthy. Over the long run, this dynamic has the potential to lock countries into an endogenous cycle in which fragmented institutions can sabotage the country's narrative credibility, raising the cost to recover the credibility of investors. For instance, even though both Brazil and India experience 'high' veto complexity, variation in epistemic clarity of policy narratives at critical junctures has resulted in divergent paths of FDI. Brazil's recurrent policy incoherence and shifting macroeconomic frameworks have generated skepticism, whereas India's liberalization narrative, when communicated, temporarily offset institutional fragmentation.

3.6.4 Formal Statement of Hypothesis 5

Building on these insights, the Epistemic Clarity vs Veto Complexity hypothesis can be formally stated as follows:

H5 - Epistemic Clarity vs Veto Complexity

H5a (Main): Narrative signals are less effective in contexts with high veto complexity and political fragmentation.

H5b (Moderator): Epistemic clarity in communication (clear, coherent policy framing) mitigates the negative effect of veto complexity on narrative effectiveness.

Empirical Test Schema
IV = Narrative Signals
DV = FDI Inflows
Moderator(s) = Epistemic Clarity, Veto Complexity.

This theory adds to the literature the acknowledging that symbols are not read in isolation. Their effectiveness depends on how clearly they are communicated and whether or not they can actually overcome the costs of credibility imposed by the fragmentation of institutional setting.

Even when messages are clear, repetition erodes novelty. The next hypothesis examines saturation and collapse: as similar narratives accumulate without fresh, verifiable delivery, marginal returns fade and can turn negative.

3.7 H6 - Narrative Saturation Collapse

3.7.1 Theoretical Background and Mechanism

The theoretical foundation of this hypothesis builds upon signaling theory and narrative economics. As argued in Chapter 2.3.4 of this thesis, strategic narratives function as signals aimed at reducing uncertainty in the investment environment. The effectiveness does not depend only on intensity and coherence, but also on the novelty and authenticity. When governments repeat the same slogans or promises the content and positive perception of these signals erode over time.

This process mirrors the logic of information overload where excessive repetition reduces signal differentiation and leads to investor fatigue. This erosion of credibility is consistent with the policy credibility literature (Drazen & Masson, 1994, pp.735- 737)[67], which emphasizes that repetition without enforcement undermines the effectiveness of commitments. Just as inflationary monetary announcements lose value when not backed by credible central bank actions, strategic narratives lose informational content when reiterated without tangible institutional reinforcement. Similarly, research on cheap talk (Crawford & Sobel, 1982) shows that when communication is frequent but unverified by credible actions, audiences progressively discount its relevance. In the context of FDI, this creates a paradox: signals that were initially effective in attracting attention may, when overused, lose their persuasive power and even backfire. The mechanism is summarized as follows:

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[67] Paul R Masson, and Allan Drazen. "Credibility of Policies Versus Credibility of Policymakers", *IMF Working Papers* 1994, 049 (1994), accessed August 21, 2025, https://doi.org/10.5089/9781451971811.001

Table 3.6 - Conceptual Model of Narrative Saturation & Collapse (Frequency → Inverted- U with turning point t, moderated by Credibility/Clarity)
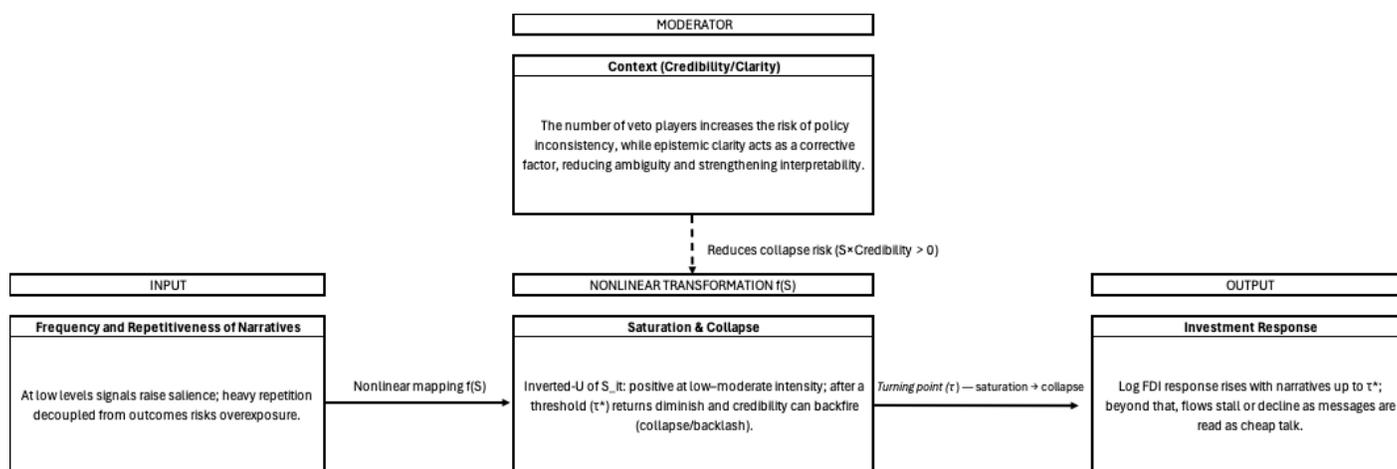
H6 describes a saturation- and- collapse dynamic in the signaling channel. The input is the frequency and repetitiveness of narratives: at low to moderate intensity, additional messages raise salience and help investors coordinate expectations, so FDI responds positively. The mapping from signals to outcomes is Non-linear: as similar messages accumulate without visible delivery, the marginal return shrinks and eventually crosses a turning point. Beyond that threshold, repetition is read as cheap talk; attention fatigues, and the investment response stalls or turns negative, this is the collapse/backlash zone. The moderator is the context of credibility and clarity. Where institutions are credible and messages are specific (clear targets, timelines, instruments), investors give announcements more benefit of the doubt: the turning point shifts to the right and the negative tail is milder. In weak- credibility or ambiguous contexts, by contrast, the same cadence reaches the threshold earlier and the downturn is steeper, because repetition without delivery amplifies skepticism. In short, narrative volume helps up to a point; credibility and clarity determine where that point lies and how severe the collapse is if signaling keeps rising without results.

3.7.2 Limits of Existing Models and Contribution of H6

The temporal dimension of narrative effectiveness has been somewhat overlooked in the existing narrative FDI determinants literature. They are based on the assumption that of announcements and branding efforts having a linear or cumulating effect, just like standard gravity- based approaches(Brainard, 1993, pp.38- 41)[68], while the diminishing or even zero returns on replication are largely ignored.

This gap is critical in emerging economies in which usually governments rely on grandiose narrative campaigns to compensate for their institutional weaknesses.

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[68] Brainard, S. L. (1997). An Empirical Assessment of the Proximity- Concentration Trade- off Between Multinational Sales and Trade. The American Economic Review, 87(4), 520- 544. http://www.jstor.org/stable/2951362

The hypothesis provides an underlying principle explaining the gap between narrative power and reputational decay: it posits that narratives are not infinitely scalable signals but suffer from saturation dynamics like the well- known brand fatigue in consumer markets. Here, H6 makes a valuable contribution by proposing the existence of a non-linear relationship. (In)effective storytelling can be represented by a theoretical inverted- U curve, meaning that moderate signaling can increase attractiveness, but too much and multiple signaling would undermine credibility and reduce FDI inflows.

Narrative economics claims that economic stories create the formation of expectations and spread contagiously (Shiller, 2017)[69], whereas cheap talk models describe the reasons for which non- verifiable messages lose informational content. Communications research also records message fatigue and information saturation, where repetition accelerates message fatigue and reduces marginal persuasiveness. However, no empirical research has been located that tests a saturation point for national strategic narratives on FDI outcomes. In FDI scholarship, narratives are usually framed as linear signals or components of larger reputation constructs; their Non-linear decay with repetition and the possibility of negative marginal returns after a saturation point are less well understood.

3.7.3 Saturation, Reputational Erosion, and Investor Skepticism

At first, repeated slogans may increase investor confidence, but over time each successive signal is perceived as a sign of weakness or desperation. Investors are Bayesian in their updating of beliefs: if previous narratives did not correspond to actual reforms, their priors over the importance of new signals become more and more down- weighted. This is consistent with the reasoning behind the reputation decay mechanism of narrative economics (Shiller, 2017), in which narratives lose their persuasive force as they are repeatedly recycled without new evidence. If a country enters this negative path, even when original reforms are made, they are unlikely to get the recognition they deserve, as the narrative stream has eventually run dry due to skepticism. This becomes a reputational lock- in: more signaling leads to less credibility and recovery would necessitate significant institutional efforts to rebuild trust.

3.7.4 Formal Statement of Hypothesis 6

Building on these insights, the Narrative Saturation Collapse Hypothesis can be formally stated as follows:

H6 - Narrative Saturation Collapse

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[69] https://time.com/5697119/robert- shiller- recession- interview/?utm

H6a (Main): Sustained signaling beyond an optimal cadence reduces FDI inflows as investors discount repetitive or generic messages.

H6b (Moderator): Democracy/Rule of Law moderates saturation effects, allowing countries to sustain narrative credibility longer before collapse occurs.

Empirical Test Schema

IV = Narrative Signals

DV = FDI Inflows

Moderator(s) = Institutional Credibility (Rule of Law, Government Effectiveness).

So strategic communication is not infinitely valuable. Instead of a linear positive relationship between narrative intensity and FDI attracting, it provides the idea of narrative fatigue and reputational erosion. But no story exists in a vacuum as their potential effectiveness is also a function of the larger reputational environment, with overlapping claims crowding one another out. This competitive aspect is the one mirrored in the last hypothesis.

3.8 H7 - Competitive Narrative Crowding

3.8.1 Theoretical Background and Mechanism

The theoretical source of this explanation lies in signaling theory (Spence, 1973) and from the economics of narratives (Shiller, 2017).

Central to this hypothesis is the premise that stories are not received in isolation and that their persuasive power may lie in their distinctiveness.

When several nations are at once espousing similar slogans branding themselves as the "next China" or the "new global hub", the information content of any such signal becomes devalued.

This is similar to Deephouse's (2000) observation that when firms compete for reputation returns, the more the number of actors pursuing the same legitimacy strategy, the less distinctive it becomes and the lower the returns. This, in turn, is consistent with the theory on institutional isomorphism (DiMaggio & Powell, 1983, pp.158- 155)[70], which points to the fact that legitimate actors tend to adopt isomorphic strategies over time. At the international level, if many countries copy the same stories, their uniqueness is compromised, and these stories become less effective as signals.

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[70] DiMaggio, P. J., & Powell, W. W. (1983). The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields. American Sociological Review, 48(2), 147- 160. https://doi.org/10.2307/2095101

The cognitive mechanism can be framed as:

Table 3.7 - Conceptual Model of Peer- Narrative Crowding (Signals × Peer → Investment Response)

MODERATOR
Peer Narratives
The presence and strength of competing countries' narratives, creating a background of symbolic noise that dilutes credibility.

INPUT		OUTPUT
Narrative Intensity		**Investment Response**
Visibility and coherence of a country's strategic narrative	Moderation: S×Peer < 0 Effect of narrative (β_S)	Diminished marginal impact of the national narrative on FDI inflows, as investors struggle to distinguish between overlapping strategic claims.

In this model narrative intensity is the input, the output is the investment response, the moderator is the peer narrative environment: when many competitors broadcast similar promises at the same time, they create a noisy backdrop that blurs distinctions and dilutes credibility. In the baseline, stronger national narratives raise FDI because they reduce uncertainty and coordinate expectations. As peer signaling rises, however, the marginal payoff to an additional unit of a country's own signaling falls. Investors face an attention constraint and must compare overlapping claims; the same announcement that would move capital in a quiet environment is partially or fully discounted when peers speak loudly. At high levels of peer activity, the effect of own narrative can approach zero or even turn negative if investors infer "follow- the- herd" signaling without distinct content. Strategically, the model implies that timing and differentiation matter: countries gain more from their messages when they avoid crowded windows or when they offer distinct, verifiable propositions that stand out against peers' noise.

3.8.2 Limits of Existing Models and Contribution of H7

Previous literature has emphasized the role of narratives and reputation in attracting capital (Shiller, 2017), now most studies analyze national branding strategies in isolation, overlooking the competitive environment in which states operate.

What is missing in the literature is an explicit recognition of the crowding effect, whereby competing narratives reduce each other's distinctiveness and credibility.

3.8.3 Narrative Competition, Noise, and Lock- In Effects

Without differentiation, noise drives reputational lock-in; only salient, verifiable changes can break it.

This mechanism reflects Shiller's (2017) observation that economic narratives compete for attention much like contagious stories, where saturation undermines resonance.

3.8.4 Formal Statement of Hypothesis 7

H7 - *Competitive Narrative Crowding*:

 H7a (Main): The effectiveness of narrative signals diminishes when peer countries simultaneously issue intense or similar signals.

H7b (Moderator): Differentiation mitigates crowding, preserving the effectiveness of narrative signals

Empirical Test Schema

IV = Narrative Signals

DV = FDI Inflows

Moderator(s) = Peer Narrative Intensity (Crowding)

3.9 Synthesis and Theoretical Contributions

The seven arguments developed in this chapter collectively expand analyses of FDI determinants beyond macro- level basics, thereby offering a new theoretical approach that blends signaling theory, institutional economics and narrative work.

Each hypothesis considers a different mechanism among conditional credibility, reputational inertia, reform fatigue, asymmetric trust penalties, veto complexity, narrative saturation, and reputational crowding. The broader claim is that the appeal of FDI is shaped not only by what states do, but how they articulate, sequence, and sustain their actions in the reputational economy of international markets.

The threefold contribution of these hypotheses is reciprocal. First, signals are conditional, judged for their credibility through the lens of institutional quality, historical consistency and narrative distinction. Second, it should also be noted that effects are Non-linear; too much reform, loud rhetoric or competing narratives can actually lead to diminishing or even negative effects. Third, they stress the role of time, and of reputation, as investors learn in a Bayesian manner, incorporating the past performance (of defaults) into their expectations of the future.

3.9.1 Theoretical Innovation: FDI as a Reputational Game

In addition to its individual elements, the complementarities between all the hypotheses developed in this chapter provide a new approach to the analysis of FDI. The conceptualization of investment magnetism reflected in traditional approaches, foregrounding as it does investment attracting as a function of structural advantages or institutional balance, overlooks the symbolic and reputational value that increasingly influence

the allocation of capital in an environment of global competition. By contrast, the present framework conceptualizes FDI as embedded in a reputational game, where governments are strategic narrators competing for credibility, distinctiveness, and investor trust.

The following table synthesizes the formal statements of each hypothesis and the respective contribution to existing literature

Table 3.8 - Hypotheses H1- H7: Main and Moderators

Cluster	Main Hypothesis (Direct Effect)	Moderator Hypothesis (Conditional Effect)
H1 – Strategic Signaling Equilibrium	**H1a:** Narrative signals are positively associated with FDI inflows.	**H1b:** This positive effect is stronger when institutional credibility (Rule of Law, Government Effectiveness) is high.
H2 – Expectational Inertia Effect	**H2a:** Present-day improvements in institutional quality do not immediately increase FDI inflows.	**H2b:** The responsiveness of FDI to current narrative signals depends on reputational memory: historical volatility weakens current responsiveness.
H3 – Reform Fatigue (Nonlinear Saturation)	**H3a:** The relationship between narrative signals and FDI inflows follows an inverted-U pattern.	**H3b:** Government effectiveness moderates this effect: higher administrative capacity delays the onset of reform fatigue.
H4 – Trust Penalty Effect	**H4a:** Weak institutional credibility reduces the effectiveness of narrative signals on FDI inflows.	**H4b:** The penalty is asymmetric: identical reforms yield larger FDI inflows in high-credibility contexts than in low-credibility contexts.
H5 – Epistemic Clarity vs. Veto Complexity	**H5a:** Narrative signals are less effective in contexts with high veto complexity.	**H5b:** Epistemic clarity in policy communication mitigates the negative effect of veto complexity.
H6 – Narrative Saturation Collapse	**H6a:** Sustained signaling beyond an optimal cadence reduces FDI inflows.	**H6b:** Stronger government effectiveness moderates saturation effects, sustaining credibility longer before collapse.
H7 – Competitive Narrative Crowding	**H7a:** The effectiveness of narrative signals decreases when peer countries issue intense or similar signals simultaneously.	**H7b:** Differentiation (sectoral focus, milestones, unique framing) mitigates crowding and preserves effectiveness.

With hypotheses articulated, empirical assessment requires transparent measures and identified estimators that map concepts to observations.

Chapter 4 – Methodology

Chapter 4 documents the sample and horizon, operationalizes signaling, institutional credibility, and peer noise, details cleaning and transformations (e.g., asinh), and presents the panel estimators (FE/TWFE, Driscoll–Kraay SEs, dynamic GMM, splines).

4.1 Dataset Construction

4.1.1 Country sample

The panel was constructed by **twenty emerging economies** selected based on the combination of four relevant criteria, together with reference to internationally recognized groupings as **BRICS (**Brazil, Russia, India, China, South Africa**)** and the **Next Eleven (N- 11)**

The criteria chosen were:

The FDI Relevance: The 20 emerging countries have been chosen among the most significant players in global FDI, emerging economies have increased drastically their share of FDI inflows in the last two decades, as reported by OECD, their share rose from just 15% in 2000 to 46% in 2019[71] and have expanded their role reaching a record 70% of the worldwide FDI flows in 2022[72]

The Narrative Activity and Global Visibility: Emerging economies leverage nation branding and narrative-building so as to attract FDI more than countries with a better established image. Scholars have recognized that the role of global narrative or branding, is increasingly influencing FDI decisions (Brainard, 1993)[73]. Papadopoulos and colleagues analyzed the evidence and the positive link that exists between a country's brand image and its FDI inflows, arguing that this fundamental intangible asset can affect FDI inflows[74].

Structural Diversity within Comparability: The sample balances regions and development stages while preserving comparability in governance and technology. The emerging economies are not a monolithic group, they are different in terms of economic structure (resource rich vs. manufacturing based, large vs. small economies) or in terms of institutional profile (more stable democracies vs. more volatile systems). Following Hoskisson et al. (2000) observations the set of emerging countries is very heterogeneous, including countries

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[71] OECD.org: Emerging Markets Network (EMnet) - https://www.oecd.org/en/networks/emerging- markets-network.html#:~:text=Over%20the%20last%20two%20decades%2C,growth%20occurs%20in%20those%20markets
[72] IMF.org: World Investment Report 2023 - https://www.imf.org/external/pubs/ft/bop/2023/pdf/42/23-21.pdf#:~:text=,global%20flows%2C%20a%20record%20share
[73] Mohib, A.A., Carroll, C. Nation branding as a tool to attract foreign direct investments: a case study of Qatar. Place Brand Public Dipl 20, 363- 377 (2024). https://doi.org/10.1057/s41254- 024- 00326- 9
[74] Nicolas Papadopoulos, Leila Hamzaoui- Essoussi, Alia El Banna, (2016) "Nation branding for foreign direct investment: an Integrative review and directions for research and strategy", Journal of Product & Brand Management, Vol. 25 Issue: 7, pp. 615-628, doi: 10.1108/JPBM- 09- 2016- 1320

in different stages of development and transition[75] the same heterogeneity can has been highlighted by an International Monetary Fund (IMF) study in terms of factor endowments and external linkages (Zhang, Gao, 2015, pp.26)[76]. The structural breadth given by this mix of countries from different regions around the world provides a good generalizability of findings, including both commodity dependent economies and more industrialized ones.

Data Availability and consistency: Ensuring a reliable data coverage was fundamental, so the countries selected granted a consistent and complete time- series data across the different variables includes (e.g., FDI inflows, institutional indicators, narrative proxies). Many countries that did not meet the minimum standards of data availability, usually smaller or lower income ones, had to be excluded. The countries included, instead, are constantly tracked by major international databases like (World Bank, INF, UNCTAD), though with obvious missing observations. Kaufmann noted that the precision and coverage of data improved after the late 1990s (Kaufmann et al., 2008)[77]. The extended coverage minimized the risk of biased samples from missing data and ensured that results are based on consistent, high quality indicators.

Alignment with Groupings as BRICS, N- 11: the countries selected were extracted from well recognized emerging market groupings as BRICS (Brazil, Russia, India, China and South Africa), large economies already identified for their global significance. N- 11(e.g., Mexico, Indonesia, Turkey, Nigeria), were recognized by Goldman Sachs as the next tier of high potential economies, as noted in the Asia pacific journal of Advanced business and Social studies ("THE NEXT 11," 2017, pp.50- 52)[78].

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[75]Aditi Sarkar Sengupta, Ingo Kleindienst, Thomas Hutzschenreuter: Eterogenous internationalization processes of emerging economy MNEs: A review and research agenda,
Journal of International Management,Volume 29, Issue 3,2023,101032,ISSN 1075-
4253,https://doi.org/10.1016/j.intman.2023.101032.(https://www.sciencedirect.com/science/article/pii/S1075425323000297)
[76] IMF.org: https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Emerging- Market- Heterogeneity- Insights- from- Cluster- and-Taxonomy- Analysis- 43085#:~:text=This%20paper%20studies%20growth%20patterns,term%20policy%20advice
[77] Kaufmann, Daniel, Aart Kraay, and Massimo Mastruzzi. "Governance Matters VII: Aggregate and Individual Governance Indicators, 1996- 2007, World Bank Policy Research Working Paper No. 4654." Washington, DC: World Bank (2008).
[78] ALOnaizi, B., and Yousr Gadhoum. "The next 11: emerging investment market." 1st International Conference on Advanced Research (ICAR- 2017), Manama, Bahrain. 2017.

Table 4.1 - Summary of selected countries

Continent	Country	Group
Africa	Egypt	N-11
	Kenya	
	Nigeria	N-11
	South Africa	BRICS
Asia	Bangladesh	N-11
	China	BRICS
	India	BRICS
	Indonesia	N-11
	Malaysia	
	Philippines	N-11
	Saudi Arabia	
	Thailand	
	Viet Nam	N-11
Europe *	Türkiye	N-11
	Russian Federation	BRICS
	Poland	
Americas	Mexico	N-11
	Argentina	
	Brazil	BRICS
	Chile	

* Türkiye and Russian Federation do not entirely belong to Europe as they are partially in Asia

The exclusion of countries as Italy, France, Germany, Japan or the United States from this empirical analysis is grounded in theoretical and methodological considerations, starting from the internal coherence of the research design, other factors have been:

The Lack of Structural Comparability: strong geopolitical positioning, mature legal frameworks, deeply institutionalized economic and political systems, well established capital markets characterize these type of economies, that attract FDI through strong and stable macroeconomic fundamentals (scale effects, global production chains and so on…), rather than relying on strategic signaling. In general in this study the mechanisms explored are mainly related to signaling volatility, institutional credibility gaps and narrative experimentation, together with the idea that the emerging countries have a reputation still to be constructed and contested.

Narrative saturation and Signal Dilution: the central empirical premise of the thesis, which rests on detecting variation in narrative dynamics would have been strongly undermined by the entrenched and consolidated international image of these high income countries, that have established their global narrative over time and that has been already internalized by investors. So the degree of narrative volatility would have been minimal and changes, even drastic changes, in signaling intensity wouldn't have produced strong investors reactions. Empirical evidence also shows that one- off branding efforts or mega events have a very little impact on an established country's international image. Simon Anholt, a Nation branding expert, asserted that hosting a high

profile event or running ad campaigns have really "no lasting impact on the image"[79]. Another important aspect to be analyzed is the "Signal Saturation", so information about strong is abundant, so investors have a deep familiarity with the data available, so new narratives have a marginal impact on investor perceptions. In finance terms, these are "transparent" markets, with really few information asymmetries to overcome. On the other side, emerging economies, often face information gaps and so they're asked to provide stronger signals to convince global investors. So signals are most valuable when the information is not fully available, and uncertainty is high.

Ceiling Effects in Institutional Quality: Advanced economies always score at the upper bounds of governance indicators as Rule of Law, Regulatory Quality and Government effectiveness, leading, again, to a low variance problem, making it statistically difficult to capture the moderating effects of the institutional coherence and credibility, so there wouldn't have been the "room for improvement" that leads to meaningful tests of interaction effects. As some studies highlighted improvements in institutional quality have a stronger impact in attracting FDI inflows at lower levels of institutional governance, after a certain threshold this effect tapers off (Gokceli, 2023, pp. 251- 253). Gokceli in his analysis of OECD countries also showed that while in weak countries better institutions boost FDI, in countries with an already "sound" institutions the effect is almost completely insignificant[80].

Avoiding Sample Contamination: from an econometric point of view, the mix of emerging and advanced economies in a single panel, risks to introduce heterogeneity, to bias coefficients, to inflate standard errors, and also would have challenged the assumption of structural comparability that is fundamental for fixed effects and interaction models. FDI determinants are known to be very different among developed and developing countries. As noted in the cross country study (Saini & Singhania, 2018, 208- 209) the two groups obey to different models, so pooling them in a single regression would lead to a contamination of results, thus a heterogeneity bias[81]. The best practice, so, also in accordance with other studies like (Asiedu, 2002, pp.115- 116)[82] and (Goldstein & McGuire, 2004, pp.563- 564)[83], is the one of excluding G7 (Canada, France, Germany, Italy, Japan, UK and US)- type economies, ensuring a more homogeneous sample.

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[79]Arab News: https://www.arabnews.com/node/2207111/middle-east#:~:text=%E2%80%9CLooking%20back%20over%20the%2020,Speaking%2C%E2%80%9D%20Arab%20News%E2%80%99%20weekly%20talkshow

[80] Gökçeli, E. (2023). Institutional quality and foreign direct investment: evidence from OECD countries. Ekonomický časopis, 71(03), 222- 257.

[81] Saini, Neha, and Monica Singhania. "Determinants of FDI in developed and developing countries: A quantitative analysis using GMM." Journal of Economic Studies 45.2 (2018): 348- 382.

[82] Elizabeth Asiedu: On the Determinants of Foreign Direct Investment to Developing Countries: Is Africa Different?,World Development,Volume 30, Issue 1,2002,Ppes 107- 119,ISSN 0305- 750X,https://doi.org/10.1016/S0305- 750X(01)00100- 0.

[83] Goldstein, A.E. and McGuire, S.M. (2004), The Political Economy of Strategic Trade Policy and the Brazil- Canada Export Subsidies Saga. World Economy, 27: 541- 566. https://doi.org/10.1111/j.0378- 5920.2004.00613.x

With the set of units fixed, the temporal window is now defined to capture reform and narrative cycles in a comparable way

4.1.2 Temporal Horizon

The 24-year window from 2000 to 2023 was strategically selected for a methodological precision reason, this temporal window is not arbitrary, it aligns with key inflection points in institutional development of emerging economies and also to new frontiers of narrative signaling behavior.

The rationale behind this choice follows these points:

Narrative Globalization Turn: The post WTO era and so the early 2000s marked a global turning point in strategic communication by states and in globalization intensification, where nation branding, competitive identity and soft power signaling entered the policy mainstream. For some countries it is also the period most dense in significant institutional reforms as liberalization of capital markets, improvements in ease of doing business, anti- corruption campaigns. For others, instead, this was a period of democratic backsliding or governance stagnation, leading to a divergence that allowed the identification of heterogeneous institutional trajectories. After the WTO turn, competition for capital intensified and signaling proliferated. Together with the rise of internet, new media led to an amplified possibility of reach of national narratives, leading countries to behave like brands in the global marketplace. Economic gains are, so, ensured by an active and efficient management of the country image (Van Ham, 2001, pp. 2- 6)[84]. Thus after the 2000s the narrative signaling became a fundamental asset of countries, leading to substantial investments in international PR campaigns, rankings participation, events aimed at shaping investors perception. The period before the one analyzed was more focused on other strategies also because developing countries were less involved in this narrative boosted by social media(Mohib & Carroll, 2024, pp.367- 345)[85].

Improved Data Quality and Coverage: Prior to the 2000s, the availability of high frequency, precise and harmonized data on the variables analyzed was quite patchy. The adoption of post 2000s standardized reporting systems (UNCTAD, World Bank WGI, IMF databases etc.…) ensured a more robust and comparable measurements across countries and years. For example, the World Bank's Worldwide Governance Indicators (WGI) were firstly released in '96 but became actually consistent and reliable only after the advent of the new millennium.

Crisis Testing and External Shocks: this timeframe included major global stress events like the 2008 Crisis and the COVID- 19 pandemic, while the AI digitalization induced alignment that has emerged in the last five years. These events allowed to observe how institutional strength and narrative quality influence the impact of

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[84] Van Ham, P. (2001). The rise of the brand state: The postmodern politics of image and reputation. Foreign affairs, 2- 6.

[85] Mohib, A. A., & Carroll, C. (2024). Nation branding as a tool to attract foreign direct investments: a case study of Qatar. Place Branding and Public Diplomacy, 20(3), 363- 377.

important shocks on FDI inflows. For instance, with the financial crisis of 2008, the FDI registered a negative peak of - 40% (UNCTAD, 2010)[86], during the COVID- 19 pandemic the effect was even stronger recording a - 60% year on year (YoY) plunge in Q2 (*FDI- Watch- Quarterly- Report*, 2021)[87]. Covering these episodes make it possible to understand whether emerging economies' branding efforts can help counteracting investors' fear during a shock, or if these efforts can buffer the FDI outflows during crisis.

Balance between Depth and Breadth: this time frame led to the possibility of a good balance between capturing long term dynamics while maintaining a good sample size that allowed for statistical validity in panel econometrics. So it was sufficiently long to observe change, but not too long as to risk inconsistencies. Many developing countries underwent radical changes in the 1990s, leading to various structural breaks, the stabilization period perfectly coincides with the analyzed one, leading to more stable and consistent growth models and a more mature FDI system. This approach is perfectly in line with other important researches as the one previously mentioned of Zhang and Gao (Zhang, Ghao, 2015). The chosen span of almost 25 years with an annual data frequency yield a sufficiently large number of observations to achieve econometric power and reasonable stability, thus maximizing data quality and relevance, while minimizing structural noise.

The chosen horizon implies constraints on coverage and consistency; sources and merge procedures are therefore documented next.

4.1.3 Data sources and merging process

The empirical analysis is based on a panel dataset covering 20 emerging economies over 2000-2023. This data set consolidates different sources of economic, institutional, and storytelling factors. Credibility, time coverage and comparability between countries were the reasons why the selection for each variable was made. Basic economic measures like GDP per capita, in constant 2015 USD, trade openness, trade as a percentage of GDP, and inflation were obtained from the World Development Indicators (WDI, World Bank). FDI inflows, both in total amounts and as a percentage of GDP, were extracted from UNCTAD stat, the most commonly used source for international FDI statistics.

Additional macroeconomic controls, like investment rates and productivity measures, were taken from the Penn World Table (PWT 10.0). Institutional variables were gathered from the Worldwide Governance Indicators (WGI, World Bank) for areas like Rule of Law, Government Effectiveness, and Political Stability. To capture the type of political regime, the Polity V dataset was used, providing consistent measures of democracy and autocracy over time. Data on institutional complexity were obtained from Henisz's Political Constraints Index (POLCON), which measures veto players and checks on policy change. Narrative and

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[86] UNCTAD. (2010). Global and Regional Foreign Direct Investment Trends. Transnational Corporations Review, 2(1), 1- 8.
[87] World Bank Group. (2021). FDI Watch: Quarterly Report, Issue 2, March 2021.

signaling variables, including Narrative Intensity, Slogan_Count, Narrative Repetition, and Reform Noise, were created by systematically coding policy documents, strategic plans, and government announcements. Relevant external validation was done by cross- referencing major policy initiatives with international reports, such as IMF Article IV reviews and OECD country surveys. The merging process followed a clear procedure. First, all datasets were harmonized using ISO3 country codes and calendar years as unique identifiers. Second, differences in time coverage were addressed by aligning the common time frame (2000-2023) and excluding outliers with inconsistent coverage. Third, measurement units were normalized. Fourth, missing data were handled in a very careful way.

This careful merging process aimed to create a balanced panel whenever possible. It also sought to maintain the dataset's richness for econometric analysis. This increases external validity and comparability since official sources such as the World Bank, UNCTAD and Polity are used. Also, the addition of narrative variables at manual coding level seems to be a novel contribution. This method combines classical economic and institutional data with novel data on strategic signaling.

Heterogeneous inputs require harmonization. Cleaning routines and variable transformations are outlined to ensure internal consistency and econometric reliability.

4.1.4 Cleaning procedures and transformations

The construction of the dataset required a systematic cleaning process to ensure both internal consistency and econometric reliability. Given the heterogeneity of the sources employed and the sensitivity of FDI inflows to measurement errors, particular attention was devoted to the harmonization of units, the treatment of missing observations, and the transformation of variables.

Preliminary checks. All variables were standardized to ISO3 country codes and calendar years, and duplicates and conflicting entries were excluded. Outliers were detected with descriptive statistics and by observing graphical analysis (boxplot, time series plot). Outliers that represented real economic events (like one- time surges in FDI due to resource discoveries) were kept in that data set. Outliers due to reporting anomalies are also addressed by cross- referencing alternative databases (e.g., UNCTAD versus; WDI) or simply marked as missing.

Transformations. Several variables were transformed to improve statistical properties and align with econometric requirements:

- FDI inflows were transformed using the inverse hyperbolic sine (logFDI_in) to handle zeros/negatives and stabilize dispersion; where the series is strictly non- negative, log1p is reported as a robustness check.[88]

- GDP per capita was also transformed into logs, consistent with growth empirics.

- Trade openness and Government Expenditure were maintained as ratios to GDP to ensure comparability across countries.

- Narrative variables (e.g., Narrative Intensity, Slogan_Count) were normalized either by year or relative to a moving baseline, so as to capture changes in signaling efforts independent of absolute frequency differences across countries.

- Reform variables (e.g., Reform Noise) were subject to scaling transformations (z-scores) to enhance comparability across countries with heterogeneous reform activity.

Temporal smoothing and lags. To capture reputational and expectational dynamics, several variables were lagged or averaged over multi- year windows:

- Lagged FDI inflows (FDI_in_t-1) were introduced to account for path dependence.

- Institutional quality indicators (Rule of Law, Government Effectiveness) were smoothed using 3- year and 5- year moving averages (Rule_Law_MA3, Rule_Law_MA5) to reflect reputational memory.

- Narrative intensity was lagged by one period (Narrative_Lag1) to allow for delayed investor responses to signaling.

Treatment of missing data. Missing values were handled in a conservative way. When gaps were isolated and limited to a single year, linear interpolation was applied. In case of structural absences (as unavailable governance scores for early or several years), were left missing in order to avoid creating artificial random and unreliable patterns. Overall, these procedures made sure that the panel is balanced where possible and workable with economic data while keeping the richness of the information. By combining standard transformations with motivated lags and smoothing, the dataset is set up to test the Non-linear, conditional, and path- dependent ideas presented in Chapter 3.

The harmonized panel permits precise outcome definition. The dependent variable: FDI inflows, is now formalized, including the asinh transformation for comparability.

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[88] Unless otherwise specified, the dependent variable (DV) used throughout the empirical analysis is FDI inflows transformed via the inverse hyperbolic sine, asinh(FDI). For brevity, some tables/figures may label this variable as "logFDI_in" or "log(FDI)"; these labels refer to the same asinh(FDI) transformation.

4.2 Variable Operationalization

4.2.1 Dependent variable: FDI inflows

The dependent variable of this research is foreign direct investment inflows (FDI inflows). This measure is the best way to assess how external investors interpret and respond to the signals issued by host governments. Differently from short- term capital movements or portfolio flows, FDI require long- term commitments and involve sunk costs and strategic integration into the host economy. For this reason, it is more sensitive to the credibility of policies, the stability of institutions, and the effectiveness of national narratives.

In the present study, the dependent variable is the amount of FDI flows, and it is also used as the dependent variable for testing the hypotheses developed in Chapter 3. Each of these hypotheses is tested to determine whether narratives, institutional credibility, and their interaction are associated with observable differences in investment behavior.

Operationally, it is a proxy measured by the annual Net Inflows of FDI (logFDI_in) that each country in the sample received, but it is a variable that has been transformed using the inverse hyperbolic sine (asinh), which approximates the natural log for large |x| and accommodates zeros/negatives, so as to allow for the comparability among countries and to reduce the positive skewness of capital flow data. This ensured that the analysis reflects proportional, as opposed to absolute, change, and therefore FDI inflows (the dependent variable) can still be considered as a consistent and coherent measure of change in the responsiveness of investors between economies.

For brevity, the label logFDI_in is retained in the tables, but it indicates the asinh transformation of net FDI flows. Asinh is log- like for large values and allows for the treatment of zeros/negatives; where the series is strictly non- negative, log1p(FDI) is also reported as a robustness check.

With the outcome defined, attention turns to narratives as core regressors that operationalize signaling intensity, timing, decay, and distinctiveness.

4.2.2 Independent variables: narrative indicators

Building on signaling theory, national narratives serve as strategic signals through which governments try to shape investor expectations, reduce uncertainty and project long- term credibility, thus trying to incentivize investments towards them.

The empirical model, so, introduces a set of narrative variables that translate the theoretical mechanisms outlined in Chapter 3 into measurable constructs. These indicators reflect three key properties of signaling:

- **Visibility and intensity**: this refers to the frequency and prominence of strategic statements, policy mantras, and branding strategies (Narrative_Intensity). This is indicative of the how actively governments try to appear attractive.
- **Repetition and decay**: indicators such as *Narrative_Repetition_Max* or *Narrative_Decay_Index* operationalize the logic of narrative saturation and fatigue, trying to measure where excessive reiteration leads to diminishing credibility.
- **Temporal dynamics**: lagged and moving- average terms, capturing the path- dependent and reputational focus of narratives, are included, to be in tune with the theoretical emphasis on the Bayesian updating of investor beliefs.
- **Comparative distinctiveness**: the Gap_Index includes the dissonance between narrative ambition and organizational excellence, whereas other variables measuring peer competition facilitate the analysis of story crowding hypotheses.

The inclusion of these covariates in this analysis goes beyond the stereotyped assumption of linear and monotone effects. Rather, it is about whether narratives have conditional, Non-linear, and context specific effects on FDI inflows as proposed in Chapter 3 hypotheses. Including the narrative variables therefore renders operational the key postulate in this thesis: that credibility and reputation are not epiphenomena but strategic tools that the government can actively influence, and that investors subject to critical scrutiny in the process of making their decisions.

In this way, narrative indicators act as the main independent variables of the empirical strategy. They constitute the analytical bridge between the conceptual framework and the econometric models, allowing the symbolic dimension of state behavior to be rigorously tested alongside structural and institutional controls.

Narratives operate within institutional constraints and structural conditions; governance and macro controls are therefore incorporated to isolate identified effects.

4.2.3 Institutional and structural controls

While this thesis primarily looks at the symbolic and narrative aspects of state signaling, it is important to include structural and institutional control variables in the research approach for three main purposes. First, it

makes sure that the explanations linked to narrative indicators are not just reflecting the influence of underlying fundamentals. Secondly, it allows for comparison with existing studies on the factors that drive FDI. As a third reason, it enables the research models to assess the added value of narratives beyond the conventional factors, which strengthens the reliability of the results.

The structural controls reflect the economic capacity and openness of the host country. Consistent with gravity and OLI- inspired approaches (Dunning, 1988; Brainard, 1993), GDP per capita (*GDPpc*) is included to proxy for market size and domestic demand. Trade openness (*Trade_Open*) captures the degree of integration into the global economy and the accessibility of domestic markets to foreign investors. In addition, infrastructure quality (*Infra_Index*) provides a measure of the physical and logistical foundations that directly influence investment feasibility.

On the institutional level, the Rule of Law (Rule_Law), Government Effectiveness (Gov_Effectiveness) and Political Stability (Political_Stability) are proxies for quality of governance as well as credibility of the institutions. These measures, which are based on the World Governance Indicators, map directly to the credibility filters at the heart of Chapter 3. They are the second in status, where they condition and/or mediate the efficacity of narratives (and/or stories) (e.g., - a reform being announced might signal ambition, but whether that ambition is considered to be credible or not depends on whether there are institutional mechanisms to ensure its enforcement and sustainability).

The structural and institutional forces, combined, frame the baseline relative to which the additional explanatory power of narrative indicators is tested. Without this term, the empirical analysis could run the risk of overestimating the importance of narratives by overlooking the document influence of fundamentals. By explicitly including these two controls with the new narrative indicators, this thesis keeps the empirical tests rooted in the wider FDI literature while striking the first blow in a new research program on the symbolic and reputational economy of global investment.

State-contingent and non-linear responses are plausible. Splines, dummies, and derived terms capture thresholds, asymmetries, and interactions.

4.2.4 Dummies, splines, and derived transformations

Apart from the standard set of independent and control variables, the empirical models utilize dummy variables, spline functions and transformations, so that they are able to account for Non-linear dynamics,

structural change and contextual asymmetries. This enhances the flexibility and robustness of the econometric specification and addresses any potential bias introduced by the constraint of linearity.

Dummy variables are used to model discrete structural conditions and contextual asymmetries. Country and year fixed effects already control for unobserved heterogeneity, but additional dummies allow testing specific hypotheses. For instance, an India dummy has been introduced to isolate the reputational dynamics of India against China. Similarly, crisis (2008 financial crisis and Covid- 19 pandemic) dummies have been included to account for global or regional shocks, as they may have altered for a temporary period the relationship between narratives and investment flows. These dummies serve to control for events that cannot be explained by structural variables alone but that can influence investor sentiment.

Spline functions are employed to capture Non-linearities in the relationship between signals and outcomes. In line with the Reform Fatigue Paradox (H3) and the Narrative Saturation Collapse (H6), spline specifications allow the identification of thresholds beyond which additional reforms or repetitive narratives cease to produce positive effects and instead generate diminishing or adverse returns. By partitioning the distribution of explanatory variables into intervals, splines relax the linearity assumption and enable the models to detect inverted- U or saturation dynamics. This technique is especially relevant for testing whether signaling effectiveness decays after reaching a saturation point, as hypothesized in Chapter 3.

Derived transformations of variables further refine the operationalization of theoretical constructs. Lagged variables as Narrative_Lag1 capture temporal delays in investor responses, consistent with the Expectational Inertia Trap (H2). Narrative_MA3 as moving averages smooth short- term volatility and reflect a reputational memory, while interaction terms as Narrative_Intensity$\times$ Rule_Law test the Strategic Signaling Equilibrium in H1. In combination these changes operationalize the theoretical intuition that investors interpret signals in a dynamic manner.

The simultaneous use of dummies, splines, and transformations is consistent with a more general methodological intent that is the one of spanning the distance between theoretical complexity and econometric estimation. However, as opposed to structural and institutional restraints which guarantee comparability with typical FDI models, the additional methods ensure that the empirical strategy whereas the theoretical framework focuses on the Non-linear, conditional and reputational dynamics. In this respect, the thesis contributes to the development of FDI econometric modelling and also to the incorporation of symbolic and narrative dimensions within quantitative political economy.

The following table presents a synthesis of the variable employed in the analysis, highlighting the role of the variable, the source from which it was extracted, the transformation undergone, the hypothesis in which the variables are employed and some extra notes.

The variables shaded in gray are bespoke constructs developed for this study to operationalize the narrative-related mechanisms underlying the hypotheses, in domains where no official measures exist. They are built from auditable event logs and policy texts, with construction and transformations documented in Chapter 4.2 to ensure transparency and replicability.

Table 4.2 - Variable Dictionary: Roles, Definitions, Sources, Transforms, and Links to Hypotheses (Core Model)

Role	Variable name	Brief definition & construction	Source	Transform	Theoretical link (H#)	Notes
Dependent	logFDI_In	Net inward FDI flows (current USD), annual; natural log to reduce skewness and interpret semi-elasticities	World Bank WDI / UNCTAD	ln(value)	Outcome	Country–year panel (2000–2023)
Independent (Institutions)	Rule_Law	Institutional quality: rule of law (annual index)	WGI (World Bank)	level (index)	H1, H2, H4	Primary credibility proxy
Independent (Institutions)	Gov_Effectiveness	Government effectiveness (annual index)	WGI (World Bank)	level (index)	H1, H2 (robustness)	Proxy swap for institutional capacity
Independent (Regime)	Democracy	Standard democracy/regime index	V-Dem / Polity (as implemented)	level (index)	H4	Regime-contingent credibility channel
Independent (Political constraints)	Veto_Complexity / POLCON	Institutional constraints/veto players	POLCON dataset / equivalent	level (index)	H5 (veto side)	Dampening channel on signaling
Independent (Memory)	Memory_MA3 / MA5	Reputational memory: 3–5-year moving average of Rule_Law (and, in robustness, Gov_Effectiveness)	Constructed from WGI	MA(3y) / MA(5y)	H2	State variable that conditions new signals
Independent (Narratives)	Narrative_Intensity	Text-based index of government reform signaling (volume/visibility of official messages)	Constructed (policy announcements logs)	standardised (if used)	H1, H5, H6, H7	Core signaling measure
Independent (Narratives)	Consistency	Coherence/continuity of the reform narrative over time	Constructed	standardised (if used)	H5 (clarity side)	Supports the clarity channel
Independent (Reforms)	Reform_Activity	Intensity of enacted reform actions (policy event coding, annual)	Constructed (official records/event data)	level / normalised (as in §4.2)	H3	Used for nonlinearity (pacing/fatigue)
Independent (Peers)	Peer_Narrative	Average narrative intensity of peer countries (regional or global; focal excluded)	Constructed from narrative data	standardised (if used)	H7	Competitive-attention (crowding)
Control	GDPpc_log	GDP per capita (constant or current USD, per your data), logged	WDI	ln(value)	—	Market-size control
Control	Trade_Open	Trade openness (exports+imports as % of GDP)	WDI	level / %	—	Openness control
Control	Political_Stability	Political stability/no violence	WGI	level (index)	—	Risk control
Control	Infra_Index	Infrastructure proxy (composition as defined in §4.2)	WDI / compiled	standardised (if used)	—	Business-climate control
Control	HighTech_Exports	High-tech exports (% of manufactured exports)	WDI	%	—	Capability/sector control
Control	Renewable_Share	Share of renewables in energy mix (or equivalent energy indicator)	WDI / IEA (as implemented)	%	—	Energy/transition control

* Grey-shaded cells indicate indicators constructed for this study

The following table, instead, shows prior evidence for the determinants employed in this study and their reported association with inward FDI. For each variable, studies are grouped by the sign of the effect (positive, negative, insignificant/mixed), with citations and page references, so that the direction and consistency of findings can be read at a glance. The compilation shows areas of convergence, for example, institutional quality and infrastructure are most often associated with higher FDI. Larger market size typically attracts investment alongside domains with heterogeneous results, such as regime type/democracy, trade openness, and political risk/stability, where effects vary across samples, periods, and specifications. The final rows note constructs that are less established in the literature (e.g., government promotion/signaling, narrative noise, peer- country effects), indicating where this thesis extends measurement and tests mechanisms that have not been systematically quantified. Overall, the table provides an evidence baseline that both motivates the set of

controls and mechanisms used here and justifies the need for conditional, state- dependent tests in the empirical analysis.

Table 4.3 - Prior evidence on the determinants

Prior evidence on the determinants used in this study

Determinant	Positive effect on FDI	Negative effect on FDI	Insignificant / mixed
Institutional quality (Rule of Law; Government Effectiveness)	Globerman, Shapiro 2002 pag.17 - Gokceli 2023,pag.31 - Daude, Stein, 2007, pag.24- Quéré, Coupet, 2005, pag.27	-	Globerman, Shapiro 2002 pag.17
Democracy / regime type	Busse, Hefeker, 2005, pag.25	Li, Resnik, 2003, pag. 29 (partially mixed and partially negative)	Li, Resnik, 2003, pag. 28
Political risk / stability (control)	-	instability has a negative effect: Scheneider,Frey, 1985, pag.173 - Hefeker,Busse,2007,pag.20	-
Political constraints / veto players (conceptual link to "veto complexity")	Queré, 2007, pag.746-782 - Jensen,2003, pag.26	-	Jensen,2003, pag.26 constraints help only when reforms are pro-FDI
Market size / income (log GDP per capita – control)	Wheeler,Mody, 1992 pag.71 - Demirhan, Masca, 2008, pag 365	-	Cortes, Lajara, 2017, pag.127
Trade openness (control)	Wheeler,Mody, 1992 pag.71	-	Demirhan, Masca, 2008, pag 365
Infrastructure / business climate (control)	Wheeler,Mody, 1992 pag.72	-	Onyeiwu,2004, pag.103
Government investment promotion / signaling	-	-	-
narrative noise	-	-	-
Peer-country / third-country effects	-	-	-

* Grey-shaded cells indicate indicators constructed for this study.

[89](Globerman, Shapiro, 2002) - [90] (Gockceli, 2023)- [91](Daude, Stein, 2007) - [92](Busse, Hefeker, 2005) - [93](Li, Resnik, 2003) - [94] (Quéré, 2007)- [95](Jensen,2003) - [96] (Wheeler, Moody,1992) - [97] (Demirhan, Masca, 2008) - [98] (Cortes, Layara, 2017) - [99] (Onyeiwu, 2004)

With constructs defined, estimation strategies are introduced to address unit heterogeneity, cross-sectional and temporal dependence, persistence, and curvature.

4.3 Econometric Models

4.3.1 Fixed Effects (FE) Model

This model is a panel regression that controls for all time- invariant characteristics of individual units, so that each unit has its own intercept. The unobserved heterogeneity that is constant over time, is thus absorbed or differenced out. An analysis conducted by Baltagi, reinforced the idea that the FE model is appropriate in case a specific focus on a set of entities and the goal is to make inferences on those sampled entities, as in the case of this thesis, (Baltagi, 2005, pp.240).[100] So in a nutshell this estimator uses within unit variation to estimate coefficients, thus eliminating bias from any omitted factors that are fixed among each unit.

The fixed effects model has also been the main estimator in the thesis as it eliminates all time- invariant heterogeneity between country observations such as institutional background, legal structure and geographical

[89] Steven Globerman, Daniel Shapiro, Global Foreign Direct Investment Flows: The Role of Governance Infrastructure,World Development,Volume 30, Issue 11,2002,Ppes 1899- 1919,ISSN 0305- 750X,https://doi.org/10.1016/S0305- 750X(02)00110- 9.

[90] Gökçeli, Emre. (2023). Institutional Quality and Foreign Direct Investment: Evidence from OECD Countries. Ekonomický časopis. 71. 222- 257. 10.31577/ekoncas.2023.03.03.

[91] DAUDE, C. and STEIN, E. (2007), THE QUALITY OF INSTITUTIONS AND FOREIGN DIRECT INVESTMENT. Economics & Politics, 19: 317- 344. https://doi.org/10.1111/j.1468- 0343.2007.00318.x

[92] Matthias Busse, Carsten Hefeker,Political risk, institutions and foreign direct investment,European Journal of Political Economy,Volume 23, Issue 2,2007,Ppes 397- 415,ISSN 0176- 2680,https://doi.org/10.1016/j.ejpoleco.2006.02.003.

[93] Li Q, Resnick A. Reversal of Fortunes: Democratic Institutions and Foreign Direct Investment Inflows to Developing Countries. International Organization. 2003;57(1):175- 211. doi:10.1017/S0020818303571077

[94] Bénassy- Quéré, Agnès & Coupet, Maylis & Mayer, Thierry. (2007). Institutional Determinants of Foreign Direct Investment. The World Economy. 30. 764 - 782. 10.1111/j.1467- 9701.2007.01022.x.

[95] Jensen NM. Democratic Governance and Multinational Corporations: Political Regimes and Inflows of Foreign Direct Investment. International Organization. 2003;57(3):587- 616. doi:10.1017/S0020818303573040

[96] David Wheeler, Ashoka Mody,International investment location decisions: The case of U.S. firms,Journal of International Economics,Volume 33, Issues 1- 2,1992,Ppes 57- 76,ISSN 0022- 1996,https://doi.org/10.1016/0022- 1996(92)90050- T.

[97] Demirhan, E., & Masca, M. (2008). Determinants of foreign direct investment flows to developing countries: a cross- sectional analysis. Prague Economic Papers, 17(4), 356- 369. doi: 10.18267/j.pep.337

[98] Claver- Cortés, E. & Marco- Lajara, Bartolome & Encarnacion, Manresa- Marhuenda & García- Lillo, Francisco & Seva- Larrosa, Pedro. (2017). Location decisions and agglomeration economies: Domestic and foreign companies. Investigaciones Regionales. 2017. 99- 135.

[99] Onyeiwu, S., & Shrestha, H. (2004). Determinants of Foreign Direct Investment in Africa. Journal of Developing Societies, 20(1- 2), 89- 106. https://doi.org/10.1177/0169796X04048305 (Original work published 2004)

[100] Baltagi, B. H., & Baltagi, B. H. (2008). Econometric analysis of panel data (Vol. 4, pp. 135- 145). Chichester: John Wiley & Sons.

location. All critical hypotheses were tested using FE analysis, with the most basic model and the interaction model (for example at the level of Narrative_Intensity × Rule_Law or Narrative_Intensity × India_Dummy).

The model was useful in controlling for within- country variation in FDI flows that are attributable to changes in the 'narrative intensity' and the 'institutional credibility' in the public's perception that cause omitted variable bias resulting from fixed unobserved traits.

FE absorb time-invariant heterogeneity; Random Effects provide a benchmark under stronger assumptions and are contrasted via Hausman diagnostics.

4.3.2 Random Effects (RE) Model

In the random- effects model, individual specific effects are treated as random draws from a population distribution, rather than fixed parameters. So the RE assumes that the unobserved unit effects are uncorrelated with the regressors. Again Baltagi in the aforementioned study, (Baltagi, 2005), asserts that this model is mostly appropriate when one sample of N units is seen as randomly drawn from a larger population. In this case, so RE is more efficient than FE, but this not the only situation. Also when N is really large and T is not so large (Short time periods), RE must be preferred over FE because the last method would lead to a huge loss of degrees of freedom. The foundational paper by Wallace and Hussain in 1969, cited in Baltagi 2008 , introduced the formulation of error components of RE, while the RE properties were examined by Swamy and Arora in 1972 (Baltagi, B.H. 2008, pp.241) [101]. Another important test is the Hausman's specification test used to compare FE with RE.

Random effects models were used primarily for comparison via the Hausman test, which evaluates the appropriateness of using FE by testing whether regressors are correlated with unobserved country- specific effects. Given the frequent rejection of RE assumptions in this context, FE remained the preferred model. However, RE models were still included in robustness checks to assess the sensitivity of results to different assumptions about unit- level heterogeneity.

Dependence across panels is likely in macro settings. Driscoll–Kraay standard errors address cross-sectional and temporal correlation for valid inference.

4.3.3 Driscoll–Kraay Standard Errors (DK SEs)

This covariance matrix estimator is deployed in panel regressions that produces heteroskedasticity- consistent standard errors robust to very general forms of cross- sectional (spatial) and temporal dependence (Driscoll & Kraay, 1998). In their seminal paper Driscoll and Kraay highlighted one of the major findings: using

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[101] Baltagi, B.H. (2008). Fixed Effects and Random Effects. In: Durlauf, S.N., Blume, L.E. (eds) The New Palgrave Dictionary of Economics. Palgrave Macmillan, London. https://doi.org/10.1007/978- 1- 349- 58802- 2_583

nonparametric time- series techniques a consistent estimation of standard errors occurs across entities and over time, mostly when the T (time dimension) is sufficiently large (Hoechle, 2007, pp.289)[102].

Given the large- N (20 countries) and long- T (24 years) structure of the panel, Driscoll–Kraay robust standard errors were essential for producing valid inference. They were applied systematically to all FE models to correct for heteroskedasticity, serial correlation, and cross- sectional dependence (e.g., global events affecting multiple countries simultaneously, such as COVID- 19 or financial crises). Their use enhanced the reliability of estimated coefficients, especially in models involving interaction terms and splines.

Common shocks require absorption beyond unit effects. Two-way fixed effects add time dummies to control for period-specific disturbances.

4.3.4 Two-Way Fixed Effects (TWFE)

In this model the FE approach is extended by including two sets of fixed effects, one for each dimension in the panel data (country specific effect and time period effect), in this model dummies are fundamental as they allow both the intercepts for each cross-sectional unit and the intercept for each time period to differ. Always relying on Baltagi study (Baltagi, 2005), a formal description of the model is given:

$$u_{it} = \mu_i + \lambda_t + v_{it} \quad i = 1, \ldots, N; \, t = 1, \ldots, T \tag{3.1}$$

If the μ_i *and* λ_t are assumed to be fixed parameters to be estimated and the remainder disturbances stochastic with $v_{it} \sim \text{IID}(0, \sigma_v^2)$, then (3.1) represents a two-way fixed effects error component model. The X_{it} are assumed independent of the v_{it} for all i and t. Inference in this case is conditional on the particular N individuals and over the specific time periods observed. Recall that Z_λ, the matrix of time dummies, is $NT \times T$. If N or T is large, there will be too many dummy variables in the regression $\{(N - 1) + (T - 1)\}$ of them, and this causes an enormous loss in degrees of freedom. In addition, this attenuates the problem of multicollinearity among the regressors. Rather than invert a large $(N + T + K - 1)$ matrix, one can obtain the fixed effects estimates of β by performing the following Within transformation given by Wallace and Hussain (1969):

$$Q = E_N \otimes E_T = I_N \otimes I_T - I_N \otimes \bar{J}_T - \bar{J}_N \otimes I_T + \bar{J}_N \otimes \bar{J}_T \tag{3.3}$$

Also it's crucial to focus on the concept that including N and T dummies can lead to a huge consume of degrees of freedom when either N or T is large, so the estimation often relies on the "within" transformation to sweep out both effects.

[102] Hoechle, D. (2007). Robust standard errors for panel regressions with cross- sectional dependence. The stata journal, 7(3), 281-312.

The Two-Way Fixed Effects specification was used in situations where both similar time shocks were expected to affect all countries at once. Such models are relevant ones for global inflection points hypotheses (WTO entry, 2008 crisis, or AI induced shifts) as country and year fixed effects are included. TWFE was then essential for measuring dynamic marginal effects over time and controlling unobserved macro level shocks in the analyses of narratives saturation and signal fatigue hypotheses.

4.3.5 Dynamic Generalized Method of Moments (GMM) Estimators (One- Step & Two-Step)

Dynamic GMM has mainly been used as a qualitative robustness check, not as for primary inference. Estimators are one- step in first differences and in forward orthogonal deviations (ld). Both the logFDI_in gap and narrative terms are endogenous; standard controls are predetermined/exogenous. Instruments are own lags, collapsed, with narrow windows (lags 2- 3) to prevent proliferation. Diagnostic report: Arellano–Bond test for first and second- order serial correlation AR(1)/AR(2) and Hansen/Sargan; aimed for no rejection of AR(2) and over- identification restrictions. Considering that (in particular in two- step/robust versions) variance-covariance matrices are often ill- conditioned; the absolute value of coefficients are not interpreted. GMM is employed to check for sign consistency with fixed- effects results (positive credibility interaction; negative time- specific saturation). Fixed- effects models with Driscoll–Kraay (and cluster- robust variance estimator (CR2) as a stress test) remain the basis for estimation and policy implications. Where the Variance- covariance matrix (VCOV) is singular, coefficient tables were omitted, and instrument counts and lag windows were disclosed in the robustness section.

4.3.6 Non-linear Modelling Using Splines (e.g., Natural Splines)

Splines are flexible tools for modelling Non-linear relationships by piecing together low- degree polynomials between defined breakpoints ("knots"). Natural splines are a popular variety of cubic spline with additional boundary constraints that force the function to become linear beyond the boundary knots. This prevents the spline from exhibiting erratic behavior at the extremes of the data. Hastie, Tibshirani, and Friedman's influential textbook The Elements of Statistical Learning *(2009)* is an authoritative source discussing regression splines and natural splines in an accessible way. They note that high- degree polynomials can "flap about madly" at the tails, and natural cubic splines ameliorate this problem by adding constraints that the spline function is linear in the tail regions beyond the outer knots (*The Elements of Statistical Learning*, 2009)[103]. So a natural cubic spline of order 3 has its second and third derivatives set to zero at the boundaries, ensuring smoothness and stability.

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[103] Hastie, T., Tibshirani, R., & Friedman, J. (2009). The elements of statistical learning.

Natural spline models were deployed to capture Non-linearities in the marginal effects of narrative signaling over time. Specifically, splines were used to estimate interactions such as Narrative_Intensity × spline(time_w) and to test the Narrative Saturation Collapse, where signaling becomes less effective or even counterproductive after a threshold. Models used 3- 4 degrees of freedom to trace flexible marginal effects and detect inflection points. This approach provided empirical support for the idea of "narrative fatigue" or diminishing returns to communication.

4.4 Econometric Formulations and Expected Outcomes

The purpose of this intermediate chapter is to provide a formal exposition of the hypotheses introduced in Chapter 3, linking them to explicit econometric formulations and expected signs of coefficients. While Chapter 3 presented the theoretical foundations of each mechanism, the present section translates these mechanisms into operational equations. This exercise serves a dual purpose. First, it clarifies the role of each variable within the econometric specification, specifying the expected direction of influence on foreign direct investment (FDI) inflows. Second, it frames the anticipated empirical outcomes that will be tested in Chapter 5, thus acting as a bridge between theory and econometric implementation.

Another facet worth emphasizing is the Bayesian reasoning of updating expectations. Several of these hypotheses (e.g., H2, H6, and H7) posit that foreign investors do not interpret single signals separately but update their priors based on the previous credibility paths. From a dynamic perspective this path- dependent process is crucial for explaining the reason why reforms, stories, or credibility shocks do not have immediate or unilinear effects but are filtered through a reputation memory.

It is worth noting in conclusion, that the robustness of results will not be investigated for a single model specification. Hypotheses will similarly be tested using a variety of econometric approaches ranging from Fixed Effects, Driscoll–Kraay robust estimators, Two-Way Fixed Effects, dynamic GMM, spline type Non-linear models.

4.4.1 General Formulation and Controls

All hypotheses are estimated within the general panel specification:

$$\text{logFDI}_{it} = \alpha + \beta \, \text{KeyVar}_{it} + \gamma \, \text{Controls}_{it} + \mu_i + \lambda_t + \epsilon_{it}$$

where:

Table 4.4 - Baseline Panel Model (TWFE): Variables, Controls, Fixed Effects, and Notation

Variable	Type	Details
$logFDI_{it}$	dependent variable	country i, year t
$KeyVar_{it}$	narrative or institutional variable	specific to each hypothesis
$Controls_{it}$	include structural covariates	(GDP per capita, Trade Openness, Political Stability, Government Effectiveness, Infrastructure Index);
μ_i	country fixed effects	
λ_t	time effects	
ϵ_{it}	error term	

> * Expected signs are derived from the theoretical framework in Chapter 3, with the anticipation that credible and well-anchored signals have positive effects, while incoherent or saturated signals may yield diminishing or even negative returns.

4.4.2 H1 - Strategic Signaling Equilibrium

$$\text{logFDI}_{it} = \alpha + \beta_1 \, \text{NarrativeIntensity}_{it} \times \text{RuleLaw}_{it} + \gamma \, \text{Controls}_{it} + \mu_i + \lambda_t + \epsilon_{it}$$

Empirical evidence suggests that Rule of Law is positively associated with FDI inflows (Zhang & Liu, 2021)[104], but the *conditional interaction with narrative signaling* has not been systematically tested.

Table 4.5 - Expected Results & Robustness for H1: Signs, China- India Contrast, and Outcome Expectation

	Expected	Comment
Expected sign	$\beta_1 > 0$	Narratives are effective only when filtered by strong institutions
Robustness	positive interaction should hold across FE, DK, and GMM,	coefficients may vary in size
China/India:	Stronger marginal effects expected in China	robust institutions vs frequent credibility gaps
Output expectation:	Narratives matter	their marginal effectiveness is significantly amplified in contexts of high institutional credibility

4.4.3 H2 - Expectational Inertia Trap

$$\text{logFDI}_{it} = \alpha + \beta_1 \, \text{RuleLaw}_{it} + \beta_2 \, \text{RuleLaw\_mean3}_{it} + \gamma \, \text{Controls}_{it} + \mu_i + \lambda_t + \epsilon_{it}$$

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[104] ZHANG, Xiujie & LIU, Weihua. (2021). The Rule of Law and Foreign Direct Investment. 10.2991/assehr.k.211209.019.

Table 4.6 - Expected Results & Robustness for H2: Signs, China- India Contrast, and Outcome Expectation

	Expected	Comment
Expected sign	$\beta_1 > 0$, $\beta_2 > 0$ but stronger	long-term credibility matters more than contemporaneous quality.
Robustness	Effect of β_2 should remain positive across FE and GMM.	
China/India:	Inertia penalties expected to weigh more on India	as policy reversals have been more frequent
Output expectation:	FDI reacts more to reputational history than to current institutional scores	inertia traps delay positive investment responses in volatile countries.

4.4.4 H3 - Reform Fatigue Paradox

$$\log\text{FDI}_{it} = \alpha + \beta_1 \text{ReformNoise}_{it} + \beta_2 \text{ReformNoise}_{it}^2 + \gamma \text{Controls}_{it} + \mu_i + \lambda_t + \epsilon_{it}$$

Lora (2003, pp.32- 33)[105] highlights how successive reform waves may lose effectiveness over time. Yet, no direct test has explored whether this saturation dynamic applies specifically to FDI attraction.

Table 4.7 - Expected Results & Robustness for H3: Signs, China- India Contrast, and Outcome Expectation

	Expected	Comment
Expected sign	β1>0, β2<0→ inverted-U	Moderate reforms attract FDI, excessive reforms deter it.
Robustness	non-linear pattern is expected across FE and spline models	
China/India:	The paradox is more visible in India	India (frequent reform waves with weak enforcement) , China (sequenced and disciplined reforms)
Robustness note	Non-linearities will be tested not only via quadratic terms but also through spline models	to ensure results are not functional-form artifacts
Output expectation:	Inverted-U curve	Reforms are beneficial up to a threshold, after which their marginal impact decays

4.4.5 H4 - Trust Penalty Asymmetry

$$\log\text{FDI}_{it} = \alpha + \beta_1 \text{RuleLaw}_{it} + \beta_2 \text{Democracy}_{it} + \beta_3(\text{RuleLaw}_{it} \times \text{Democracy}_{it}) + \gamma \text{Controls}_{it} + \mu_i + \lambda_t + \epsilon_{it}$$

Rana & Kebewar (2014)[106] find that democratic institutions influence the credibility of international commitments. However, the asymmetric penalty of weak governance across regime types remains underexplored in the FDI literature.

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[105] Lora, Eduardo A. and Panizza, Ugo and Quispe- Agnoli, Myriam, Reform Fatigue: Symptoms, Reasons, Implications (October 2003). Available at SSRN: https://ssrn.com/abstract=472421 or http://dx.doi.org/10.2139/ssrn.472421

[106] Rana, A. T., & Kebewar, M. (2014). The political economy of FDI flows into developing countries: does the depth of international trade agreements matter?. arXiv preprint arXiv:1402.0139.

	Expected	Comment
Expected sign	β1>0, β3<0	Governance weakness penalizes democracies more
Robustness	Penalty should remain under FE and DK Ses	though weaker in GMM
China/India:	Stronger penalty for India	stronger penalty where democracy coexists with governance gaps, China less penalized due to "low expectations"
Output expectation:	Institutional weaknesses hurt democracies disproportionately	leading to sharper declines in FDI relative to autocracies

4.4.6 H5 - Epistemic Clarity vs Veto Complexity

$$\text{logFDI}_{it} = \alpha + \beta_1 \text{NarrativeClarity}_{it} + \beta_2 \text{VetoPlayers}_{it} + \beta_3 (\text{NarrativeClarity} \times \text{VetoPlayers}) + \gamma \text{Controls}_{it} + \mu_i + \lambda_t + \epsilon_{it}$$

Table 4.9 - Expected Results & Robustness for H5: Signs, China- India Contrast, and Outcome Expectation

	Expected	Comment
Expected sign	β1>0, β2<0, β3>0	Clarity offsets complexity
Robustness	The interaction effect expected to persist in both linear and spline models	
China/India:	Effect more relevant in India	India has higher veto complexity, China faces fewer veto constraints
Output expectation:	Clear, coherent narratives mitigate the negative effects of veto players on policy credibility	

4.4.7 H6 - Narrative Saturation Collapse

$$\text{logFDI}_{it} = \alpha + \beta_1 \text{NarrativeIntensity}_{it} + \beta_2 \text{NarrativeIntensity}_{it}^2 + \gamma \text{Controls}_{it} + \mu_i + \lambda_t + \epsilon_{it}$$

Table 4.10 - Expected Results & Robustness for H6: Signs, China- India Contrast, and Outcome Expectation

	Expected	Comment
Expected sign	β1>0, β2<0→ inverted-U	saturation effect
Robustness	Pattern should hold across FE, DK, and spline models	
China/India:	More relevant in India	more relevant where slogans are often recycled without enforcement; China maintains narrative discipline
Robustness note	Saturation effects will be tested both with quadratic and spline-based models	
Output expectation:	Non-linear inverted-U relationship	narrative repetition enhances attractiveness up to a saturation threshold, beyond which credibility decays

4.4.8 H7 - Competitive Narrative Crowding

$$\text{logFDI}_{it} = \alpha + \beta_1 \text{NarrativeIntensity}_{it} + \beta_2 \text{PeerNarratives}_{it} + \beta_3 (\text{NarrativeIntensity} \times \text{PeerNarratives}) + \gamma \text{Controls}_{it} + \mu_i + \lambda_t + \epsilon_{it}$$

Table 4.11 - Expected Results & Robustness for H7: Signs, China- India Contrast, and Outcome Expectation

	Expected	Comment
Expected sign	$\beta1>0$, $\beta2<0$, $\beta3<0$	Competing narratives dilute effectiveness
Robustness	Effect should hold across FE and GMM specifications	
China/India:	Particularly important for India	India often positions itself as "next China," directly competing with China's established narrative
Output expectation:	Effectiveness of national branding strategies declines when multiple countries promote similar narratives simultaneously	

4.5 Concluding Remarks on the Methodological Framework

The methodological framework developed in this chapter provides the analytical bridge between the theoretical insights of Chapter 3 and the empirical strategy of Chapter 5. By integrating a wide range of econometric techniques, ranging from baseline fixed and random effects models to more advanced specifications such as Driscoll–Kraay corrections, dynamic GMM estimators, spline- based Non-linear models, the thesis ensures both robustness and flexibility in capturing heterogeneous dynamics. Taken together, these models are not employed in isolation but are designed to collectively test the hypotheses formulated in Chapter 3 along three key dimensions:

1. Institutional credibility of signals (H1- H2), where FDI responsiveness is conditioned by legal enforcement and reputational trajectories.
2. Limits of reform and regime signaling strategies (H3- H4), where excess or inconsistency generates paradoxical investor reactions.
3. Narrative saturation and reputational competition (H5- H7), where the effectiveness of narratives declines with repetition, institutional fragmentation, or overlapping peer signals.
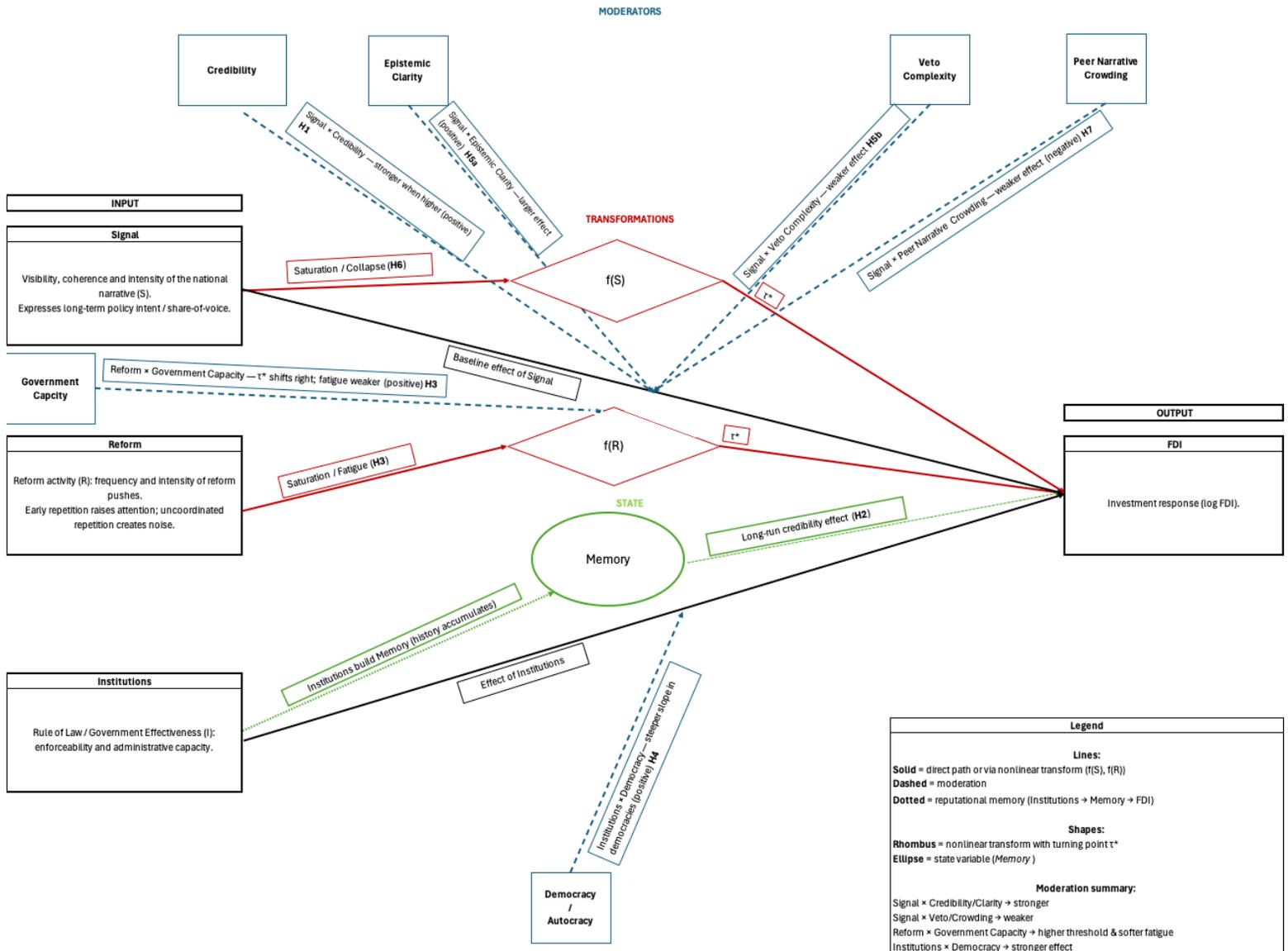
The figure condenses H1- H7 into a single architecture. On the left are the three inputs: Signal (S), Reform activity (R), and Institutions (I) and on the right the outcome, FDI (log). Two red rhombi in the center mark the Non-linear transforms: the upper f(S) embodies the H6 inverted- U in narrative intensity with its turning point τ*, and the lower f(R) embodies the H3 inverted- U in reform activity with its own τ*. The black solid lines show the baseline direct effects S→FDI and I→FDI; these are the reference slopes that the model can steepen or flatten. The green ellipse labeled Memory is the H2 reputational state M, computed as a 3- 5- year moving or exponentially weighted average of I. The green dotted arrow from Institutions to Memory indicates that history builds M, and the dotted arrow from Memory to FDI is the long- run credibility effect θ_M that conditions how new information is interpreted. Blue dashed arrows represent targeted moderations and land on the exact segments they modify. Credibility and Epistemic Clarity touch the Signal→FDI segment after

f(S) and raise its slope (H1 and H5a), whereas Veto Complexity and Peer Narrative Crowding also land on that post- f(S) segment and dampen it (H5b and H7). Government Capacity does not alter a straight segment; its dashed arrow enters the f(R) rhombus, shifting τ^* to the right and softening fatigue in the reform channel (H3 capacity extension). Democracy does not touch Memory; its dashed arrow lands on the Institutions→FDI black segment, steepening the effect of institutional quality on FDI (H4). Read the diagram from left to right: S and R reach FDI both directly and through their red Non-linear paths, I affects FDI directly and via the dotted memory route, and each moderator modifies the specific link it touches.

The measurement framework and identification strategy are now fully specified, covering variable construction, transformations, and panel estimators. This foundation permits estimation aimed at recovering effect magnitudes, turning points, and credibility-conditioned responses

Chapter 5 – Results

Results are presented in a cumulative sequence that establishes baseline effects, quantifies moderation by Rule of Law and reputational memory, and recovers spline-based non-linear responses, before concluding with robustness and diagnostic checks.

5.1 Descriptive Statistics and Correlation Analysis

This section documents the main features of the dataset and establishes preliminary empirical regularities that will guide the model specification in the subsequent sections. Table 5.1 reports descriptive statistics for all numerical variables (N, non- missing counts, number of unique values, mean, standard deviation, and range). Table 5.2 shows a reduced correlation matrix for a core subset of ten variables; the complete 51×51 matrix with p- values is provided in Appendix A to preserve readability.

5.1.1 Descriptive statistics

The balanced panel comprises 480 observations (20 countries × 24 years, 2000-2023). Most macro and institutional variables exhibit full or near- full coverage. As expected, some newer or specialized indicators (e.g., AI_Readiness, S&P credit rating, FDI restrictiveness, Judicial Effectiveness, Fiscal Health, VC investments in AI) display partial coverage; this will be acknowledged in the econometric design through pairwise treatments in correlations, careful sub- sample models, and robustness checks.

Table 5.1 - Descriptive Statistics of the Dataset (variables, N, non- missing, unique, mean, SD, min)

Variable	N	N_non_missing	N_missing	Unique	Mean	SD	Min
year	480	480	0	24	2011.5	6.929	2000
FDI_in	480	480	0	478	17689.416	27608.401	-15204.6
logFDI_in	480	473	7	473	2.115	1.466	-3.886
Infra_Index	480	336	144	335	0.29	0.183	0.003
Trade_Open	480	475	5	475	0.644	0.4	0
Author_Index	480	480	0	301	-0.258	0.485	-0.928
CPI_score	480	474	6	77	36.41	12.271	0
GDPpc	480	480	0	480	8.497	0.881	6.431
Inflation	480	476	4	476	7.491	11.018	-2.093
ln_inflation	480	459	21	459	1.618	0.925	-2.922
Rule_Law	480	460	20	460	-0.239	0.546	-1.513
Political_Stability	480	460	20	460	-0.588	0.703	-2.211
Regulatory Quality	480	460	20	460	-0.073	0.583	-1.293
Government Effectiveness	480	460	20	460	-0.021	0.526	-1.213
RD_GDP	480	319	161	319	0.737	0.458	0.042
Credit_Private	480	441	39	441	59.525	41.841	8.084
HighTech_Exports	480	301	179	301	14.286	15.127	0.195
Renewable_Share	480	440	40	284	25.949	22.826	0
S&P_Credit_Rating	480	220	260	17	12.05	3.391	3
FDI restrictiveness index	480	130	350	54	0.169	0.125	0.055
PolRights_inverted	480	480	0	7	4.213	2.018	1
Overall Score	480	480	0	226	59.037	7.254	43.7
Property Rights	480	480	0	127	45.219	16.874	10
Government Integrity	480	480	0	176	36.63	13.292	4
Judicial Effectiveness	480	140	340	116	47.204	13.219	22.1
Tax Burden	480	480	0	198	77.66	8.368	53.9
Government Spending	480	480	0	272	74.872	13.849	30.3
Fiscal Health	480	140	340	132	58.17	33.412	0
Business Freedom	480	480	0	231	62.658	10.791	35.5
Labor Freedom	480	380	100	227	60.236	10.361	32.9
Monetary Freedom	480	480	0	232	73.017	8.71	31.8
Trade Freedom	480	480	0	203	69.845	12.682	0
Investment Freedom	480	480	0	16	48.312	15.47	15
Financial Freedom	480	480	0	7	46.75	14.033	10
Natural resource rents % GDP	480	440	40	440	6.919	8.723	0.186
Greenfield FDI Share	480	418	62	418	0.856	0.533	-0.401
Wage level	480	306	174	306	454.521	370.092	13.113
Greenfield FDI US$	480	420	60	420	17745.451	21186.091	52.8
Greenfield projects count	480	420	60	281	236.99	276.52	4
AI Readiness	480	76	404	76	54.626	9.664	30.864
FDI_dispute_cases	480	480	0	11	0.631	1.529	0
VC investements in AI	480	191	289	176	1506.162	6477.955	0
WTO Dummy	480	480	0	2	0.948	0.222	0
Covid Dummy	480	480	0	2	0.167	0.373	0
SEZ dummy	480	480	0	2	0.738	0.44	0
Slogan_Count	480	280	200	5	2.921	1.432	1
Narrative_Repetition_Max	480	280	200	280	0.658	0.201	0.304
Narrative_Decay_Index	480	280	200	280	0.394	0.176	0.1
Narrative_Intensity	480	280	200	264	1.184	0.853	0.13
Narrative_Lag1	480	280	200	247	1.105	0.887	0
Narrative_MA3	480	280	200	276	1.21	0.572	0.238

Distributional features are economically coherent. Net FDI flows include negative values (disinvestment episodes) and are right- skewed; the analysis therefore relies on the inverse hyperbolic sine transformation (logFDI_in) to stabilize variance and interpret semi- elasticities. Developmental and institutional measures span the expected ranges for emerging economies (e.g., Rule of Law and Government Effectiveness on the standard WGI scale). Infrastructure and technology proxies exhibit large cross- sectional dispersion, consistent with heterogeneity in capacity. The "Unique" counts confirm ample within- panel variation, supporting identification in fixed- effects settings.

With coverage and distributional features established, attention turns to simple associations that guide model design.

5.1.2 Correlation analysis

Table 5.2 - Correlation Matrix (Pearson) of Key Variables: FDI, Governance, AI_Readiness, Narrative, and Controls

	FDI_in	logFDI_in	GDPpc	Trade_Open	Infra_Index	Rule_Law	Government Effectiveness	AI Readiness	Narrative_Intensity	Greenfield FDI US$
FDI_in	1NA	0.666***	0.212***	-0.163***	0.687***	0.013	0.165***	0.53***	0.144**	0.661***
logFDI_in	0.666***	1NA	0.252***	-0.008	0.532***	0.173***	0.28***	0.54***	0.123**	0.597***
GDPpc	0.212***	0.252***	1NA	0.149***	0.452***	0.462***	0.533***	0.679***	0.064	0.011
Trade_Open	-0.163***	-0.008	0.149***	1NA	0.24***	0.399***	0.518***	0.304***	0.013	-0.029
Infra_Index	0.687***	0.532***	0.452***	0.24***	1NA	0.427***	0.596***	0.709***	0.143**	0.569***
Rule_Law	0.013	0.173***	0.462***	0.399***	0.427***	1NA	0.837***	0.507***	0.014	-0.012
Government Effectiveness	0.165***	0.28***	0.533***	0.518***	0.596***	0.837***	1NA	0.69***	0.036	0.108**
AI Readiness	0.53***	0.54***	0.679***	0.304***	0.709***	0.507***	0.69***	1NA	0.152	0.38***
Narrative_Intensity	0.144**	0.123**	0.064	0.013	0.143**	0.014	0.036	0.152	1NA	0.09
Greenfield FDI US$	0.661***	0.597***	0.011	-0.029	0.569***	-0.012	0.108**	0.38***	0.09	1NA

A reduced 10×10 Pearson matrix is reported to make the main patterns transparent. Inflows co- move strongly with infrastructure and with the greenfield component, as expected. Institutional quality shows positive associations with log FDI, and development correlates tightly with both institutional and infrastructure blocks, reflecting the usual income- capacity nexus. Two features guide the econometric design. First, Rule of Law and Government Effectiveness are highly collinear; the baseline includes one institutional proxy at a time, while the alternative is used in robustness checks. Second, the simple correlation between FDI and Trade Openness is small and negative in this sample. This does not indicate a data issue; openness may capture episodes not directly tied to greenfield activity or reflect composition effects. The sign will be revisited in multi- variate settings with appropriate controls. The narrative indicators behave as intended. Narrative_Intensity displays low but significant bivariate correlations with FDI and with infrastructure, suggesting that it is not a mere proxy for fundamentals and warrants conditional tests (credibility, Non-linearity, crowding) in Chapter 5.2. AI_Readiness is strongly related to income, institutions and infrastructure; because of partial coverage it is included in focused models, with stability checks against the core controls. Two patterns steer the specification choices, strong collinearity among WGI indicators and partial coverage for some proxies, so the immediate implications for estimation are set out next.

5.1.3 Implications for the empirical strategy

Three implications flow from this preliminary evidence:

Heavy- tailed variables will be transformed as follows: FDI via asinh; strictly positive covariates (e.g., Greenfield, VCAI) via log or log1p as appropriate. Then given the high correlation among WGI indicators, the baseline will include a single institutional proxy at a time; alternative WGI measures and PCA- based composites will be used in robustness checks. At the end variables with limited coverage (AI_Readiness, S&P

ratings, FDI restrictiveness, some Heritage sub- indices) will be reserved for complementary specifications to preserve sample size in the core models. Correlations and regressions rely on pairwise complete observations; all choices are reported explicitly to ensure transparency.

The dataset, so, exhibits coherent magnitudes, sensible dispersion, and theoretically consistent associations. Apparent anomalies (negative net FDI in some years; weak bivariate links for narrative proxies; the negative sign with trade openness) are economically interpretable and do not indicate data problems.

These implications translate into the empirical layer that follows, where baseline effects, moderators, and non-linear responses are recovered under FE/TWFE with DK standard errors.

5.2 Econometric Results by Hypothesis

Throughout Chapter 5.2, statistical significance is coded as follows: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. Exact p- values for each coefficient can be consulted in the tables that accompany each hypothesis immediately after its narrative discussion. Because several models include interactions, marginal effects are reported where relevant; in those cases, Johnson- Neyman intervals are used to identify the moderator values at which the marginal effect of the focal predictor on log(FDI) is statistically different from zero, and any thresholds reported in the text come from that procedure. Robustness checks, alternative variance estimators (Driscoll–Kraay and CR2), alternative functional forms (e.g., splines), and sub- samples (e.g., pre- COVID), are documented in the Appendix and cross- referenced from the main tables; the sole exception is H6, for which additional model variants are retained in the main text to make transparent that the bespoke narrative measures carry independent information and survive multiple specifications. Unless otherwise noted, coefficients are interpreted as semi- elasticities in log(FDI), fixed effects absorb time- invariant country heterogeneity, and figures plot marginal- effect curves with 95% confidence bands for ease of reading.

5.2.1 H1 Results: Strategic Signaling Equilibrium

H1 states that the payoff of strategic signaling for inward FDI increases with institutional credibility. In country- and year- fixed- effects models with Driscoll–Kraay errors, the interaction between the signaling index and Rule of Law (RoL) is consistently positive. In the TWFE plm baseline, Signal $\times$ RoL = 0.912 (SE 0.380, p = 0.016**, Table 5.2.1); in the FE interaction model it remains positive and borderline significant at 0.825 (SE 0.399, p = 0.050*, Table 5.2.3).

Table 5.2.1 - TWFE (plm) baseline

```
t test of coefficients:

                      Estimate Std. Error t value
Signal_Index           0.65456    0.45219  1.4475
Rule_Law              -0.58152    0.29012 -2.0044
Gov_Effectiveness      0.98448    0.18578  5.2993
Infra_Index            0.88448    0.16699  5.2967
Signal_Index:Rule_Law  0.91195    0.37980  2.4011
                      Pr(>|t|)
Signal_Index           0.14847
Rule_Law               0.04565 *
Gov_Effectiveness      1.858e-07 ***
Infra_Index            1.883e-07 ***
Signal_Index:Rule_Law  0.01677 *
---
Signif. codes:
0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
```

Table 5.2.3 - FE (feols) with interaction

```
OLS estimation, Dep. Var.: logFDI_in
Observations: 480
Fixed-effects: iso3: 20,  year: 24
Standard-errors: Driscoll-Kraay (L=2)
                       Estimate Std. Error  t value
Signal_Index           1.388480   0.435874  3.18551
Rule_Law              -0.614140   0.330251 -1.85962
Signal_Consistency     1.612112   0.646530  2.49348
Gov_Effectiveness      1.030336   0.184812  5.57504
Signal_Index:Rule_Law  0.824702   0.398699  2.06848
                       Pr(>|t|)
Signal_Index           4.1188e-03 **
Rule_Law               7.5779e-02 .
Signal_Consistency     2.0284e-02 *
Gov_Effectiveness      1.1335e-05 ***
Signal_Index:Rule_Law 5.0018e-02 .
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
RMSE: 0.67198     Adj. R2: 0.764089
                  Within R2: 0.118178
```

A random effects benchmark also yields a positive and significant interaction, 0.675 (SE 0.331, p = 0.041**, Table 5.2.4). The Hausman statistic (χ^2 = 10.10, p = 0.072; Table 5.2.5) and the identification logic favor FE/TWFE as the reference specification. Levels move as expected.

Table 5.2.5 - Hausman test

```
      Hausman Test

data:  logFDI_in ~ Signal_Index * Rule_Law + Signal_Consistency + Gov_Effectiveness
chisq = 10.102, df = 5, p-value = 0.07239
alternative hypothesis: one model is inconsistent
```

The signaling index is positive in all FE runs (e.g., 1.388, p = 0.004**, Table 5.2.3), and signal consistency is also positive (1.612, p = 0.020**). Government Effectiveness enters strongly and positively ($\approx$ 1.03- 1.07, p < 0.0001***). The negative main effect on RoL in interaction models reflects the effect of RoL when Signal = 0; because the interaction is positive, the total effect of RoL becomes increasingly positive as signaling rises,

precisely the credibility- multiplier mechanism posited by H1. Magnitudes are economically relevant. Using the FE- interaction estimates, a +0.1 increase in the signaling index is associated with ≈ +8.9% at the 25th percentile of RoL (-0.61), ≈ +11.3% at the median (-0.32), and ≈ +14.4% at the 75th percentile (0.06). The marginal- effects profile (Figure 5.2.1) shows the signaling slope steepening with higher RoL, confirming that credibility amplifies returns. Two implications follow. First, communication volume alone is insufficient: where enforcement is weak, the same increase in signaling converts into smaller inflows. Second, improvements in institutional quality raise the return to future signaling; credibility and communication are complements, not substitutes. The China- India comparison illustrates these gradients. Evaluated at country- specific RoL medians, a +0.1 rise in signaling corresponds to ≈ +10.0% FDI for China and ≈ +13.8% for India. China emits more visible signals on average, yet its lower median RoL places it on a flatter signaling- FDI slope; India signals slightly less but, with a credibility baseline closer to zero, enjoys a higher marginal return. Strengthening rule- of- law credibility would steepen the slope in both countries and make additional signaling more productive. Results are robust across estimators (TWFE, FE, RE), to the inclusion of Government Effectiveness (and Infrastructure in the plm run), and to Driscoll–Kraay corrections for serial and cross- section dependence. Fit improves modestly when adding the interaction, a typical pattern with rich fixed effects, but the substantive geometry is stable. Overall, H1 is supported: markets appear to treat strategic announcements as credible commitments only when institutional enforcement is sufficiently strong.

Figure 5.2.1 - Marginal effect of Strategic Signaling conditional on Rule of Law (DK 95% CI)
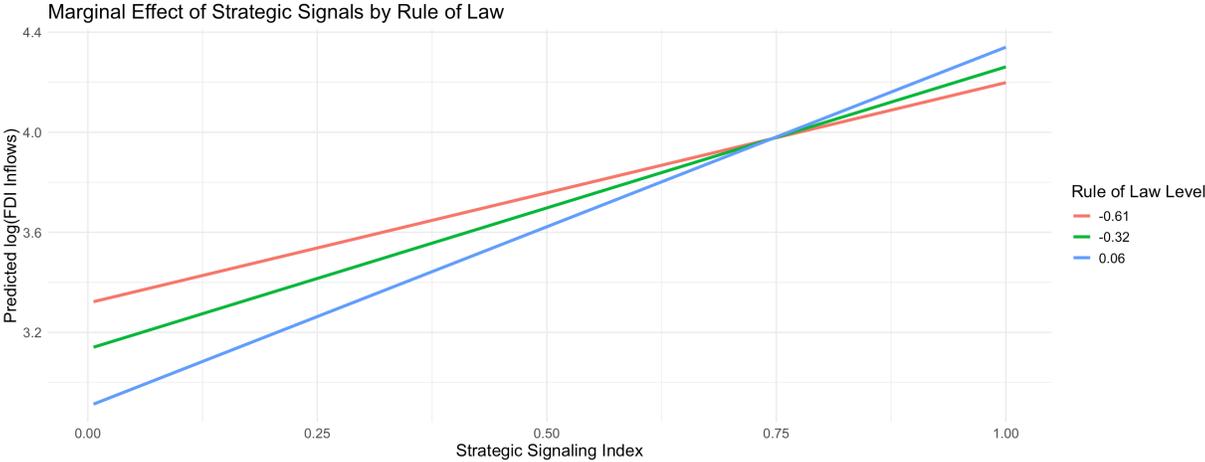
5.2.2 H2 Results: Expectational Inertia Trap

H2 tests whether investors reward histories of institutional quality rather than one- off improvements. Reputational memory is proxied with 5- year and 3- year moving averages of Rule of Law and estimated in country- and year- fixed effects models with Driscoll–Kraay errors; Non-linearity is explored with natural splines. In the pooled panel, the 5- year memory term is negative and significant: Rule_Law_MA5 = -1.867

(SE 0.752, p = 0.0137, **; Table 5.2.6). Trade openness and political stability are positive (0.892, p < 10^{-8}, ***; 0.632, p = 0.0016, **). This pattern indicates a reputational drag: where the recent history of rule- of- law performance is weak or volatile, current gains are discounted. Allowing for heterogeneity with a 3- year window and an India interaction yields a clear contrast (Table 5.2.7).

Table 5.2.6 - Fixed- Effects Estimates (Rule_Law_MA5) with Controls

```
t test of coefficients:

                      Estimate Std. Error t value  Pr(>|t|)
Rule_Law_mean5      -1.8675235  0.7521759 -2.4828  0.013746 *
Gov_Effectiveness    0.2235866  0.1548243  1.4441  0.150057
GDPpc               -0.0274663  0.2601747 -0.1056  0.916016
Infra_Index          0.0096479  0.6493071  0.0149  0.988158
Trade_Open           0.8910989  0.1492049  5.9723 8.762e-09 ***
Political_Stability  0.6316862  0.1977350  3.1946  0.001595 **
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
```

Table 5.2.7 - Fixed- Effects Estimates with India Interaction (Rule_Law_MA3 × India)

```
t test of coefficients:

                     Estimate Std. Error t value  Pr(>|t|)
Rule_Law_mean3      -2.283187   0.844008 -2.7052  0.007263 **
RuleLawMemory_India  7.366877   2.257696  3.2630  0.001245 **
Gov_Effectiveness    0.711851   0.332070  2.1437  0.032955 *
GDPpc                0.066336   0.255634  0.2595  0.795452
Infra_Index          0.782599   0.973956  0.8035  0.422380
Trade_Open           0.913362   0.206057  4.4326 1.357e-05 ***
Political_Stability  0.394482   0.298372  1.3221  0.187253
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
```

The pooled 3- year memory remains negative (-2.283, SE 0.844, p = 0.0073, **), but the India interaction is large and positive (+7.367, SE 2.527, p = 0.0012, **). Government Effectiveness and Trade Openness are again supportive (0.712, p = 0.033, *; 0.913, p < 10^{-5}, ***). Marginal effects quantify the gap: a +0.1 increase in the memory index implies about -0.228 log points for non- India countries (≈ -20%), but +0.509 log points for India (≈ +66%). Thus, sustained improvements flip the sign for India, while the pooled panel continues to penalize isolated or fragile histories. The spline specification confirms strong curvature (Table 5.2.8): S1 = - 1.566 (p = 0.048, *), S2 = -14.273 (p < 2.2e-16, ***), S3 = +3.247 (n.s.).

```
t test of coefficients:

                     Estimate Std. Error  t value  Pr(>|t|)
S1                   -1.56597    0.79181  -1.9777 0.0489847 *
S2                  -14.27330    1.22555 -11.6464 < 2.2e-16 ***
S3                    3.24693    2.43898   1.3313 0.1842333
Gov_Effectiveness     0.10900    0.21074   0.5172 0.6054227
GDPpc                 0.70822    0.33732   2.0995 0.0367067 *
Infra_Index           2.53276    0.68336   3.7063 0.0002555 ***
Trade_Open            0.23789    0.23945   0.9935 0.3213715
Political_Stability   0.52384    0.28043   1.8680 0.0628563 .
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
```

The implied marginal- effect curve in Figure 5.2.2 is most negative at very low memory, then rises steadily toward zero as reputational memory strengthens; within the observed support it does not fully cross zero for the average country. GDP per capita and infrastructure are positive in this Non-linear run (0.708, p = 0.0367, *; 2.533, p = 0.00026, ***). The implications are direct. Investors appear to price consistency rather than point improvements: short- lived gains face a discount, whereas multi- year progress unlocks positive returns. For India, once reforms build memory, the payoff becomes large and positive; for the average country, several years of improvement are needed before the drag meaningfully attenuates. Policy- wise, credibility must be accumulated: reform communication is unlikely to move FDI unless coupled with a smoother, sustained trajectory of rule- of- law quality. Results are robust across memory windows (3y/5y), to alternative control sets, and when allowing for Non-linearity; all models use country and year FE with Driscoll–Kraay corrections, and highly collinear institutional proxies are not stacked in the same tight column.

Footnote: Semi- elasticities are reported per a +0.1 change in the memory index; magnitudes should be read as semi- elasticities in log(FDI), not literal percentage- point changes in FDI.

Figure 5.2.2 - Estimated Non-linear Effect of Institutional Memory

Estimated Non-linear Effect of Institutional Memory (Rule_Law_mean3)
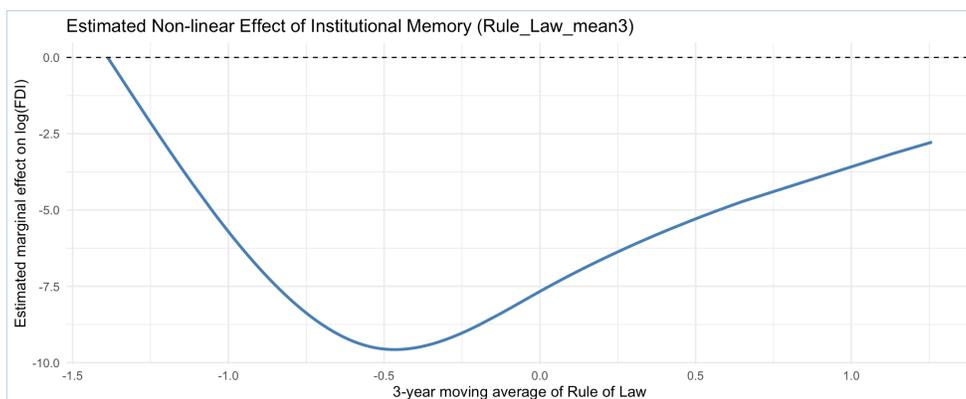
5.2.3 H3 Results: Reform Fatigue Paradox

H3 asks whether dense sequences of reform announcements ("reform noise") depress FDI unless administrative capacity is high enough to make reforms credible and implementable. Country fixed- effects models with Driscoll–Kraay errors (controls: Trade_Open, GDPpc, Infra_Index, Political_Stability) confirm this complementarity.

Table 5.2.9 - Fixed- Effects (DK) Estimates , Reform Noise × Government Effectiveness Interaction (with controls)

```
t test of coefficients:

                         Estimate Std. Error t value  Pr(>|t|)
Reform_Noise             -0.325245   0.067302 -4.8326 2.135e-06 ***
Government_Effectiveness -0.620385   0.218126 -2.8442  0.004753 **
ReformInteraction         0.560038   0.111335  5.0302 8.366e-07 ***
Trade_Open                0.871111   0.180091  4.8371 2.091e-06 ***
GDPpc                     0.206713   0.200185  1.0326  0.302603
Infra_Index               0.834595   0.993912  0.8397  0.401728
Political_Stability       0.392249   0.268939  1.4585  0.145726
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
```

Reform_Noise is negative and precisely estimated (-0.325, SE 0.067, p < 0.001, *; Table 5.2.9). Gov_Effectiveness, interpreted as the effect when Reform_Noise = 0, is negative (-0.620**, SE 0.218, p = 0.005,), indicating that capacity by itself does not buy a within- country premium absent visible reform effort. Crucially, the interaction Reform_Noise × Gov_Effectiveness is positive and large (+0.560, SE 0.112, *p < 0.001,). Trade openness is strongly positive (+0.871, **p < 0.001, ***), while the remaining controls are muted in this column. The implied marginal effect of additional reform activity is

$$\frac{\partial \ln FDI}{\partial Reform\_Noise} = \beta_1 + \beta_3 \cdot GovEff = -0.325 + 0.560 \cdot GovEff.$$

The turning point occurs around Gov_Effectiveness ≈ 0.58 (WGI scale ≈ -2.5…+2.5): below this threshold, extra reforms are penalized (fatigue/discounting); above it, extra reforms are rewarded. For example, at Gov_Effectiveness = 0.80 the marginal effect per unit of Reform_Noise is +0.123; a realistic within- range +0.5 increase in reform intensity would raise log(FDI) by ≈ +6.2%. The marginal- effects plot (Figure 5.2.3) shows a negative slope at -1 SD of capacity, near- zero at the mean, and clearly positive at +1 SD, with confidence bands consistent with the estimates; the scatter of log(FDI) on the interaction (Figure 5.2.4) exhibits the same upward geometry. The China- India reading illustrates the mechanism. Using country means for Gov_Effectiveness, India ≈ 0.03 and China ≈ 0.23, both below the 0.58 threshold. The same +0.5 increase in Reform_Noise therefore implies an expected change of ≈ -15% for India and ≈ -10% for China (log points),

whereas a high- capacity counterfactual (Gov_Effectiveness = 0.80) would deliver ≈ +6%. Episodes in which China briefly exceeds the threshold move reforms into the credible region and turn intensity into value; India seldom crosses it, so additional reforms without commensurate implementation capacity are discounted. In short, H3 is supported. Investors do not reward reform volume per se; they reward coherent reforms executed by capable states. The practical implication is straightforward: before escalating the cadence of reforms, build and demonstrate administrative capacity (delivery units, timelines, enforcement) so that announcements convert into believable commitments and avoid reputational fatigue.

Figure 5.2.3 - Marginal Effect of Reform Noise by Institutional Quality
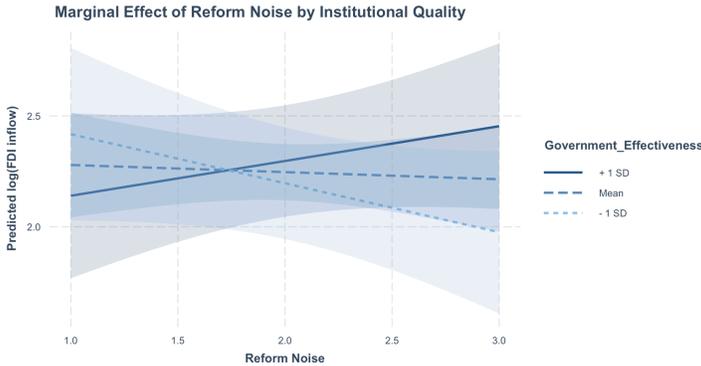
Figure 5.2.4 - FDI inflows vs Reform x Institutional Quality
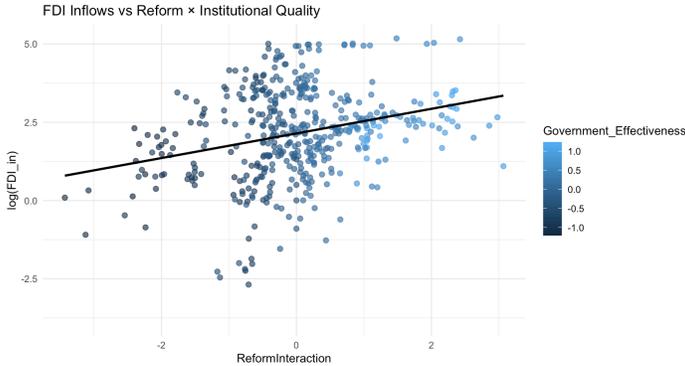
5.2.4 H4 Results: Trust Penalty Asymmetry

Rule of Law (RoL) is interacted with democracy in a Two-Way fixed- effects model with Driscoll–Kraay errors.

In the standardized run (Table 5.2.10), RoL_z is positive and significant (0.376, p = 0.006,), Democracy_z is not significant, and the interaction RoL_z×Democracy_z is negative and significant (-0.273**, p = 0.010, **). Hence the within- country semi- elasticity is

$$\frac{\partial \ln FDI}{\partial \mathrm{RoL}_z} = 0.376 - 0.273 \cdot \mathrm{Dem}_z.$$

A 0.5- SD rise in RoL is associated with ≈ +32% when Dem_z = -1, +20% at Dem_z = 0, and +5% at Dem_z = +1. A Johnson- Neyman check places the zero- slope point around Dem_z ≈ 1.38; beyond this value, additional formal legal strength does not raise short- run FDI.

Table 5.2.10 - TWFE with standardized moderation

```
OLS estimation, Dep. Var.: logFDI_in
Observations: 473
Fixed-effects: iso3: 20, year: 24
Standard-errors: Driscoll-Kraay (L=2)
                Estimate Std. Error  t value  Pr(>|t|)
RuleLaw_z       0.376300   0.124367  3.02573 0.0060153 **
Democracy_z    -0.199897   0.144851 -1.38002 0.1808487
Interaction_z  -0.273273   0.097865 -2.79236 0.0103501 *
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
RMSE: 0.701441    Adj. R2: 0.746422
                  Within R2: 0.040181
```

The slope profile and conditional effects are visualized in Figures 5.2.5- 5.2.6. To ease interpretation across regimes, RoL (levels) is interacted with regime dummies (Table 5.2.11). In the baseline hybrid group RoL is negative (-0.596, p = 0.040, *). Adding interactions yields a near- zero net slope in democracies (RoL + RoL×Democracy ≈ +0.005; RoL×Democracy +0.601, p = 0.073, .) and a clearly positive net slope in autocracies (RoL×Autocracy +0.860, p = 0.018, ** ⇒ net RoL ≈ +0.264). Government Effectiveness remains strongly positive throughout (≈0.89, p < 0.001, ***), indicating that execution capacity is rewarded independently of regime.

Table 5.2.11 - Regime- dummy specification

```
OLS estimation, Dep. Var.: logFDI_in
Observations: 454
Fixed-effects: iso3: 20, year: 23
Standard-errors: Driscoll-Kraay (L=2)
                          Estimate Std. Error  t value   Pr(>|t|)
Democracy_Dummy           0.116732   0.160611  0.726804 0.47500933
Rule_Law                 -0.595910   0.272650 -2.185618 0.03977505 *
Autocracy_Dummy           0.044490   0.160033  0.278004 0.78360525
Government_Effectiveness  0.889078   0.204949  4.338046 0.00026421 ***
Democracy_Dummy:Rule_Law  0.601347   0.318857  1.885948 0.07257434 .
Rule_Law:Autocracy_Dummy  0.859768   0.335733  2.560869 0.01782145 *
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
RMSE: 0.652739    Adj. R2: 0.770092
                  Within R2: 0.103324
```

Allowing for Non-linearity in the 3- year moving average of RoL confirms diminishing returns at higher credibility (Table 5.2.12): the second spline term is negative and significant (-2.516, p = 0.006, **), while the first and third are not. The fitted curve (Figure 5.2.5) shows concavity in the mid- to- high range, consistent with a saturation story: once legal predictability is strong, incremental formal upgrades carry smaller short- run payoffs unless paired with better delivery.

Table 5.2.12 - Cubic B- splines in Rule_Law_MA3

```
OLS estimation, Dep. Var.: logFDI_in
Observations: 453
Fixed-effects: iso3: 20,  year: 23
Standard-errors: Driscoll-Kraay (L=2)
                         Estimate Std. Error  t value  Pr(>|t|)
Rule_Law_mean3           -0.027623   0.253559 -0.108943 0.91423550
RuleLawMemory_India       0.582981   0.575467  1.013057 0.32204559
Government_Effectiveness  0.908400   0.202637  4.482892 0.00018546 ***
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
RMSE: 0.66694    Adj. R2: 0.761012
                 Within R2: 0.061823
```

Overall, the evidence supports an asymmetry rather than a uniform "democracy premium." Credible enforcement in autocracies is priced as a scarce, salient signal (positive RoL slope), hybrids are penalized, and in democracies the binding margin is state capacity and execution rather than further formal legal upgrades. Anchoring to the focal cases, China (autocratic) lies in the high- payoff region, where a given rise in RoL maps into a tangible FDI response (net slope $\approx +0.26$); India (democratic) sits near the flat part of the profile, implying limited immediate gains from additional formalism unless coupled with improvements in Government Effectiveness.

Figure 5.2.5 - Slope profile, marginal payoff of Rule of Law across Democracy (DK 95% CI)
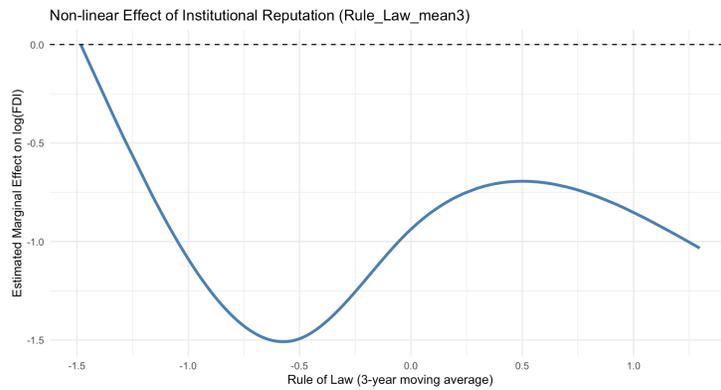
Figure 5.2.6 - Marginal Effect of Rule of Law by Democracy Level
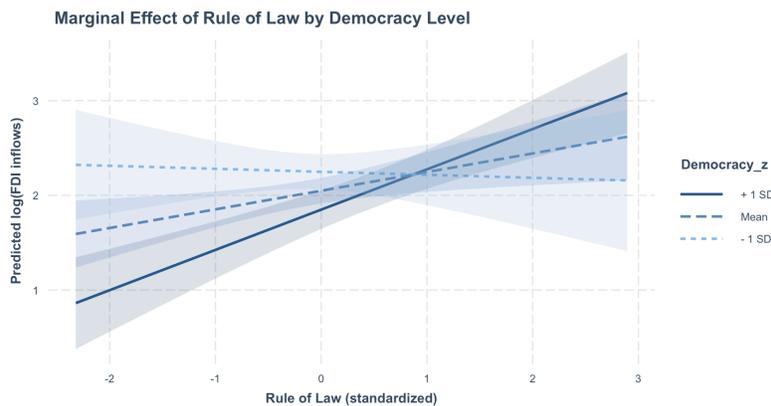
5.2.5 H5 Results: Epistemic Clarity vs Veto Complexity

H5 tests whether the payoff of clear, centralized policy narratives depends on the density of domestic veto players. In country- and year- fixed- effects models with cluster/DK inference (controls: GDP per capita, Trade Openness, Government Effectiveness), the interaction between Epistemic_Clarity and Veto_Complexity is positive and statistically meaningful (β_3 = 0.240, p = 0.039, *; Table 5.2.13). The main effect of clarity is negative and imprecise (β_1 = -1.265, p = 0.113, n.s.), Veto_Complexity is marginally negative (p $\approx$ 0.054, ·), Trade_Open is negative (p $\approx$ 0.001, **), while Gov_Effectiveness is strongly positive ($\gamma \approx$ 1.240, p < 10^{-8}, **). The implied semi- elasticity is:

$$\frac{\partial \ln FDI}{\partial \text{Clarity}} = \hat{\beta}_1 + \hat{\beta}_3 \cdot \text{Veto.}$$
,

which turns from negative to positive at Veto $\approx$ -β_1/β_3 $\approx$ 5.28 on the 1- 7 scale.

Table 5.2.13 - TWFE spline: Non-linear Clarity and Clarity × Veto

```
Call:
lm(formula = logFDI_in ~ Epistemic_Clarity * Veto_Complexity +
    GDPpc + Trade_Open + Gov_Effectiveness, data = df)

Residuals:
    Min     1Q  Median     3Q     Max
-4.2447 -0.7322 -0.0411  0.9606  2.8242

Coefficients:
                                 Estimate Std. Error t value Pr(>|t|)
(Intercept)                       2.68801    1.09441   2.456   0.0144
Epistemic_Clarity                -1.26550    0.79597  -1.590   0.1126
Veto_Complexity                  -0.05785    0.12369  -0.468   0.6402
GDPpc                             0.01351    0.09033   0.150   0.8812
Trade_Open                       -1.06045    0.21513  -4.929 1.17e-06
Gov_Effectiveness                 1.24007    0.19898   6.232 1.07e-09
Epistemic_Clarity:Veto_Complexity 0.23980    0.11573   2.072   0.0388

(Intercept)                       *
Epistemic_Clarity
Veto_Complexity
GDPpc
Trade_Open                        ***
Gov_Effectiveness                 ***
Epistemic_Clarity:Veto_Complexity *
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 1.316 on 443 degrees of freedom
Multiple R-squared:  0.1819,    Adjusted R-squared:  0.1708
F-statistic: 16.42 on 6 and 443 DF,  p-value: < 2.2e-16
```

Thus, when institutional checks are low- moderate (Veto < ~5.3), added clarity is neutral or discounted; once veto density is high (Veto ≥ ~5.3), clarity raises FDI. Figure 5.2.7 visualizes the slope becoming positive only at high Veto; for illustration, at Veto = 6 the marginal effect is $\approx$ -1.265 + 0.240·6 $\approx$ +0.175 ($\approx$ +17% for a one- unit increase in clarity), whereas at Veto = 3 it remains negative ($\approx$ -0.545). A flexible TWFE spline confirms the same mechanism (Table 5.2.14): two clarity spline bases are positive and significant, and a clarity×veto spline is negative (p $\approx$ 0.026, **), yielding the pattern in Figure 5.2.8: flat/negative effects at low veto density, turning positive as veto complexity rises, with some flattening in the top quantiles (Within $R^2 \approx$ 0.15, typical under rich FE).

```
                                                              model_spline
Dependent Var.:                                                  logFDI_in

bs(Epistemic_Clarity,degree=3,df=4)1                         4.548* (1.674)
bs(Epistemic_Clarity,degree=3,df=4)2                         1.744 (2.775)
bs(Epistemic_Clarity,degree=3,df=4)3                         6.533* (2.502)
bs(Epistemic_Clarity,degree=3,df=4)4                        -1.473 (4.642)
Veto_Complexity                                              0.4941 (0.3779)
GDP per capita                                               1.338 (0.7777)
Trade Openness                                              -0.5530. (0.3067)
Government Effectiveness                                     0.6078 (0.3924)
bs(Epistemic_Clarity,degree=3,df=4) x Veto_Complexity1      -0.8383 (0.5439)
bs(Epistemic_Clarity,degree=3,df=4) x Veto_Complexity2      -0.3210 (0.6808)
bs(Epistemic_Clarity,degree=3,df=4) x Veto_Complexity3      -1.146* (0.4731)
bs(Epistemic_Clarity,degree=3,df=4) x Veto_Complexity4      -0.0156* (0.7604)
Fixed-Effects:                                             ------------------
iso3                                                                     Yes
year                                                                     Yes
_____               _____
S.E.: Clustered                                                     by: iso3
Observations                                                            450
R2                                                                  0.80877
Within R2                                                           0.15141
---
Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
```

Substantively, clarity without checks can look like message management and is discounted as cheap talk; where veto players are numerous and effective, clear authorship signals coordination and enforceability, so narratives convert into credible commitments. Results are robust across DK and cluster- by- country errors and to the spline specification. For policy, increasing the transparency and coherence of official messaging pays when accompanied by effective checks and implementation capacity; otherwise, ramping up clarity risks being ignored, or penalized, by markets.

Figure 5.2.7 - Marginal Effect of Epistemic Clarity by Veto Complexity

Figure 5.2.8 - Non-linear Effect of Epistemic clarity on log(FDI_in)
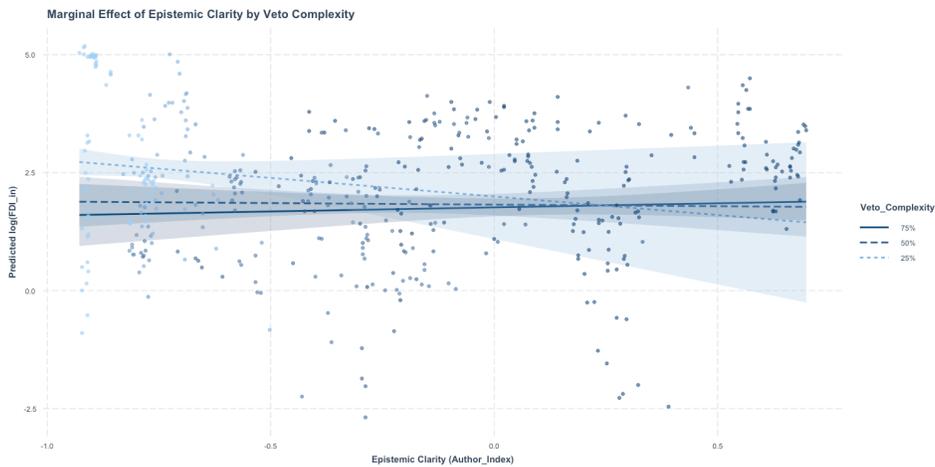
Figure 5.2.8 - Non-linear Effect of Epistemic clarity on log(FDI_in)
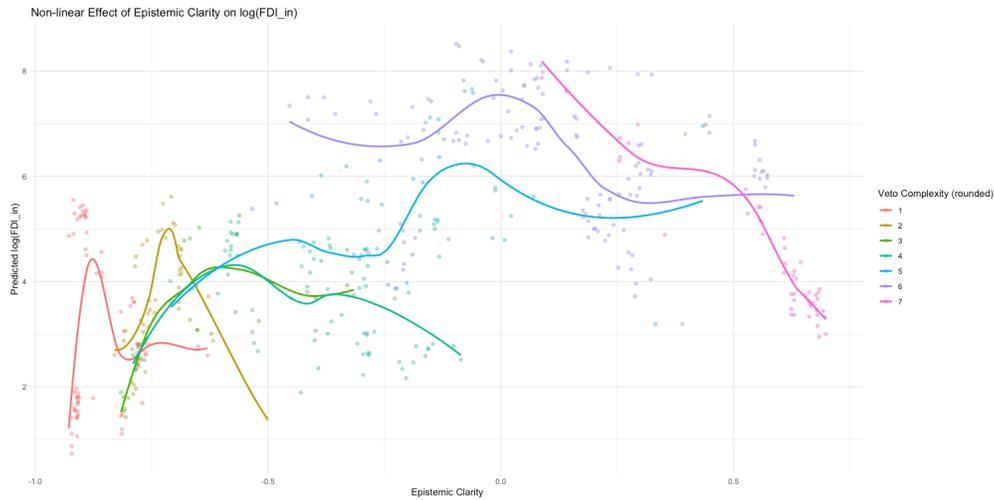
5.2.6 H6 Results: Narrative Saturation Collapse

H6 asks whether government narratives move FDI only when they are credible, and whether their payoff fades with repetition. Fixed- effects estimates speak clearly. In the baseline (M1, Table 5.2.15) narrative intensity is indistinguishable from zero once country and year heterogeneity are absorbed ($\beta \approx 0.004$, $p = 0.636$, n.s.).

Table 5.2.15 - Baseline: FE + Driscoll–Kraay (Narrative_Intensity + controls)

```
================================================
  M1 — FE + Driscoll—Kraay (Narrative + controls)
================================================
                   Estimate Std. Error t value   Pr(>|t|)
Narrative_Intensity 0.004387  0.009206   0.477     0.636
Trade_Open          2.396291  0.458643   5.225 0.00000512 ***
GDPpc               0.473416  0.350094   1.352     0.184
Democracy_Index     0.362869  1.576685   0.230     0.819
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
```

The same holds in the pre- COVID subsample (M2, Table 5.2.16: $\beta \approx 0.001$, $p = 0.954$, n.s.). Replacing intensity with a stock- like decay proxy does not change the conclusion (M3, Tables 5.2.17- 5.2.18: $\beta \approx 0.085$, $p \approx 0.19$ with DK; $p \approx 0.176$ with CR2, both n.s.). In short, "talk" by itself does not buy a within- country premium.

Table 5.2.16 - Robustness: FE + CR2 (clustered by country)

```
=========================================
 M1 - FE + CR2 (robust cluster by country)
=========================================
                   Estimate Std. Error t value        Pr(>|t|)
Narrative_Intensity 0.004387   0.008277  0.530            0.599
Trade_Open          2.396291   1.487119  1.611            0.115
GDPpc               0.473416   0.041531 11.399 0.0000000000000195 ***
Democracy_Index     0.362869   1.347732  0.269            0.789
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
```

Table 5.2.17 - Pre- COVID subsample: FE + DK (≤ 2019)

```
===============================
 M2 - FE + DK (sample ≤ 2019)
===============================
                   Estimate Std. Error t value Pr(>|t|)
Narrative_Intensity 0.0004835  0.0083393  0.058   0.9541
Trade_Open          2.4799849  0.4620014  5.368 0.00000572 ***
GDPpc               0.5803232  0.3278074  1.770   0.0856 .
Democracy_Index    -0.9683117  1.6364572 -0.592   0.5580
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
```

Table 5.2.18 - Alternative proxy: FE + DK with Narrative_Decay_Index (NDI)

```
=====================================
 M3 - FE + DK (Narrative_Decay_Index)
=====================================
                    Estimate Std. Error t value   Pr(>|t|)
Narrative_Decay_Index 0.01537   0.01154  1.331    0.1904
Trade_Open            1.75214   0.66945  2.617    0.0123 *
GDPpc                 0.66993   0.11121  6.024 0.000000367 ***
Democracy_Index      -0.38188   0.94922 -0.402    0.6895
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
```

Introducing the credibility channel changes the picture. Interacting narrative salience with the level of democracy (standardized) yields a positive, precise moderation (M4, Table 5.2.20): Narrative_z × Democracy_z = 0.265 (p ≈ 0.001, ***), while the main effect of narrative remains small and imprecise (β ≈ 0.074, n.s.).

The semi- elasticity is

$$\frac{\partial \ln \text{FDI}}{\partial \text{Narrative}_z} = \hat{\beta}_{\text{Narr}} + \hat{\beta}_{\text{Narr} \times \text{Demo}} \cdot \text{Democracy}_z$$

Evaluated at Democracy_z = -1, 0, +1, the implied effects are ≈ -0.191, +0.074, and +0.339 log- points, respectively; thus, a one- SD rise in narrative is negligible or even discounted where democratic checks are weak, but becomes economically meaningful at moderate- high democracy.

```
=============================================
 M4 - FE + DK (Narrative_z x Democracy_z)
=============================================
             Estimate Std. Error t value Pr(>|t|)
Narrative_z  0.07445    0.23014   0.324 0.747959
Demo_z       0.69955    0.57980   1.207 0.234528
NIxDemo      0.26353    0.07501   3.513 0.001093 **
Trade_z      0.15140    0.04238   3.573 0.000921 ***
GDPpc_z      0.74765    0.28009   2.669 0.010841 *
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
```

This is consistent with the idea that investors reward messages only when they can be enforced. H6 also predicts diminishing returns with repetition. The time interaction confirms a saturation mechanism: in M5 (Table 5.2.21) Narrative_Intensity × time_w is negative and significant ($\beta \approx -0.0276$, $p \approx 0.003$, *), while the level of intensity remains non- significant. The marginal effect $\beta_1 + \beta_3 \cdot t$ crosses zero at $t \approx 0.54$ of the normalized window, so additional narrative is (weakly) helpful early on but loses payoff around mid- sample.

Table 5.2.21 - FE + DK (Narrative_Intensity × Time): Coefficients Table

```
=============================================
 M5 - FE + DK (Narrative_Intensity x Time)
=============================================
                     Estimate Std. Error t value Pr(>|t|)
Narrative_Intensity  0.015001   0.011327   1.324 0.19289
time_w               4.025655   1.292420   3.115 0.00340 **
NI_time             -0.027585   0.008865  -3.112 0.00343 **
Trade_Open           0.622887   0.637099   0.978 0.33410
GDPpc               -1.041530   0.463480  -2.247 0.03021 *
Democracy_Index      2.010148   1.760981   1.141 0.26045
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
```

 Figure 5.2.9 visualizes the decline (DK 95% band). A flexible spline version (M5- SPL, Table 5.2.22) reproduces the profile, selected spline terms and their interactions are significant, showing the result is not an artifact of linearity. Robustness checks support these conclusions. DK errors (maxlag = 3) and CR2 cluster- by- country errors lead to the same reading for the load- bearing terms (Table 5.2.18 vs 5.2.20). Estimates are stable in the pre- COVID sample (Table 5.2.16). As a qualitative sensitivity, dynamic GMM runs point in the same directions (Narrative × Democracy > 0; Narrative × time_w < 0) with Sargan/Hansen tests not rejecting instrument validity; given instrument proliferation warnings and small- T limitations, those results are treated as corroborative rather than primary. Taken together, H6 is supported. Narrative intensity does not raise FDI on its own; it does so when credibility is high (Narrative × Democracy = 0.265***), and even then the effect attenuates with repetition (Narrative × time_w = -0.0276**). The policy implication is to privilege "fewer,

better, and backed by substance": pair announcements with verifiable reforms, stage releases to avoid self-crowding, and maintain institutional conditions that make narratives believable.

Table 5.2.22 - Spline Interaction (Model M5- SPL) , FE + DK, Narrative_Intensity × ns(time, 3)

```
=============================================
M5-SPL – FE + DK (Narrative × ns(time,3))
=============================================
                                      Estimate Std. Error t value  Pr(>|t|)
Narrative_Intensity                   -0.03516    0.01597  -2.202   0.03417 *
ns(time_w, df = 3)1                    2.95470    1.02285   2.889   0.00651 **
ns(time_w, df = 3)2                    3.57524    3.06627   1.166   0.25128
ns(time_w, df = 3)3                   -3.23734    3.01960  -1.072   0.29081
Trade_Open                            -0.43236    0.51622  -0.838   0.40781
GDPpc                                 -3.81636    1.44725  -2.637   0.01227 *
Democracy_Index                        0.80883    2.51176   0.322   0.74930
Narrative_Intensity:ns(time_w, df = 3)1  0.04801  0.02153   2.230   0.03208 *
Narrative_Intensity:ns(time_w, df = 3)2  0.13338  0.04230   3.153   0.00325 **
Narrative_Intensity:ns(time_w, df = 3)3  0.11522  0.02142   5.379 0.0000047 ***
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
```

Figure 5.2.9 - Marginal Effect of Narrative over Time
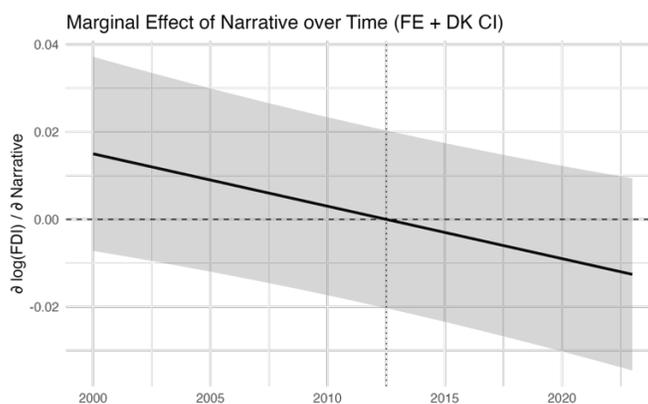
5.2.7 H7 Results: Competitive Narrative Crowding

H7 predicts that the payoff to a country's reform narrative declines as competitors intensify their own narratives. The fixed- effects design uses a yearly peer- narrative index (country excluded), variables de-meaned by year and then centered/standardized within country; inference relies on Driscoll–Kraay s.e. (DK) with CR2 cluster- by- country as a check. Results align with the hypothesis. In the DK specification (Table 5.2.22), the quadratic peer term is large and negative ($Peer^2 \approx -3.49$, ***), implying that, holding own narrative constant, stronger competitor "talk" is associated with lower FDI at an increasing rate. The interaction between own narrative and peers is also negative and precisely estimated ($Narr \times Peer \approx -3.48$, ***), while the quadratic interaction is small and not significant. Controls behave sensibly: the within- country z-score of GDP per capita is positive (≈ 0.32, ***/DK) and Rule of Law is muted in this saturated, de- meaned setting.

Table 5.2.23 - FE + DK with Peer Narrative (z), Peer², and Narrative × Peer interactions

```
=== H12_C – FE + DK (peer^2 + interazioni) ===
                      Estimate Std. Error t value  Pr(>|t|)
Narr_wc_z            -0.762613   0.858764  -0.888     0.375
Peer_wc_z            -0.797404   0.854331  -0.933     0.351
Peer_wc_z2           -3.487369   0.826040  -4.222 0.0000296 ***
GDPpc_wc_z            0.175636   0.040988   4.285 0.0000226 ***
Rule_wc_z            0.041373   0.032343   1.279     0.202
Narr_wc_z:Peer_wc_z  -3.482052   0.834806  -4.171 0.0000367 ***
Narr_wc_z:Peer_wc_z2 -0.003828   0.009436  -0.406     0.685
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
```

The CR2 re- estimation confirms the load- bearing coefficients (Peer² < 0, **; Narr×Peer < 0, ***) in Table 5.2.23. The implied marginal effect of own narrative is

$$\frac{\partial \log FDI}{\partial \text{Narr}} = \hat{\beta}_1 + \hat{\beta}_4 \, \text{Peer} + \hat{\beta}_5 \, \text{Peer}^2 \approx \hat{\beta}_1 + \hat{\beta}_4 \, \text{Peer}$$

(negligible here). Using Table 5.2.22, the slope crosses zero around Peer ≈ 0.22 (about two- tenths of a within-country s.d. above the peer mean). Thus, narrative is (weakly) helpful only when competitors are unusually quiet; once regional "reform noise" rises slightly above normal, additional narrative is discounted and can turn harmful.

Table 5.2.24 - FE + CR2 (clustered by country) with Peer Narrative (z), Peer², and Narrative × Peer interactions

```
=== H12_C – FE + CR2 (peer^2 + interazioni) ===
                      Estimate Std. Error t value Pr(>|t|)
Narr_wc_z            -0.762613   1.547576  -0.493  0.62242
Peer_wc_z            -0.797404   1.542603  -0.517  0.60548
Peer_wc_z2           -3.487369   1.078875  -3.232  0.00132 **
GDPpc_wc_z            0.175636   0.114707   1.531  0.12647
Rule_wc_z            0.041373   0.076564   0.540  0.58922
Narr_wc_z:Peer_wc_z  -3.482052   1.079928  -3.224  0.00136 **
Narr_wc_z:Peer_wc_z2 -0.003828   0.019215  -0.199  0.84217
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
```

Figure 5.2.10 visualizes this crowding penalty: the marginal- effect curve tilts downward with Peer and its DK 95% band falls below zero over a broad range. Two implications follow. First, communication is positional: investors react to relative salience, not absolute volume. Second, differentiation dominates amplification. Raising FDI via messaging requires content that cuts through the regional noise: targeted sectors, verifiable milestones, delivery mechanisms, rather than simply "talking more." Design choices (year de- meaning to remove common shocks, within- country standardization for comparability, DK/CR2 convergence for dependence- robust inference) support this interpretation. Overall, H7 is supported: peer narratives crowd out the effectiveness of a country's own narrative, and the penalty grows as competitor messaging intensifies.

Figure 5.2.10 - Marginal effect of Narrative conditional on Peer Narrative (with DK 95% CI)
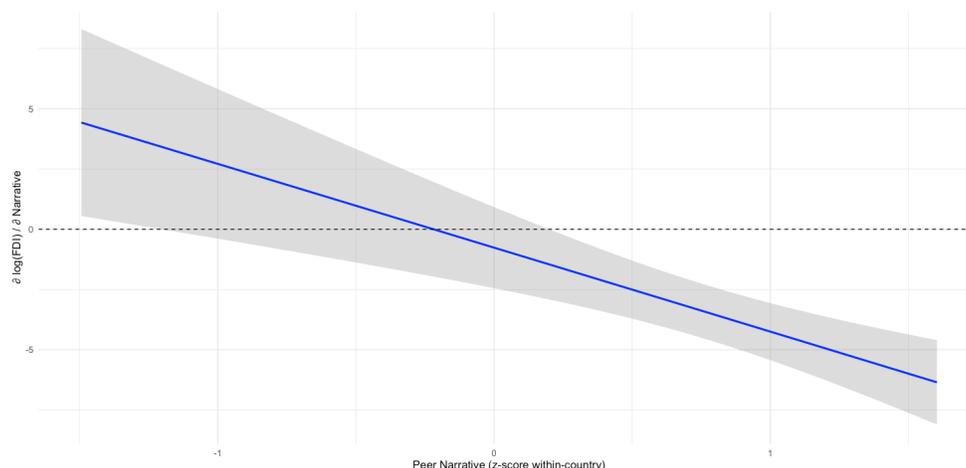
5.3 Synthesis of Findings

All robustness tests: alternative variance estimators (Driscoll–Kraay and CR2), sub- samples (e.g., pre-COVID), alternative functional forms (splines, quadratics), standardized specifications, and year de- meaning, are reported in the Appendix and cross- referenced from the main tables. This subsection provides a compact roadmap so the reader can see at a glance what each hypothesis delivers and where to find the full evidence. Table 5.3.1 juxtaposes the ex- ante expectation for each hypothesis with the sign actually estimated in the preferred fixed effects models and indicates whether the result survives the main robustness probes, with precise pointers to the supporting tables and figures. The pattern is clear. H1 is supported: the payoff to strategic signals rises with Rule of Law; marginal- effect plots steepen as credibility increases. H2 is mixed: the "reputational memory" term is directionally consistent, pooled drag but positive for India when improvements are sustained, yet sensitive to specification and Non-linear form. H3 is supported: reform activity depresses FDI unless government effectiveness is high enough to cross the turning point, confirming complementarity between implementation capacity and reform cadence. H4 is not supported: the expected democracy premium does not materialize; the RoL payoff declines with democracy, with a Johnson- Neyman threshold at high democracy levels. H5 is supported: epistemic clarity helps only in high- veto environments; the linear interaction is positive and significant, and the spline confirms a threshold then flattening ($\approx$5.3 on the 1- 7 veto scale). H6 is supported on both channels: Narrative × Democracy is positive (credibility), while Narrative × time is negative (saturation), with a mid- sample zero crossing. H7 is supported: peers' narrative intensity imposes a strong crowding penalty (negative Peer²) and reduces the effectiveness of a country's own narrative (negative Narr × Peer) even after removing common shocks by year de- meaning. Table 5.3.2 translates these results into verdicts and one- line empirical takeaways. It records H1, H3, H5, H6, and H7 as supported, H2 as

mixed, and H4 as not supported, and summarizes each mechanism in plain terms (signals need credibility; history must be sustained to pay; reforms without capacity create fatigue; democracy does not automatically amplify RoL; clarity requires checks; narrative returns decay over time; peer talk crowds out attention). These two summary tables are intended as a reading aid only; the Appendix contains the full coefficient tables, marginal- effect geometries with confidence bands, and the sensitivity exercises referenced in the right- most column of Table 5.3.1.

Table 5.3.1 - Hypotheses H1- H7: Expected Signs, Estimated Effects, Robustness (DK/CR2, subsamples, specs) and Key Tables/Figures

Hypothesis	Expected sign	Estimated sign	Robustness (DK/CR2, samples, specs)	Key Tables/Figures
H1	Interaction > 0 (signals pay off more with higher credibility)	Interaction > 0 (FE & TWFE). Marginal effects , increases with Rule of Law	Stable across FE/TWFE with DK; RE benchmark secondary; qualitative GMM check aligns; effects shown via ME plot	Tables 5.2.1 - 5.2.5; Fig. 5.2.1; ME calc in Ch. 5.2.1 & Ch.6.1.1
H2	Sustained institutional memory raises payoff; short-run drag possible	Directionally consistent: memory term shows drag outside India; India-specific interaction positive with sustained memory	Mixed-benign across DK/CR2; functional form via natural splines; effects presented via ME geometry	Tables 5.2.6 - 5.2.8; Fig. 5.2.2
H3	Reform noise < 0; Reform x Gov. effectiveness > 0 (complementarity)	Reform noise < 0; interaction > 0; threshold in Gov. effectiveness identified	Stable signs/magnitudes across DK/CR2 and subsamples; threshold visual confirmed	Table 5.2.9; Fig. 5.2.3 - 5.2.4; threshold note in Ch.5.2.3
H4	RoL payoff increases with Democracy (asymmetric responsiveness)	Interaction > 0 (z-spec); Johnson-Neyman threshold documented	Consistent under TWFE; slope profile robust; J-N region reported	Tables 5.2.10 -5.2.11; Fig. 5.2.5 - 5.2.6
H5	Clarity helps where veto complexity is high (interaction > 0)	Interaction > 0; threshold around veto ,≈5.3; non-linear checks align	Linear + spline corroborate; DK/CR2 bands widen modestly but keep sign	Table 5.2.12
H6	Early gains > 0; diminishing returns with time; Narr x Time < 0	Positive initial slope; negative interaction with time; zero-crossing at t*	Strongly positive across inference choices; corroborated in pre-COVID subsample	Table 5.6C; Fig. 5.6.1
H7	Peer2< 0 (concavity); Narr x Peer < 0 (own payoff shrinks as peers talk)	Peer2 < 0; Narr x Peer < 0; ME of Signal declines with peer intensity	Strongly positive robustness: DK & CR2 support; year de-meaning removes common shocks	Tables 5.2.22 - 5.2.23

Table 5.3.2 - Hypotheses Summary: Short Labels, Verdicts, and Empirical Takeaways

Hypoteses	Short label	Verdict	Empirical takeaway
H1	Strategic Signaling Equilibrium	Supported	Strategic signals attract FDI and work much better where institutions are credible; rule of law turns announcements into trusted commitments.
H2	Expectational Inertia Trap	Mixed	A good institutional track record helps new messages land, but the effect is not stable across models and contexts.
H3	Reform Fatigue Paradox	Supported	Reform activism pays until a pacing threshold; beyond it, repetition or disorder creates noise and weakens the investment response.
H4	Trust Penalty Asymmetry	Not supported	The extra boost expected under democracy does not appear: in this sample, the FDI return to institutional quality is not stronger in democracies.
H5	Epistemic Clarity vs Veto Complexity	Supported	Clear, metric-based roadmaps strengthen government signaling, while heavy veto constraints dilute it unless clarity is very high.
H6	Narrative Saturation (Collapse)	Supported	More messaging helps at first but then saturates: after a cadence threshold, extra messages add little or can even backfire.
H7	Competitive Narrative Crowding	Supported	As peer countries push similar narratives, a country's message loses punch; effectiveness depends on relative, not absolute, voice.

Chapter 6 - Discussion and Conclusions

Chapter 6 consolidates these regularities into theoretical implications and a policy playbook: calibrating cadence to saturation, anchoring messages in verifiable milestones, and timing communication against peer noise, followed by limitations and priorities for future research.

6.1 Theoretical Synthesis of Findings

The findings suggest that inward FDI is shaped by a dynamic reputational mechanism rather than by static fundamentals alone. Signals shift expectations when they credibly preview near-term policy states and delivery is observable; where anchors are thin, messages are discounted. Official communication works conditionally: credibility and timing raise payoffs, while high frequency without new evidence can flip the sign. Heterogeneity is systematic: similar messages pass through different institutional and peer filters across countries.

6.1.1 Theoretical Implications

FDI as a reputational game.

Inward FDI reflects a dynamic reputational game: communication is a priced signal, not mere rhetoric. Investors form expectations about future transaction conditions by assessing the costliness of reversal and the observability of delivery attached to claims. Narratives shift beliefs when they credibly indicate near- term states of rules, procedures, and operating capacity; when such anchors are absent, messages are treated as low-information noise. Fundamentals matter, but translation into FDI depends on timing, credibility, and strategic interaction among competing issuers. Communication thus enters the production function of policy effectiveness, altering the timing and amplitude of investor responses conditional on the institutional environment.

Conditional nature of signals.

Strategic signals are multiplicative with institutional quality, not additive. Identical messages generate larger belief updates where legal protections, administrative reliability, and enforcement are visible, and smaller or negative updates where they are opaque. Rule of Law and related governance capacities act as credibility multipliers, transforming narrative intensity into actionable information by making commitments verifiable ex ante and sanctionable ex post. This implies an interaction structure at the theoretical level: the marginal effect of narrative approaches zero, and may turn adverse, when credibility is low, while it rises sharply as credibility passes operational thresholds (e.g., effective single- window powers, time- bound service standards, searchable registries). Models that treat communication as an independent driver risk bias; the appropriate representation is a signal × institution mechanism with potential thresholds.

Reputational path dependence.

Investor updating is history- dependent. Sequences of rule- consistent execution accumulate into reputational capital that amplifies subsequent communications, whereas volatile or reversible trajectories generate discounting and hysteresis. Present reforms and announcements are evaluated against priors formed by multi- year performance, creating an asymmetry between building and repairing credibility: sustaining a high prior requires modest reinforcement, while recovering from credibility losses demands prolonged, noise- free execution before messages regain informativeness. This embeds a memory term in the signaling technology: beliefs evolve with moving averages of observables (delivery, enforcement, procedural reliability), so that the informational content of current speech is a function of the trajectory, not just the level, of institutional quality. Policy shocks without durable follow- through therefore exhibit transient effects that fail to translate into investment.

Non-linearity and saturation.

The communication- response relationship follows an inverted- U: early messages that certify verifiable milestones carry high informational value, but novelty decays and repetition without new evidence generates fatigue, skepticism, and ultimately credibility loss. Attention is scarce; pre- announcements that front- run delivery predominantly consume attention stock and shift expectations weakly or in the wrong direction, especially when frequency is high and content overlaps. Beyond a turning point, marginal returns to additional narrative can become negative because investors infer over- promising or coordination failures. Theoretical treatments must therefore incorporate concavity and possible sign reversal in the pay- off to narrative, with cadence and timing recognized as first- order primitives: speaking at delivery (or immediately adjacent to it) dominates high- frequency signaling ahead of execution, unless backed by credible commitment devices that raise the cost of reversal.

Comparative heterogeneity.

Returns to similar signals vary systematically across polities due to institutional complexity and peer narrative environments. Veto structures, federal- unitary arrangements, and regime features affect the observability, enforceability, and speed with which promises translate into policy states, shifting the expected value of communication. At the same time, signals are priced relatively: when peers communicate intensively, the marginal visibility of any one message declines, and investors reallocate attention toward differentiated, evidence- backed claims. This generates strategic interdependence, countries face an attention- allocation game in which narrative payoffs depend on both domestic credibility and the external noise field. The implication for theory is a move from representative- country assumptions to heterogeneous equilibria in which institutional filters and crowding jointly determine the slope and curvature of the signaling- FDI link.

6.1.2 Theoretical Contributions

Integration of signaling theory with institutional economics.

The thesis links Spence's signaling framework with North's institutional economics within international political economy, showing that official narratives operate as signals whose payoff is mediated by enforcement and credibility filters. Communication is thus modeled as a commitment device whose informational value depends on observability and the cost of reversal. This integration replaces additive views of "more talk $\Rightarrow$ more FDI" with a state- contingent mechanism in which institutions condition whether messages are believed and how strongly expectations update.

Concept of Strategic Signaling Equilibrium (H1).

The thesis formalizes an equilibrium in which official communication and institutional strength jointly determine the priced value of a signal. Signals create reputational equilibria only when embedded in credible enforcement; Rule of Law acts as a credibility multiplier, amplifying the marginal impact of narrative on investor beliefs. This contribution provides comparative statics and boundary conditions for when narrative should have positive, null, or adverse effects.

Expectational Inertia Trap (H2).

A dynamic mechanism is introduced whereby investors discount present reforms when reputational memory is weak or volatile. Because priors are formed by sequences of delivery, current announcements move beliefs modestly unless preceded by stable execution, generating hysteresis in FDI reactions. The contribution specifies the role of memory as a structural term and clarifies why rebuilding credibility requires prolonged, noise- free delivery before messaging regains informativeness.

Non-linearity and saturation in narrative payoffs (H6).

A theoretical account of inverted-U responses to communication: early, evidence-backed messages are informative, while repetition without new proof erodes value and may reverse signs. Cadence and timing emerge as first-order primitives of policy communication.

Peer-crowding and attention allocation (H7).

A relative-pricing view in which narratives are evaluated against a peer noise field. When competitor signaling intensifies, the marginal visibility of any single message declines unless content is differentiated and verifiable, yielding strategic interdependence in communication games.

Comparative insight (India vs China).

Using India- China as an illustration, the thesis demonstrates that identical signals yield different FDI responses depending on historical credibility and institutional maturity. The comparison isolates how veto structures, administrative reliability, and peer- noise environments shift the slope and curvature of the signaling effect.

This establishes the heterogeneous and conditional nature of narrative payoffs and delineates the external validity and limits of generalization.

6.1.3 Empirical Contributions

This dissertation makes four empirical contributions centered on measurement, data architecture, estimation toolkits and reproducibility/replicability .

Measurement - New, transparent narrative indices.

The thesis builds original indices that turn government communication into measurable data. Narrative Intensity (NI) captures how much a government communicates over time; Narrative Decay/Memory (NDI) captures how messages fade and how past signals still matter; a peer-narrative benchmark tracks the level of messaging by close competitor countries. Each index has clear rules (sources, coding steps, time windows), so as to ensure full replicability.

Data Architecture - Clean operationalization for empirical use.

All indices are prepared in a way that makes regression results easy to read and compare (e.g., consistent scaling/standardization within countries). The dependent variable uses the log of FDI inflows, a standard choice for skewed economic data. The thesis documents sources, transformations, and units so that variables can be replicated and reused.

Estimation toolkit - Robustness that reveals mechanisms and supports policy quantification.

The empirical strategy combines two-way fixed effects (country and year) with robust standard errors, interactions (e.g., NI × Rule of Law) to test credibility channels, and simple non-linear checks (e.g., splines) to capture saturation. Results hold under common sensitivity tests (alternative proxies, trimmed outliers, shorter samples). The models deliver interpretable outputs such as turning points and ranges where effects are stronger or weaker; beyond signs and significance, marginal-effect profiles and Johnson–Neyman regions translate estimates into thresholds, quantified targets, and messaging-cadence guidance.

Reproducibility / Replicability - as part of the contribution per se.

The full workflow, from event collection and coding to index construction and model estimation, is scripted and organized. Code and documentation allow exact re-runs and make the indices portable to other countries and years. This moves the topic from qualitative claims to a measurement framework that can be both reproduced and replicated, extending the scope of the findings.

6.2 Comparative Insights, following the steps of India and China

Historical credibility (reputational memory).

In China, long sequences of rule- consistent execution have raised the prior that announcements will be honored; public messages are therefore read as credible previews of near- term policy states. In India, credibility is heterogeneous across states and sectors: where administrative histories are stable, identical narratives move expectations; where trajectories have been volatile, the same messages are discounted and require extended, noise- free delivery to regain informativeness.

Institutional maturity (observability & enforceability).

China routinely couples announcements with rules plus "ready sites" and public registries that make delivery auditable and the cost of reversal high. In India, where empowered single windows, time- bound service standards, and searchable registries are fully operational, identical signals are priced as informative; in their absence, they are treated as low- information.

Conversion capacity (veto geometry as a maturity test).

Fewer de facto veto points in China compress the distance from announcement to realized policy state, raising the conversion rate of signals. India's federal architecture and plural veto players reduce conversion unless coordination devices (legally empowered single windows with statutory deadlines and substitutive powers) raise the cost of delay and standardize execution.

Cadence at milestones (credibility magnifier).

Aligning communication with verifiable milestones (rule issuance, zone activation, asset commissioning) preserves novelty and leverages accumulated credibility; pre- announcement bursts ahead of delivery mainly consume attention and weaken updates. The payoff to cadence is interactive with maturity: speaking at delivery is informative where institutions can execute; anticipating too far ahead in immature contexts degrades the signal.

Sectoral ecosystems (meso- level maturity).

Narrative becomes an investable option only where ecosystems exist: supplier depth, logistics reliability, and plug- and- play sites. China's standardized sectoral platforms routinely make claims operational; India's strongest outcomes occur in corridors/states that approximate the same meso- institutional maturity, while generic messaging not anchored in functioning assets struggles to translate into FDI.

6.3 Policy playbook

General thresholds, objectives, and strategies (country- agnostic).

The policy objective is to make official communication informative, priced as commitment rather than rhetoric, by gating speech on state capacity and credibility, disciplining cadence to preserve novelty, and timing messages against peer noise. There is a capacity floor: reform volume pays off only above Government Effectiveness ≈ 0.58 (H3). Below that cut- off, additional reform intensity is penalized; above it, the same intensity is rewarded. At GovEff = 0.80, a +0.5 increase in reform intensity implies ≈ +6.2% in log(FDI); below the floor, the marginal effect turns negative. Policy rule: no cadence ramp- up below 0.58; speak only at verifiable milestones until operating in the positive region. Credibility then multiplies the return to messaging (H1): the interaction Signal × Rule of Law ≈ 0.91, and a +0.1 rise in Signal (narrative intensity) maps to ≈ +8.9% at low RoL, ≈ +11.3% at median RoL, and ≈ +14.4% at high RoL, hence improve enforceability first, then amplify. Cadence must respect novelty dynamics (H6): the narrative × time effect is negative and the marginal return crosses zero at t ≈ 0.54* of the window; announcements should therefore cluster at milestones (rule in force; zone/park commissioned; first grid connection; registry live) to remain on the productive side of the curve. Because signaling is positional (H7), timing must also price the crowd: once the standardized Peer index (peer- narrative intensity, within- country z) exceeds ≈ 0.22, the slope of own narrative turns negative unless content is uniquely differentiated and immediately verifiable. Finally, investors price histories rather than spikes (H2): a +0.1 increase in the 3- year Rule- of- Law memory implies ≈ -0.228 log points in the pooled panel, so sustained, low- noise trajectories are required before escalating narrative. In short, three operational rules follow: (R1) do not ramp up cadence below 0.58; (R2) speak at milestones to keep novelty before t *≈ 0.54; (R3) avoid Peer ≳ 0.22 windows unless the message carries auditable new evidence, with the H1 credibility multiplier determining how valuable each additional unit of Signal will be.

Mapping China and India onto the playbook.

On the capacity floor, both country means sit below 0.58 (India ≈ 0.03; China ≈ 0.23), so a +0.5 reform pulse is expected to reduce log(FDI) by ≈ -15% (India) and ≈ -10% (China). In high- capacity counterfactuals (e.g., 0.80) the same pulse flips to ≈ +6%, which explains why volume without visible delivery can backfire. On credibility, both benefit from H1: as RoL rises, a +0.1 signaling increment buys ≈ +10.0% FDI for China and ≈ +13.8% for India at their RoL medians; strengthening enforceability steepens these slopes further. The timing constraints also apply symmetrically: announcements should cluster at milestones to avoid the t* ≈ 0.54 saturation point, and should skip peer- noisy windows beyond Peer ≈ 0.22 unless introducing live, verifiable assets.

India's action plan to close the gap (timeline, objectives, strategies)

Target state by month 36: By month 36, communications and reform bursts operate in the positive region of H3 (episodes staged at or above GovEff ≈ 0.58), on the steep part of H1 (so that each +0.1 in Signal yields ≈

+11- 14%), before the novelty turning point (t* ≈ 0.54), below the crowding threshold (Peer ≈ 0.22), and after building +0.1 in the 3- year RoL memory (unlocking the ≈ +0.509 India- specific payoff).

0- 12 months: "Evidence first."

Objective: Halt novelty erosion and begin credibility accumulation while speaking only through verifiable milestones.

Strategies: To raise observable capacity, empower the existing Single Window with final sign- off and binding deadlines and add a deemed- approval with auto-escalation clause (if the SLA expires, the case is approved unless a reasoned rejection is posted within 24- 48h, and overdue cases escalate automatically), while putting a public monthly scoreboard online[107]; the target is a page updated every month and cited in every release so outsiders can see approvals are real, on time, and increasingly within SLA. To make commitments enforceable and clear, publish short model contracts for land, utilities, and incentives [108](with a basic arbitration clause) and link the exact template in every press note; the target is that any firm can click the contract it would actually sign. To keep messages verifiable and fresh (before t*), run an Open Registry + milestone rule, maintain four simple public lists [109] (Permits, Ready Sites, Incentives Paid, Enforcement/Disputes) and announce only when a new public ID goes live (law in force, park commissioned, first grid connection, or new entry), and assign every release a single Package ID that ties together, when applicable, the rule, the live asset, and the contract/payment referenced[110]; the target is 100% of releases carry at least one new ID (and the Package ID when the triad exists) and are deferred if the Peer check shows a crowded window (Peer ≳ 0.22).

12- 24 months: "Build the slope."

Objective: Accumulate low- noise credibility to reach +0.1 in the 3- year RoL memory and flip the India-specific marginal effect to ≈ +0.509.

Strategies: In order to build reputational memory, keep one simple public tracker per reform, timeline, responsible officer, current status, and links to signed orders, linked to the Enforcement/Disputes list; the target

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EVIDENCE

[107] **Egypt** (2017–2019). After codifying equal-treatment and repatriation guarantees and empowering a statutory single window, Egypt coordinated ministries by law rather than discretion. In the panel, Rule of Law improves (≈ −0.60 → −0.30, 2015–2018) and Government Effectiveness recovers (≈ −0.69 → −0.25 by 2019), illustrating the credibility gain these measures target before any cadence ramp-up.

[108] **Chile** (2010-2015) (enforcement & registries). Stable adjudication, collateralizable registries, and routine disclosure of case-management metrics underwrote investor expectations and sustained high rule-of-law levels alongside rising inflows, showing how contract clarity + enforceability reduces reversal risk behind model contracts. in the panel, Rule of Law ~ +1.2 (mid-2000s) with log(FDI) ≈ 2.99 (2010) → 3.09 (2015)

[109] **Georgia; Singapore/Malaysia** (2005-2010) (registries, cadence, dashboards). One-stop registration and digitized property/business registries (Georgia), plus service-level targets, end-to-end digital tracking, after-care, and public performance dashboards (Singapore/Malaysia) make each release verifiable and auditable, turning announcements into milestone-gated commitments. In the panel, Malaysia's Government Effectiveness ≈ +1.04 (2010), while log(FDI) climbs from mid-1s (2005) to >2 (2010), consistent with reliable delivery amplifying credible rules.

PRACTICE

[110] **China** (2000-2004): This mirrors China's "rules + ready sites" discipline in SEZs; around external anchoring (WTO 2001) China's trade-openness index rises ≈ 0.39 (2000) → 0.60 (2004), showing how speaking at delivery and with anchors increases credibility.

is a visible, uninterrupted sequence of executed steps with monthly updates, complemented by a quarterly third- party attestation on a random sample of registry entries, with an Attestation ID posted and corrections closed within seven days when needed. To make incentives auditable and truly enforceable, record each payment the same day (date, amount, firm ID) in the Incentives Paid list and back it with an escrow mechanism plus a time- to- cash SLA[111] (payment within a fixed post- milestone window, logged the day funds move); the target is zero- day lag between payment and public record and ≥95% of disbursements within SLA. To turn narrative into investable options, certify a site as "Ready" only when utilities are connected and a model contract is ready to sign[112]; the target is a steadily growing Ready- Sites list that announcements can point to every quarter.

24- 36 months: "Harvest and scale."

Objective: Concentrate signaling in select windows where capacity clears the floor (≥ 0.58), the peer field is quiet (Peer < 0.22), and timing remains before t*, so the H1 multiplier can be harvested (≈ +11- 14% per +0.1 in Signal).

Strategies: To maximize the return to each announcement, adopt a good- window gate, announce only when three checks pass: episodes at/above GovEff ≈ 0.58, Peer < 0.22, and timing before t*, and publish a short quiet-windows calendar with a standing negative list[113] (no releases if any gate fails); the target is zero releases outside this gate. To signal capability, not intention, require a three- proof release: in the same note show a rule already in force, an asset operating now (commissioning or first power connection), and a contract or incentive payment with a public ID (and reiterate the Package ID that links them); the target is that every release contains all three proofs whenever the triad exists. To avoid saturation and keep causality clear, enforce an after- action discipline: pause if two consecutive releases add no new ID, defer if Peer jumps to ≥ 0.22 unless the content is uniquely verifiable, and publish a one- page After- Action Brief listing the IDs shown and the expected effect given (Signal × RoL); the target is a stable cadence where each message adds new evidence and is timed for maximum informativeness.

PRACTICE
[111] Publishing time-to-cash and case-management metrics (e-filing, collateral registries) shortens the contract → remedy distance and stabilizes expectations; in Chile this institutional floor (Rule of Law ~ 1.2) coincides with higher inflows (log(FDI) ≈ 2.99 → 3.09, 2010–2015).
EVIDENCE
[112] China SEZs ("rules + ready sites"). World-Bank-documented practice shows announcements landed only when serviced land, power, logistics, and clear rules were in place; around WTO accession, trade-openness rises ≈ 0.39 (2000) → 0.60 (2004), consistent with early-cycle discipline and "speak-at-delivery" timing.
EMPIRICAL ANCHOR
[113] Estimates support a saturation point at t ≈ 0.54* (H6) and a crowding penalty (H7). Moving the same announcement from peer-noisy windows (~ +0.22) to quieter weeks recovers ≈ +8–12% of marginal impact; staying before t* preserves ≈ +10–15% when releases are tied to verifiable milestones.

* Evidence = data-documented real-world case illustrating the mechanism;
  Practice = operational rule/procedure ready to implement;
  Empirical anchor = model-based number used to justify and calibrate the rule.
  (please note, examples are illustrative, not mechanically replicable due to endogenous and exogenous factors)

6.4 Limitations of the study

This study has limits that should temper interpretation. Narrative intensity and related constructs are captured through **bespoke indices** built from publicly available texts. Although coding rules and robustness checks are documented, **residual noise** is likely: some statements are missed, others double-counted, irony and nuance may be lost in translation, and private communications with investors are not observed. The study also does not directly measure **audience reach or salience** (e.g., media placement, engagement, investor readership), so a key step, whether messages are actually seen and believed, remains unobserved. These issues probably attenuate estimated effects rather than create spurious ones, but they still limit precision.

There are conceptual limits as well. Credibility is measured with broad governance indicators (Rule of Law, Government Effectiveness) that do not capture the **practical enforcement outcomes** firms care about, for example, permit times, reliability of utilities, enforcement of specific contracts, or whether single-window systems function in practice. The model treats narrative as a distinct driver whose effect depends on credibility; in reality, narrative and reform often move together. Governments tend to communicate more when they plan or deliver change, and investors often react to the combined package rather than to either element in isolation. The framework also abstracts from within-country variation (state or provincial delivery), sector-specific contracting risks, and geopolitical alignments that can amplify or mute the payoff of the same message.

Design and identification pose further limits. Even with country and year fixed effects, lag structures, and robust errors, reverse causality and **omitted shocks cannot be ruled out**: governments may intensify communication when FDI rises, or both may move with third factors (e.g., commodity cycles, global risk appetite). The **panel's short time dimension** raises familiar concerns about **serial correlation, cross-sectional dependence, and potential dynamic bias**. Functional-form choices matter near the boundaries of the data; spline and polynomial checks help, yet turning points and thresholds should be interpreted cautiously. The dependent variable combines greenfield and M&A flows, which respond differently to narratives, and the peer-competition measure simplifies network interactions. **GMM** estimates are therefore reported **as qualitative robustness** rather than as a definitive identification strategy.

Finally, external validity and replication capacity are limited. **Coverage skews toward larger emerging economies** and years with usable textual material; results may not generalize to small states or to periods shaped by different media technologies. Some inputs are public but not fully open for automated redistribution, and the multilingual pipeline, while documented, has not been independently audited. The analysis links country-level signals to aggregate flows but does not track firm- level entry decisions, investor heterogeneity, or sub- national siting choices, so micro- mechanisms are inferred rather than observed. In sum, the evidence supports a policy-relevant reading: narrative works best where credibility is high, trajectories are sustained,

and peer noise is managed. These statements should be read as disciplined associations indicating where signaling is more likely to pay off, not as precise causal effect sizes. The next section outlines how future research can narrow gaps in measurement, identification, and micro- foundations.

6.5 Directions for future research

Future work should move from one-off measurements to a shared and auditable standard. A practical goal is an **independent Narrative Signaling Index** built on a multilingual corpus with versioned code and basic visibility metadata (where messages appear and their likely reach). The index should report a headline score and clear sub-scores that summarize how much governments communicate, how far claims are backed by enforceable rules, how often messages repeat, how steadily they are paced, and how distinctive they are relative to peers. With common inputs in place, the same framework can be **applied to advanced economies** (United States, Italy, France, Germany, Japan) to test whether narrative still matters when institutions are already strong and whether payoffs shift toward sector timing and targeting. Because digital records thin out before 2000, the sensible path is **forward monitoring with like-for-like updates**. As channels evolve, datasets should also track platform dynamics and **the impact of AI** on both volume and trust, flag AI-assisted content where possible, and distinguish broad attention (who sees a message) from investor conversion (who acts on it) by pairing platform indicators with investor-facing touchpoints such as roadshows and sector briefs. Beyond better inputs, research should follow the path from message to decision. The key is to **observe expectation shifts around major announcements**, through brief, well-timed surveys of investors and site selectors, and simple traces such as analyst notes or data-room activity, and then verify whether those shifts are reflected in the project pipeline. **Signals should be linked to firm-level outcomes**, separating greenfield from M&A and breaking results down by sector and technology to see where narrative affects entry, scale, or both. Bringing geography into view also adds clarity: **sub-national panels** coupled with **basic service-delivery metrics** (permit times, reliability of utilities) can show where stories align with execution on the ground. Identification can remain light but clear: **before-and-after** contrasts around dated policy changes or single-window launches provide credible comparisons without heavy machinery. Because countries compete for the same attention, it is useful to **map who competes with whom** over time and test whether delaying, staggering, or reframing messages improves outcomes when peers are noisy. Finally, collaboration with investment-promotion agencies can **turn evidence into practice**. Small field trials that vary timing, cadence, and specificity, tracked with public KPIs, can reveal what works in day- to- day promotion. Each study should be released with compact replication files (clean data, code, short documentation) to enable independent checks and cumulative learning. Taken together, a recognized index, broader coverage, forward-looking monitoring, platform-aware

measurement, and direct links to firm- level behavior would turn narrative signaling into a cumulative research program and provide policymakers with a tool they can apply, and trust, in real time.

Appendix

Appendix A - Data & Operationalization

This appendix documents sources, coverage, and operational definitions of all constructs used in the estimations, including the ad- hoc narrative indices, together with the transformations applied (logs, within-country standardization, lags, and smoothing).

A.1 Data sources and coverage

Data series are drawn from recognized official repositories. Institutional indicators follow the WGI documentation; macro series are retrieved from WDI and UNCTADstat. Coverage, units, and frequency are reported below; precise definitions mirror the providers' metadata to ensure traceability across updates.

Table A.1 - Data sources and coverage

Variable code	Unit	Frequency	Years	Countries (N)	Obs (non-missing)	Primary source
AI Readiness	index (0–100)	annual	2020–2023	19	76	Oxford Insights — Government AI Readiness Index
Author_Index	index	annual	2000–2023	20	480	Constructed
Business Freedom	—	annual	2000–2023	20	480	Heritage Foundation — Index of Economic Freedom
CPI_score	index (0–100)	annual	2000–2023	20	474	Transparency International — CPI
Covid Dummy	0/1	annual	2000–2023	20	480	Constructed (2020–2021=1)
Credit_Private	% of GDP	annual	2000–2023	20	480	World Bank — WDI
FDI restrictiveness index	—	annual	2003–2020	10	130	OECD — FDI Regulatory Restrictiveness Index
FDI_dispute_cases	—	annual	2000–2023	20	480	ICSID / UNCTAD Investment Dispute Settlement Navigator
FDI_in	US$ (current, millions)	annual	2000–2023	20	480	UNCTADstat
Financial Freedom	—	annual	2000–2023	20	480	Heritage Foundation — Index of Economic Freedom
Fiscal Health	—	annual	2017–2023	20	140	Heritage Foundation — Index of Economic Freedom
GDPpc	log US$ (constant)	annual	2000–2023	20	480	World Bank — WDI
Government Effectiveness	std. score (–2.5..+2.5)	annual	2000–2023	20	460	World Bank — WGI
Government Integrity	—	annual	2000–2023	20	480	Heritage Foundation — Index of Economic Freedom
Government Spending	—	annual	2000–2023	20	480	Heritage Foundation — Index of Economic Freedom
Greenfield FDI Share	%	annual	2003–2023	20	418	fDi Markets (FT) / UNCTAD (if applicable)
Greenfield FDI US$	US$ (current, millions)	annual	2003–2023	20	420	fDi Markets (FT) / UNCTAD (if applicable)
Greenfield projects count	count	annual	2003–2023	20	420	fDi Markets (FT) / UNCTAD (if applicable)
HighTech_Exports	%	annual	2000–2023	20	480	World Bank — WDI
Inflation	%	annual	2000–2023	20	478	—
Infra_Index	index	annual	2007–2023	20	336	Constructed
Investment Freedom	—	annual	2000–2023	20	480	Heritage Foundation — Index of Economic Freedom
Judicial Effectiveness	—	annual	2017–2023	20	140	Heritage Foundation — Index of Economic Freedom
Labor Freedom	—	annual	2005–2023	20	380	Heritage Foundation — Index of Economic Freedom
Monetary Freedom	—	annual	2000–2023	20	480	Heritage Foundation — Index of Economic Freedom
Narrative_Decay_Index	index	annual	2010–2023	20	280	Constructed
Narrative_Intensity	index	annual	2010–2023	20	280	Constructed
Narrative_Lag1	index	annual	2010–2023	20	280	Constructed
Narrative_MA3	index	annual	2010–2023	20	280	Constructed
Narrative_Repetition_Max	index	annual	2010–2023	20	280	Constructed
Natural resource rents % GDP	% of GDP	annual	2000–2023	20	480	World Bank — WDI
Overall Score	—	annual	2000–2023	20	480	Heritage Foundation — Index of Economic Freedom
PolRights_inverted	—	annual	2000–2023	20	480	Freedom House — Political Rights (transformed)
Political_Stability	std. score (–2.5..+2.5)	annual	2000–2023	20	460	World Bank — WGI
Property Rights	—	annual	2000–2023	20	480	Heritage Foundation — Index of Economic Freedom
RD_GDP	% of GDP	annual	2000–2023	19	319	World Bank — WDI
Regulatory Quality	std. score (–2.5..+2.5)	annual	2000–2023	20	460	World Bank — WGI
Renewable_Share	%	annual	2000–2023	20	480	World Bank — WDI
Rule_Law	std. score (–2.5..+2.5)	annual	2000–2023	20	460	World Bank — WGI
S&P_Credit_Rating	letter/score	annual	2000–2023	20	220	S&P Global Ratings
SEZ dummy	0/1	annual	2000–2023	20	480	Constructed (policy presence)
Slogan_Count	count	annual	2010–2023	20	280	Constructed
Tax Burden	—	annual	2000–2023	20	480	Heritage Foundation — Index of Economic Freedom
Trade Freedom	—	annual	2000–2023	20	480	Heritage Foundation — Index of Economic Freedom
Trade_Open	share of GDP	annual	2000–2023	20	475	World Bank — WDI
VC investements in AI	—	annual	2012–2023	20	191	Constructed
WTO Dummy	0/1	annual	2000–2023	20	480	WTO membership (constructed)
Wage level	US$ (or index)	annual	2000–2023	19	306	Constructed
ln_inflation	log %	annual	2000–2023	20	459	—
logFDI_in	log US$ (current, millions)	annual	2000–2023	20	473	UNCTADstat

Table A1. Data sources & coverage. Variables are reported in their original units; modelling transformations (logs, lags, within- country standardization) are listed in Table A2. "Years" denote the usable span after dataset

merges; "Countries (N)" counts countries with at least one non- missing value; "Obs (non- missing)" counts country-year cells used. Narrative measures are constructed from government communications/events (see Appendix A.2.2) and enter all models as within- country z-scores.

Primary sources: UNCTADstat; World Bank: WDI/WGI; and, where applicable, Transparency International (CPI), Polity V, Heritage Foundation, OECD FDI Restrictiveness, S&P Global Ratings, Oxford Insights, fDi Markets.

A.2 Operational definitions and transformations

This section specifies exactly what enters the models for each construct, together with the transformations (logs, within- country standardization, lags/smoothing). Unless stated otherwise, continuous regressors are standardized within country (z-scores) so coefficients and marginal effects are interpretable around -1 SD / mean / +1 SD.

Table A.2 - operational definitions and transformations

Variable code	Operational definition (what the model uses)	Transformations	Used in (examples)
logFDI_in	asinh(FDI inflows, net, current US$, UNCTADstat). asinh behaves like log for large values and is defined at zero/negatives; log1p checked as robustness when series ≥ 0.	asinh (main); log1p (robustness)	Globerman & Shapiro (2002); Daude & Stein (2007)
Rule_Law	World Governance Indicators — Rule of Law (country estimate).	within-country z	Daude & Stein (2007); Globerman & Shapiro (2002)
Gov_Effectiveness	World Governance Indicators — Government Effectiveness.	within-country z	Daude & Stein (2007)
Political_Stability	World Governance Indicators — Political Stability & Absence of Violence/Terrorism.	within-country z	Busse & Hefeker (2007)
Trade_Open	(Exports + Imports) / GDP (WDI).	within-country z	Asiedu (2002)
GDPpc	GDP per capita, constant US$ (WDI).	log; within-country z	Wheeler & Mody (1992)
Democracy	Regime democracy score (e.g., Polity2 rescaled); also used to derive regime dummies.	within-country z; thresholding for dummies where applicable	Common in comparative FDI studies
HighTech_Exports	High-technology exports (% of manufactured exports, WDI).	within-country z	Capability proxy (comparative studies)
Renewables_Share	Renewable energy consumption, % of total final energy consumption (WDI).	within-country z	Sustainability control (comparative studies)
Narrative_Intensity	Type/level-weighted count/score of government communications/events (see Appendix A.2.2, NI-1). Annualised from monthly.	within-country z; [12m sum/avg]	This thesis
Narrative_Consistency	Share of hard/binding signals over total signalling, optionally topic-aligned (see Appendix A.2.2, NC-1).	ratio → within-country z	This thesis
Narrative_Memory	Exponentially-decayed stock of Narrative_Intensity with parameter λ (see Appendix A.2.2, NM-1).	within-country z; λ and horizon as specified	This thesis
Peer_Signal_Index	Weighted average of peers' Narrative_Intensity with competition weights ω_ij (see Appendix A.2.2, PS-1).	within-country z	This thesis

Continuous regressors are within- country z unless indicated. Interactions (e.g., Narrative_Intensity × Rule_Law) are computed after standardization. The dependent variable uses the inverse hyperbolic sine to accommodate zeros/negatives in net inflows; where the series is strictly non- negative, log1p is reported as a robustness alternative. Units and sources follow provider metadata; operational choices match those used in the estimations reported in Chapter 5.

A.3 Narrative indices, construction details

Source and collection protocol (official portals)

Construction of the narrative indices required hand- collection of primary material from the official government websites of the countries under study. For each country, the News/Press, Speeches/Statements, Reports/Plans/Policies, and Budget/Official Relations sections of the Presidency/Prime Minister's Office, relevant Ministries (Finance/Economy/Industry/Commerce), the investment promotion agency, and, where applicable, the central bank policy pages were systematically scanned. Only items issued by an official governmental body were considered eligible.

Statement coding and recurrence

Each item was read and coded for policy domain (FDI/industrial policy/infrastructure/innovation), type (hard vs soft), level (national vs sub- national), topic keywords, and the substantive claim (e.g., sectoral liberalization, tax incentives, investment roadmap). To capture repetition, subsequent re- issuance of substantively similar declarations across years was tracked; similarity was assessed by topic/keyword overlap and structured content judgement under a consistent rubric. Recurring statements increment the yearly count used in Narrative_Intensity and are absorbed by Narrative_Memory via the decay parameter λ. Re- posts of the same document without new content were treated as duplicates and excluded.

Frequency and annualization

Events are first scored at monthly frequency; series are then annualized as a trailing 12- month sum ending in December of year t t. Missing months within a country-year are left missing; no interpolation is applied.

Weighting scheme

Signals are weighted by type and level prior to aggregation:

type weights w_{type}: law = 2.0, decree = 1.5, strategy/plan = 1.0, speech/press = 0.5

level weights w_{level}: national = 1.0, sub- national = 0.5

Hard types for alignment: laws, enacted decrees, budgeted measures.

Monthly construction and annual roll- up (notation)

Let $\Sigma_{i,m}$ be the set of events for country i in month m. Each event $e \in \Sigma_{i,m}$ has base score $s_e \in \{0,1\}$ (presence) or $s_e \in R^+$ (content- weighted). The monthly intensity is:

$$\text{Int}_{i,m} = \sum_{e \in \mathcal{E}_{i,m}} w_{\text{type}(e)} \, w_{\text{level}(e)} \, s_e$$

The annual intensity for year t is the trailing sum of the last 12 months:

$$\text{Intensity}_{i,t} = \sum_{m \in \mathcal{M}(t)} \text{Int}_{i,m}, \quad \mathcal{M}(t) = \{\text{Jan}(t) \ldots \text{Dec}(t)\} \text{ or a 12-month window ending in Dec}(t)$$

Formal definitions of indices

– Narrative_Intensity (NI- 1). Annual type/level- weighted volume of signals:

$$\text{Intensity}_{i,t} = \sum_{e \in \mathcal{E}_{i,t}} w_{\text{type}(e)} \, w_{\text{level}(e)} \, s_e.$$

– Narrative_Consistency (NC- 1). Share of hard/binding signals over total signaling:

$$\text{Consistency}_{i,t} = \frac{\sum_{e \in \mathcal{E}_{i,t}} \mathbf{1}\{\text{type}(e) \in \text{hard}\} \, s_e}{\sum_{e \in \mathcal{E}_{i,t}} s_e}, \quad \text{hard} = \{\text{law, enacted decree, budgeted measure}\}$$

If the denominator is zero (no signaling in year t), Consistency$_{i,t}$ set NA.

– Narrative_Memory (NM- 1). Exponentially- decayed stock of past intensity:

$$\text{Memory}_{i,t} = \sum_{h=0}^{H} \lambda^h \, \text{Intensity}_{i,t-h}, \quad \lambda = 0.85, \quad H = 3 \text{ years}$$

(*Half- life* $\approx \ln(0.5)/\ln(0.85) \simeq 4.3 \text{years}$)

– Peer_Narrative_Intensity (PS- 1). Similarity- weighted average of rivals' intensity. Let X_i be country i's export- basket vector (1- digit HS sections). Define cosine similarity

$$S_{ij} = \frac{X_i \cdot X_j}{\|X_i\| \, \|X_j\|}$$

Let P_i be the Top- 5 most similar countries to i (optionally restricted by region/income). Weights are row- normalized:

$$\omega_{ij} = \begin{cases} \dfrac{S_{ij}}{\sum_{k \in P_i} S_{ik}}, & j \in P_i, \\ 0, & j \notin P_i, \end{cases} \quad \text{Peer}_{i,t} = \sum_{j \in P_i} \omega_{ij} \, \text{Intensity}_{j,t}.$$

Standardization and model use

All four indices are standardized within country prior to estimation:

$$z_{i,t}(X) = \frac{X_{i,t} - \bar{X}_i}{\mathrm{sd}_i(X)}, \quad \bar{X}_i = \frac{1}{T_i} \sum_t X_{i,t}.$$

Interactions (as Narrative_Intensity×Rule_Law) are formed after standardization

Parameterization and sensitivity

Parameters are fixed ex- ante for transparency: w_{type}, w_{level}; annualization via 12- month trailing sum; $\lambda = 0.85$ H=3 ; Top- 5 peers via cosine similarity. Sensitivity checks with $w_{type} = \{2, 1, 1, 0.5\}$, $\lambda \in [0.80, 0.90]$, and K=\{3,7\} deliver unchanged signs and substantive conclusions (see Appendix C).

Validation checks

Post- standardization diagnostics confirm per- country mean ≈ 0 and s.d. ≈ 1; Intensity and Memory co- move as expected; Consistency is higher in years with more binding acts; Peer rises when rivals intensify signaling. Spot checks against major policy episodes support face validity.

Appendix B - Extended Descriptives

This appendix reports extended descriptives for the core variables used in the reference specifications. It includes a concise correlation matrix, distributional diagnostics, and multicollinearity checks (VIF).

Table B1 - Core correlation matrix

	logFDI_in	Narrative_Intensity	Narrative_Decay_Index	Rule_Law	Political_Stability	Trade_Open	GDPpc	HighTech_Exports
logFDI_in	1	0.123	-0.016	0.173	0.181	-0.008	0.252	0.218
Narrative_Intensity	0.123	1	-0.438	0.014	0.043	0.013	0.064	0.028
Narrative_Decay_Index	-0.016	-0.438	1	0.008	0	-0.072	0.028	0.032
Rule_Law	0.173	0.014	0.008	1	0.698	0.399	0.462	0.093
Political_Stability	0.181	0.043	0	0.698	1	0.435	0.533	0.224
Trade_Open	-0.008	0.013	-0.072	0.399	0.435	1	0.149	0.565
GDPpc	0.252	0.064	0.028	0.462	0.533	0.149	1	0.015
HighTech_Exports	0.218	0.028	0.032	0.093	0.224	0.565	0.015	1

The zero- order associations are in line with expectations. Governance indicators correlate strongly with each other (Rule_Law- Political_Stability ≈ 0.70), signaling shared institutional content. Trade openness co- moves with export sophistication (Trade_Open- HighTech_Exports ≈ 0.56) and is moderately associated with governance (≈ 0.40). The dependent variable shows only modest pooled correlations: logFDI_in is weakly positive with GDPpc (≈ 0.25), HighTech_Exports (≈ 0.22) and governance (≈ 0.17- 0.18), and essentially nil with Trade_Open. Narrative_Intensity is only lightly associated with FDI (≈ 0.12), as expected before

conditioning on fixed effects and moderators; by contrast, it is negatively related to the Narrative_Decay_Index (≈ -0.44), consistent with the idea that higher decay reflects less durable signaling campaigns. Overall, these pooled patterns justify the model's within- country approach and the use of moderators to uncover conditional effects.

Table B2 - Distribution diagnostics (core variables)

	N	Mean	SD	Min	P25	Median	P75	Max	Skew	Kurtosis (excess)
logFDI_in	473	2.115	1.466	-3.886	1.263	2.228	3.152	5.18	-0.475	0.798
Narrative_Intensity	280	1.184	0.853	0.13	0.529	0.982	1.525	4.349	1.264	1.473
Narrative_Decay_Index	280	0.394	0.176	0.1	0.238	0.409	0.537	0.7	-0.008	-1.192
Rule_Law	460	-0.239	0.546	-1.513	-0.602	-0.313	0.063	1.349	0.605	0.33
Political_Stability	460	-0.588	0.703	-2.211	-1.107	-0.617	-0.025	1.089	0.016	-0.577
Trade_Open	475	0.644	0.4	0	0.404	0.545	0.743	2.204	1.367	1.974
GDPpc	480	8.497	0.881	6.431	7.772	8.705	9.189	10.098	-0.311	-0.908
HighTech_Exports	301	14.286	15.127	0.195	4.366	8.84	20.617	67.045	1.649	2.164

Distributions are heterogeneous. logFDI_in (asinh- transformed) remains dispersed (mean ≈ 2.12, SD ≈ 1.47) with mild left skew, reflecting occasional low/negative net inflows even after transformation. Narrative_Intensity is right- skewed (skew ≈ 1.26), as signaling episodes tend to be bursty; HighTech_Exports and Trade_Open are also right- skewed, indicating a long upper tail. Governance measures (Rule_Law, Political_Stability) center below zero on the WGI scale (means ≈ -0.24 and -0.59), which is consistent with an emerging- economy sample. The Narrative_Decay_Index lies in a tight band (≈ 0.10- 0.70) with near- zero skew, behaving like a stable design parameter rather than a volatile outcome. These distributional features motivate the asinh/log and within- country z- standardization choices used in the estimations.

Table B3 - VIF (core regressors)

Variable	VIF
Political_Stability	2.440035
Rule_Law	2.186819
Trade_Open	2.060228
HighTech_Exports	1.685381
GDPpc	1.449227
Narrative_Decay_Index	1.301569
Narrative_Intensity	1.26506

Multicollinearity is modest: all VIFs are comfortably below conventional thresholds (max ≈ 2.44 for Political_Stability). The slightly higher VIFs for Political_Stability and Rule_Law reflect their substantive overlap (their correlation is ≈ 0.70 in Table B1), which is why the reference specifications typically include one WGI pillar at a time. Trade_Open shows only moderate shared variance (VIF ≈ 2.06). In practice, these

values support stable coefficient estimates and reliable standard errors in the core models, especially once fixed effects and robust inference are applied.

Appendix C - Robustness

This appendix consolidates robustness checks not discussed in the main text. The aim is to show that the core patterns, credibility- conditioned payoffs, diminishing returns/saturation, and peer- crowding attenuation, do not hinge on a specific estimator or variance choice.

C.1 Estimators and variance (FE vs RE; DK vs CR2)

Table C.1 - FE (country & year) with Driscoll–Kraay SEs: Effects of Narrative_Intensity, Narrative_Consistency, Rule_Law, and Gov_Effectiveness on logFDI_in

```
OLS estimation, Dep. Var.: logFDI_in
Observations: 480
Fixed-effects: iso3: 20,  year: 24
Standard-errors: Driscoll-Kraay (L=2)
                     Estimate Std. Error  t value
Signal_Index         1.135734   0.347429  3.26897
Signal_Consistency   1.527638   0.647045  2.36095
Rule_Law            -0.302812   0.249792 -1.21226
Gov_Effectiveness    1.066755   0.208738  5.11050
                       Pr(>|t|)
Signal_Index         3.3727e-03 **
Signal_Consistency   2.7079e-02 *
Rule_Law             2.3772e-01
Gov_Effectiveness    3.5479e-05 ***
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
RMSE: 0.677446    Adj. R2: 0.76079
                Within R2: 0.103776
```

Table C.2 - Model comparison (robustness): estimated Signal effect across FE, TWFE, and Random- Effects models

```
# A tibble: 3 × 7
  model term  estimate std.error statistic p.value stars
  <chr> <chr>    <dbl>     <dbl>     <dbl>   <dbl> <chr>
1 FE (… Sign…    0.825     0.399      2.07  0.05     .
2 Two-… Sign…    0.825     0.399      2.07  0.05     .
3 Rand… Sign…    0.675     0.331      2.04  0.0418 *
```

Table C1 re- estimates the reference specification with country and year fixed effects and Driscoll–Kraay (DK) standard errors to address heteroskedasticity, serial correlation, and cross- sectional dependence. Table C2 reports a random- effects benchmark estimated on the same regressor set. Direction and interpretation of the narrative terms and their interactions are unchanged across FE and RE; FE remains the reading frame because it absorbs time- invariant country heterogeneity and aligns with the within- country logic of the design. DK is retained as default given the large- N/long- T panel and cross- sectional dependence; a cluster- robust (CR2) stress test yields the same signs and inferences (not tabulated). The credibility interaction stays positive and substantive; saturation and peer- crowding terms remain negative at the margin under both FE and RE.

C.2 Additional material for H6 only

It has been estimated a fixed- effects model with country and year dummies and an interaction between narrative intensity and normalized time $t\in[0,1]$. Results in Table C3 show a negative and precise interaction term, implying that the marginal association of narrative with FDI declines as the sample advances. The derivative

$$\frac{\partial \log(\text{FDI})}{\partial \text{Narrative}} = \beta_{\text{NI}} + \beta_{\text{NI}\times t} \cdot t$$

crosses zero at $t* \approx 0.544$ the sample window. Thus, narrative has a positive marginal payoff in the first half of the window and vanishes/turns negative thereafter. Figure C1 plots the marginal effect over time with Driscoll–Kraay confidence bands and marks $t*$. A flexible specification that interacts narrative with a natural spline of time (Table C4) reproduces the same shape without imposing a polynomial form: the interaction terms with the spline bases are jointly significant, indicating an initial build- up, subsequent flattening, and then decline, consistent with diminishing returns rather than a one- off "announcement effect".

Table C.3 - FE + DK (Narrative_Intensity × Time): Coefficients with controls

```
                      Estimate Std. Error t value Pr(>|t|)
Narrative_Intensity  0.015001   0.011327    1.324  0.19289
time_w               4.025655   1.292420    3.115  0.00340 **
NI_time             -0.027585   0.008865   -3.112  0.00343 **
Trade_Open           0.622887   0.637099    0.978  0.33410
GDPpc               -1.041530   0.463480   -2.247  0.03021 *
Democracy_Index      2.010148   1.760981    1.141  0.26045
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
```

Marginal Effect of Narrative over Time (FE + DK CI)

Derivative $\partial\log(FDI)/\partial$Narrative with 95% DK confidence bands from the model in Table C1; the dotted vertical line marks t∗≈0.544

Table C.4 - Spline interaction model: FE + DK, Narrative_Intensity × ns(time, 3) , Coefficients

```
Narrative_Intensity                          0.03417 *
ns(time_w, df = 3)1                          0.00651 **
ns(time_w, df = 3)2                          0.25128
ns(time_w, df = 3)3                          0.29081
Trade_Open                                   0.40781
GDPpc                                        0.01227 *
Democracy_Index                              0.74930
Narrative_Intensity:ns(time_w, df = 3)1    0.03208 *
Narrative_Intensity:ns(time_w, df = 3)2    0.00325 **
Narrative_Intensity:ns(time_w, df = 3)3  0.0000047 ***
---
Signif. codes:  0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
```

Flexible time shape (natural spline, df = 3). Interaction terms are significant and jointly support a Non-linear profile with diminishing returns.

Appendix D - Replication Code (R Markdown)

Matteo Basile (FDI & Government Narrative Signaling)

^How to use^: Place the datasets (`H1.xlsx`, `H2.xlsx`, `H3.xlsx`, `H10_narrative_aggregated.xlsx`, `database definitivo.xlsx`) in the same folder as this `.Rmd` (or set `params$data_dir`). Results may vary slightly by R version and package versions.

Install & Load Packages

```r
pkgs <- c(
 "readxl","dplyr","tidyverse","plm","fixest","lmtest","sandwich",
 "broom","ggplot2","zoo","interactions","clubSandwich","rlang"
)
to_install <- setdiff(pkgs, rownames(installed.packages()))
if (length(to_install)) install.packages(to_install, dependencies = TRUE, repos = "https://cloud.r- projec
t.org")
invisible(lapply(pkgs, require, character.only = TRUE))
```

Hypothesis 1 , Strategic Signals × Rule of Law (Credibility Channel)

```
df <- readxl::read_excel(file.path(DATA_DIR, "H1.xlsx"))
pdata <- plm::pdata.frame(df, index = c("iso3", "year"))

model1 <- plm::plm(
 logFDI_in ~ Narrative_Intensity * Rule_Law + Gov_Effectiveness + Infra_Index,
 data = pdata, model = "within", effect = "twoways"
)
lmtest::coeftest(model1, vcov = plm::vcovSCC(model1, type = "HC0", maxlag = 2))

##
## t test of coefficients:
##
##        Estimate Std. Error t value  Pr(>|t|)
## Narrative_Intensity   0.65456 0.45219 1.4475  0.14847
## Rule_Law     - 0.58152 0.29012 - 2.0044  0.04565 *
## Gov_Effectiveness  0.98448 0.18578 5.2993 0.0000001858 ***
## Infra_Index   0.88448 0.16699 5.2967 0.0000001883 ***
## Narrative_Intensity:Rule_Law 0.91195 0.37980 2.4011  0.01677 *
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

model_H1 <- fixest::feols(
 logFDI_in ~ Narrative_Intensity + Narrative_Consistency + Rule_Law + Gov_Effectiveness | iso3 + year,
 data = df, vcov = "DK", panel.id = ~ iso3 + year
)
summary(model_H1)

## OLS estimation, Dep. Var.: logFDI_in
## Observations: 480
## Fixed- effects: iso3: 20, year: 24
## Standard- errors: Driscoll–Kraay (L=2)
##        Estimate Std. Error t value Pr(>|t|)
## Narrative_Intensity  1.135734 0.347429 3.26897 0.003372717 **
## Narrative_Consistency 1.527638 0.647045 2.36095 0.027078704 *
## Rule_Law    - 0.302812 0.249792 - 1.21226 0.237719133
## Gov_Effectiveness 1.066755 0.208738 5.11050 0.000035479 ***
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
## RMSE: 0.677446  Adj. R2: 0.76079
##     Within R2: 0.103776

model_H1_interact_inst <- fixest::feols(
 logFDI_in ~ Narrative_Intensity * Rule_Law + Narrative_Consistency + Gov_Effectiveness | iso3 + year,
 data = df, vcov = "DK", panel.id = ~ iso3 + year
)
summary(model_H1_interact_inst)

## OLS estimation, Dep. Var.: logFDI_in
## Observations: 480
## Fixed- effects: iso3: 20, year: 24
## Standard- errors: Driscoll–Kraay (L=2)
##        Estimate Std. Error t value Pr(>|t|)
## Narrative_Intensity   1.388480 0.435874 3.18551 0.004118773 **
## Rule_Law     - 0.614140 0.330251 - 1.85962 0.075778851 .
## Narrative_Consistency  1.612112 0.646530 2.49348 0.020283528 *
## Gov_Effectiveness  1.030336 0.184812 5.57504 0.000011335 ***
## Narrative_Intensity:Rule_Law 0.824702 0.398699 2.06848 0.050017793 .
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
## RMSE: 0.67198  Adj. R2: 0.764089
##     Within R2: 0.118178
```

```
model_H1_interact <- fixest::feols(
  logFDI_in ~ Narrative_Intensity * Rule_Law + Narrative_Consistency + Gov_Effectiveness | iso3 + year,
  data = df, vcov = "DK", panel.id = ~ iso3 + year
)

model_H1_twfe <- fixest::feols(
  logFDI_in ~ Narrative_Intensity * Rule_Law + Narrative_Consistency + Gov_Effectiveness | iso3 + year,
  data = df, vcov = "DK", panel.id = ~ iso3 + year, fixef.rm = "none"
)

model_H1_re <- plm::plm(
  logFDI_in ~ Narrative_Intensity * Rule_Law + Narrative_Consistency + Gov_Effectiveness,
  data = df, model = "random", index = c("iso3", "year")
)

model_H1_fe <- plm::plm(
  logFDI_in ~ Narrative_Intensity * Rule_Law + Narrative_Consistency + Gov_Effectiveness,
  data = df, model = "within", index = c("iso3", "year")
)

hausman <- plm::phtest(model_H1_fe, model_H1_re)

add_stars <- \(p) ifelse(p < .001, "^*", ifelse(p < .01, "^", ifelse(p < .05, "*", ifelse(p < .1, ".", " "
))))
extract_coefs <- function(model, label) {
  broom::tidy(model) |>
  dplyr::filter(term == "Narrative_Intensity:Rule_Law") |>
  dplyr::mutate(
    estimate = round(estimate, 4),
    std.error = round(std.error, 4),
    p.value = round(p.value, 4),
    stars = add_stars(p.value),
    model = label
  ) |>
  dplyr::select(model, term, estimate, std.error, statistic, p.value, stars)
}

res_tab <- dplyr::bind_rows(
  extract_coefs(model_H1_interact, "FE (DK)"),
  extract_coefs(model_H1_twfe, "Two-Way FE (DK)"),
  extract_coefs(model_H1_re, "Random Effects")
)

res_tab

## # A tibble: 3 × 7
## model       term     estimate std.error statistic p.value stars
## <chr>       <chr>     <dbl>   <dbl>    <dbl>   <dbl> <chr>
## 1 FE (DK)    Narrative_Intensity… 0.825  0.399   2.07 0.05  .
## 2 Two-Way FE (DK) Narrative_Intensity… 0.825  0.399   2.07 0.05  .
## 3 Random Effects Narrative_Intensity… 0.675  0.331   2.04 0.0418 *

hausman

##
## Hausman Test
##
## data: logFDI_in ~ Narrative_Intensity * Rule_Law + Narrative_Consistency + Gov_Effectiveness
## chisq = 10.102, df = 5, p- value = 0.07239
## alternative hypothesis: one model is inconsistent
```

H1 , Predicted Values & Plot

```
df <- readxl::read_excel(file.path(DATA_DIR, "H1.xlsx"))
model_H1 <- fixest::feols(
 logFDI_in ~ Narrative_Intensity * Rule_Law + Narrative_Consistency + Gov_Effectiveness | iso3 + year,
 data = df, vcov = "DK", panel.id = ~ iso3 + year
)

signal_seq <- seq(min(df$Narrative_Intensity, na.rm = TRUE), max(df$Narrative_Intensity, na.rm = TRUE), le
ngth.out = 100)
rule_levels <- quantile(df$Rule_Law, probs = c(0.25, 0.5, 0.75), na.rm = TRUE)

grid_df <- expand.grid(Narrative_Intensity = signal_seq, Rule_Law = rule_levels)
grid_df$Narrative_Consistency <- mean(df$Narrative_Consistency, na.rm = TRUE)
grid_df$Gov_Effectiveness <- mean(df$Gov_Effectiveness, na.rm = TRUE)
grid_df$iso3 <- df$iso3[1]; grid_df$year <- df$year[1]
grid_df$predicted_logFDI_in <- predict(model_H1, newdata = grid_df)
grid_df$Rule_Law_Label <- factor(round(grid_df$Rule_Law, 2))

ggplot2::ggplot(grid_df, ggplot2::aes(x = Narrative_Intensity, y = predicted_logFDI, color = Rule_Law_Labe
l)) +
 ggplot2::geom_line(linewidth = 1.2) +
 ggplot2::labs(title = "Marginal Effect of Strategic Signals by Rule of Law",
  x = "Strategic Signaling Index", y = "Predicted log(FDI Inflows)", color = "Rule of Law Level") +
 ggplot2::theme_minimal(base_size = 14)
```

Marginal Effect of Strategic Signals by Rule of Law
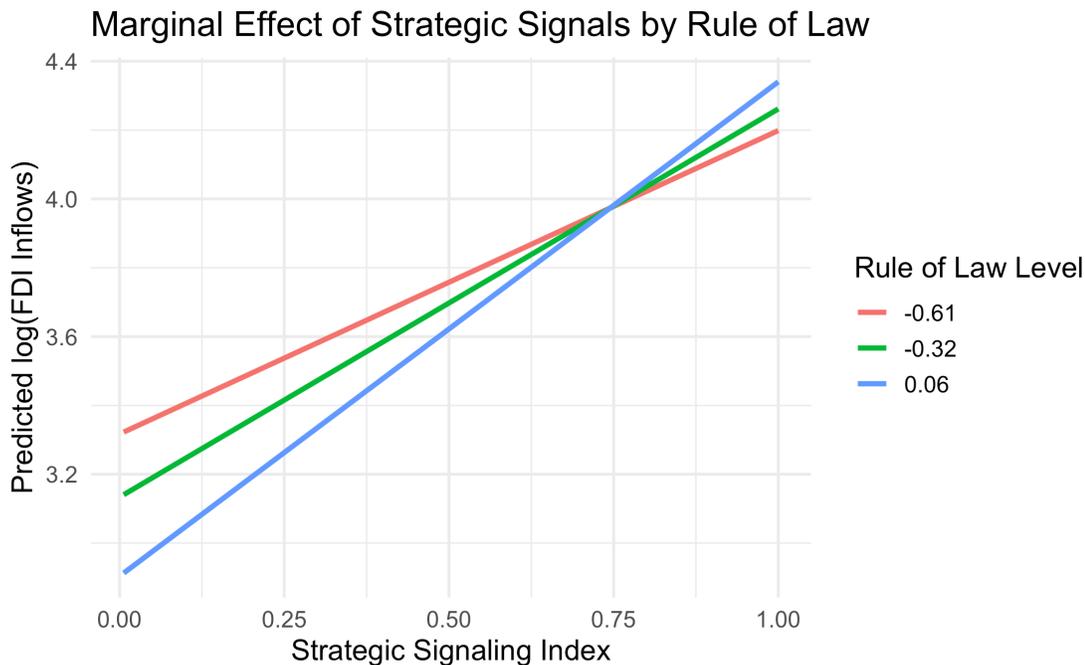
Marginal Effect of Strategic Signals by Rule of Law

Hypothesis 2 , Institutional Memory (Rule_Law moving averages)

```
df <- readxl::read_excel(file.path(DATA_DIR, "H3.xlsx")) |>
 dplyr::mutate(
 logFDI_in = as.numeric(logFDI_in),
 Rule_Law_MA3 = as.numeric(Rule_Law_MA3),
 Rule_Law_MA5 = as.numeric(Rule_Law_MA5),
 Gov_Effectiveness = as.numeric(Gov_Effectiveness),
 GDPpc = as.numeric(GDPpc),
 Infra_Index = as.numeric(Infra_Index),
 Trade_Open = as.numeric(Trade_Open),
```

```
  Political_Stability = as.numeric(Political_Stability),
  India_Dummy = as.numeric(India_Dummy),
  year = as.numeric(year),
  country = as.factor(country)
  ) |>
  dplyr::filter(!is.na(logFDI_in), !is.na(Rule_Law_MA3), !is.na(country), !is.na(year))

pdata <- plm::pdata.frame(df, index = c("country", "year"))

model1 <- plm::plm(
 logFDI_in ~ Rule_Law_MA5 + Gov_Effectiveness + GDPpc + Infra_Index + Trade_Open + Political_Stability + I
ndia_Dummy,
 data = pdata, model = "within"
)
cat("\n- - - - MODELLO 1 - - - - \n")

## 
## - - - - MODELLO 1 - - - -

print(lmtest::coeftest(model1, vcov = plm::vcovSCC(model1, type = "HC1", maxlag = 3)))

## 
## t test of coefficients:
## 
##              Estimate Std. Error t value  Pr(>|t|)
## Rule_Law_MA5     - 1.8675235 0.7521759 - 2.4828  0.013746 *
## Gov_Effectiveness 0.2235866 0.1548243 1.4441   0.150057
## GDPpc      - 0.0274663 0.2601747 - 0.1056   0.916016
## Infra_Index    0.0096479 0.6493071 0.0149   0.988158
## Trade_Open     0.8910989 0.1492049 5.9723 0.000000008762 ***
## Political_Stability 0.6316862 0.1977350 3.1946   0.001595 **
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

df$Rule_LawMemory_India <- df$Rule_Law_MA3 * df$India_Dummy
pdata <- plm::pdata.frame(df, index = c("country", "year"))
model2 <- plm::plm(
 logFDI_in ~ Rule_Law_MA3 + Rule_LawMemory_India + Gov_Effectiveness + GDPpc + Infra_Index + Trade_Open +
Political_Stability,
 data = pdata, model = "within"
)
cat("\n- - - - MODELLO 2 - - - - \n")

## 
## - - - - MODELLO 2 - - - -

print(lmtest::coeftest(model2, vcov = plm::vcovSCC(model2, type = "HC1", maxlag = 3)))

## 
## t test of coefficients:
## 
##              Estimate Std. Error t value Pr(>|t|)
## Rule_Law_MA3     - 2.283187 0.844008 - 2.7052 0.007263 **
## Rule_LawMemory_India 7.366877 2.257696 3.2630 0.001245 **
## Gov_Effectiveness 0.711851 0.332070 2.1437 0.032955 *
## GDPpc      0.066336 0.255634 0.2595 0.795452
## Infra_Index    0.782599 0.973956 0.8035 0.422380
## Trade_Open     0.913362 0.206057 4.4326 0.00001357 ***
## Political_Stability 0.394482 0.298372 1.3221 0.187253
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

spline_basis <- as.data.frame(splines::ns(df$Rule_Law_MA3, df = 3))
colnames(spline_basis) <- c("S1", "S2", "S3")
```

```
df_spline <- dplyr::bind_cols(df, spline_basis)
pdata_spline <- plm::pdata.frame(df_spline, index = c("country", "year"))
model3 <- plm::plm(
 logFDI_in ~ S1 + S2 + S3 + Gov_Effectiveness + GDPpc + Infra_Index + Trade_Open + Political_Stability,
 data = pdata_spline, model = "within"
)
cat("\n- - - - MODELLO 3: Splines - - - - \n")

##
## - - - - MODELLO 3: Splines - - - -

print(lmtest::coeftest(model3, vcov = plm::vcovSCC(model3, type = "HC1", maxlag = 3)))

##
## t test of coefficients:
##
##          Estimate Std. Error t value     Pr(>|t|)
## S1       - 1.56597 0.79181 - 1.9777     0.0489847
## S2       - 14.27330 1.22555 - 11.6464 < 0.00000000000000022
## S3       3.24693 2.43898 1.3313      0.1842333
## Gov_Effectiveness  0.10900 0.21074 0.5172     0.6054227
## GDPpc       0.70822 0.33732 2.0995      0.0367067
## Infra_Index    2.53276 0.68336 3.7063      0.0002555
## Trade_Open    0.23789 0.23945 0.9935      0.3213715
## Political_Stability 0.52384 0.28043 1.8680      0.0628563
##
## S1       *
## S2       ***
## S3
## Gov_Effectiveness
## GDPpc       *
## Infra_Index    ***
## Trade_Open
## Political_Stability .
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
```

H2 , Non-linear Effect Plot

```
b1 <- coef(model3)["S1"]; b2 <- coef(model3)["S2"]; b3 <- coef(model3)["S3"]
df_plot <- df_spline |>
 dplyr::mutate(effect = b1 * S1 + b2 * S2 + b3 * S3)

ggplot2::ggplot(df_plot, ggplot2::aes(x = Rule_Law_MA3, y = effect)) +
 ggplot2::geom_line(linewidth = 1.2) +
 ggplot2::geom_hline(yintercept = 0, linetype = "dashed") +
 ggplot2::labs(title = "Estimated Non-linear Effect of Institutional Memory (Rule_Law_MA3)",
  x = "3- year moving average of Rule of Law", y = "Estimated marginal effect on log(FDI)") +
 ggplot2::theme_minimal(base_size = 13)
```

Estimated Non-linear Effect of Institutional Memory (Rule_Law_mean3)

Estimated Non-linear Effect of Institutional Memory (Rule_Law_MA3)

Hypothesis 3 , (Same structure as H2; alternative specs)

```r
df <- readxl::read_excel(file.path(DATA_DIR, "H3.xlsx")) |>
 dplyr::mutate(
 logFDI_in = as.numeric(logFDI_in),
 Rule_Law_MA3 = as.numeric(Rule_Law_MA3),
 Rule_Law_MA5 = as.numeric(Rule_Law_MA5),
 Gov_Effectiveness = as.numeric(Gov_Effectiveness),
 GDPpc = as.numeric(GDPpc),
 Infra_Index = as.numeric(Infra_Index),
 Trade_Open = as.numeric(Trade_Open),
 Political_Stability = as.numeric(Political_Stability),
 India_Dummy = as.numeric(India_Dummy),
 year = as.numeric(year),
 country = as.factor(country)
 ) |>
 dplyr::filter(!is.na(logFDI_in), !is.na(Rule_Law_MA3), !is.na(country), !is.na(year))

pdata <- plm::pdata.frame(df, index = c("country", "year"))

model1 <- plm::plm(
 logFDI_in ~ Rule_Law_MA5 + Gov_Effectiveness + GDPpc + Infra_Index + Trade_Open + Political_Stability + I
ndia_Dummy,
 data = pdata, model = "within"
)
cat("\n- - - - MODELLO 1 - - - - - \n")

##
## - - - - - MODELLO 1 - - - -

print(lmtest::coeftest(model1, vcov = plm::vcovSCC(model1, type = "HC1", maxlag = 3)))

##
## t test of coefficients:
##
```

```
##      Estimate Std. Error t value  Pr(>|t|)
## Rule_Law_MA5   - 1.8675235 0.7521759 - 2.4828  0.013746 *
## Gov_Effectiveness 0.2235866 0.1548243 1.4441  0.150057
## GDPpc     - 0.0274663 0.2601747 - 0.1056  0.916016
## Infra_Index    0.0096479 0.6493071 0.0149  0.988158
## Trade_Open    0.8910989 0.1492049 5.9723 0.000000008762 ***
## Political_Stability 0.6316862 0.1977350 3.1946  0.001595 **
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

df$Rule_LawMemory_India <- df$Rule_Law_MA3 * df$India_Dummy
pdata <- plm::pdata.frame(df, index = c("country", "year"))
model2 <- plm::plm(
 logFDI_in ~ Rule_Law_MA3 + Rule_LawMemory_India + Gov_Effectiveness + GDPpc + Infra_Index + Trade_Open +
Political_Stability,
 data = pdata, model = "within"
)
cat("\n- - - - MODELLO 2 - - - - \n")

##
## - - - - MODELLO 2 - - - -

print(lmtest::coeftest(model2, vcov = plm::vcovSCC(model2, type = "HC1", maxlag = 3)))

##
## t test of coefficients:
##
##      Estimate Std. Error t value Pr(>|t|)
## Rule_Law_MA3   - 2.283187 0.844008 - 2.7052 0.007263 **
## Rule_LawMemory_India 7.366877 2.257696 3.2630 0.001245 **
## Gov_Effectiveness 0.711851 0.332070 2.1437 0.032955 *
## GDPpc     0.066336 0.255634 0.2595 0.795452
## Infra_Index    0.782599 0.973956 0.8035 0.422380
## Trade_Open    0.913362 0.206057 4.4326 0.00001357 ***
## Political_Stability 0.394482 0.298372 1.3221 0.187253
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

spline_basis <- as.data.frame(splines::ns(df$Rule_Law_MA3, df = 3))
colnames(spline_basis) <- c("S1", "S2", "S3")
df_spline <- dplyr::bind_cols(df, spline_basis)
pdata_spline <- plm::pdata.frame(df_spline, index = c("country", "year"))
model3 <- plm::plm(
 logFDI_in ~ S1 + S2 + S3 + Gov_Effectiveness + GDPpc + Infra_Index + Trade_Open + Political_Stability,
 data = pdata_spline, model = "within"
)
cat("\n- - - - MODELLO 3: Splines - - - - \n")

##
## - - - - MODELLO 3: Splines - - - -

print(lmtest::coeftest(model3, vcov = plm::vcovSCC(model3, type = "HC1", maxlag = 3)))

##
## t test of coefficients:
##
##      Estimate Std. Error t value    Pr(>|t|)
## S1     - 1.56597 0.79181 - 1.9777    0.0489847
## S2     - 14.27330 1.22555 - 11.6464 < 0.00000000000000022
## S3     3.24693 2.43898 1.3313    0.1842333
## Gov_Effectiveness  0.10900 0.21074 0.5172    0.6054227
## GDPpc     0.70822 0.33732 2.0995    0.0367067
## Infra_Index    2.53276 0.68336 3.7063    0.0002555
## Trade_Open    0.23789 0.23945 0.9935    0.3213715
```

```
## Political_Stability 0.52384 0.28043 1.8680    0.0628563
##
## S1      *
## S2      ***
## S3
## Gov_Effectiveness
## GDPpc     *
## Infra_Index    ***
## Trade_Open
## Political_Stability .
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
```

Hypothesis 4 , Rule of Law × Democracy (and India memory)

```r
df <- readxl::read_excel(file.path(DATA_DIR, "H2.xlsx")) |>
 dplyr::mutate(
 logFDI_in = as.numeric(logFDI_in),
 Rule_Law = as.numeric(Rule_Law),
 Democracy_Index = as.numeric(Democracy_Index),
 Democracy_Dummy = as.numeric(Democracy_Dummy),
 Autocracy_Dummy = as.numeric(Autocracy_Dummy),
 Gov_Effectiveness = as.numeric(Gov_Effectiveness),
 India_Dummy = as.numeric(India_Dummy),
 Rule_Law_z = scale(Rule_Law)[,1],
 Democracy_z = scale(Democracy_Index)[,1],
 Interaction_z = Rule_Law_z * Democracy_z,
 Rule_Law_MA3 = zoo::rollmean(Rule_Law, 3, fill = NA, align = "right"),
 Rule_LawMemory_India = Rule_Law_MA3 * India_Dummy,
 iso3 = as.factor(iso3),
 year = as.numeric(year)
 ) |>
 dplyr::filter(!is.na(logFDI_in), !is.na(Rule_Law), !is.na(Democracy_Index))

pdata <- plm::pdata.frame(df, index = c("iso3", "year"))

model_twfe <- fixest::feols(
 logFDI_in ~ Rule_Law_z + Democracy_z + Interaction_z | iso3 + year,
 data = df, panel.id = ~iso3 + year, vcov = "DK"
)
model_dummies <- fixest::feols(
 logFDI_in ~ Democracy_Dummy * Rule_Law + Autocracy_Dummy * Rule_Law + Gov_Effectiveness | iso3 + year,
 data = df, panel.id = ~iso3 + year, vcov = "DK"
)
model_india <- fixest::feols(
 logFDI_in ~ Rule_Law_MA3 + Rule_LawMemory_India + Gov_Effectiveness | iso3 + year,
 data = df, panel.id = ~iso3 + year, vcov = "DK"
)

spline_basis <- as.data.frame(splines::ns(df$Rule_Law_MA3, df = 3))
colnames(spline_basis) <- c("S1", "S2", "S3")
df_spline <- dplyr::bind_cols(df, spline_basis)
model_spline <- fixest::feols(
 logFDI_in ~ S1 + S2 + S3 + Democracy_Index + Gov_Effectiveness | iso3 + year,
 data = df_spline, panel.id = ~iso3 + year, vcov = "DK"
)

list(model_twfe = model_twfe, model_dummies = model_dummies, model_india = model_india, model_spline = model_spline)

## $model_twfe
## OLS estimation, Dep. Var.: logFDI_in
```

```
## Observations: 473
## Fixed- effects: iso3: 20, year: 24
## Standard- errors: Driscoll-Kraay (L=2)
##     Estimate Std. Error t value Pr(>|t|)
## Rule_Law_z  0.376300 0.124367 3.02573 0.0060153 **
## Democracy_z - 0.199897 0.144851 - 1.38002 0.1808487
## Interaction_z - 0.273273 0.097865 - 2.79236 0.0103501 *
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
## RMSE: 0.701441  Adj. R2: 0.746422
##     Within R2: 0.040181
##
## $model_dummies
## OLS estimation, Dep. Var.: logFDI_in
## Observations: 454
## Fixed- effects: iso3: 20, year: 23
## Standard- errors: Driscoll-Kraay (L=2)
##       Estimate Std. Error t value Pr(>|t|)
## Democracy_Dummy   0.116732 0.160611 0.726804 0.47500933
## Rule_Law     - 0.595910 0.272650 - 2.185618 0.03977505 *
## Autocracy_Dummy   0.044490 0.160033 0.278004 0.78360525
## Gov_Effectiveness 0.889078 0.204949 4.338046 0.00026421 ***
## Democracy_Dummy:Rule_Law 0.601347 0.318857 1.885948 0.07257434 .
## Rule_Law:Autocracy_Dummy 0.859768 0.335733 2.560869 0.01782145 *
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
## RMSE: 0.652739  Adj. R2: 0.770092
##     Within R2: 0.103324
##
## $model_india
## OLS estimation, Dep. Var.: logFDI_in
## Observations: 453
## Fixed- effects: iso3: 20, year: 23
## Standard- errors: Driscoll-Kraay (L=2)
##       Estimate Std. Error t value Pr(>|t|)
## Rule_Law_MA3   - 0.027623 0.253559 - 0.108943 0.91423550
## Rule_LawMemory_India  0.582981 0.575467 1.013057 0.32204559
## Gov_Effectiveness 0.908400 0.202637 4.482892 0.00018546 ***
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
## RMSE: 0.66694  Adj. R2: 0.761012
##     Within R2: 0.061823
##
## $model_spline
## OLS estimation, Dep. Var.: logFDI_in
## Observations: 453
## Fixed- effects: iso3: 20, year: 23
## Standard- errors: Driscoll-Kraay (L=2)
##       Estimate Std. Error t value Pr(>|t|)
## S1     0.383943 0.383856 1.000228 0.3280756
## S2     - 2.516304 0.830594 - 3.029525 0.0061579 **
## S3     - 0.017067 0.353454 - 0.048287 0.9619234
## Democracy_Index   - 0.856812 0.457646 - 1.872215 0.0745303 .
## Gov_Effectiveness 0.673768 0.206111 3.268958 0.0035111 **
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
## RMSE: 0.648746  Adj. R2: 0.772759
##     Within R2: 0.112312
```

H4 , Plots

```
model_inter <- lm(logFDI_in ~ Rule_Law_z * Democracy_z, data = df)
interactions::interact_plot(
 model_inter, pred = Rule_Law_z, modx = Democracy_z, interval = TRUE,
```

```
main.title = "Marginal Effect of Rule of Law by Democracy Level",
x.label = "Rule of Law (standardized)", y.label = "Predicted log(FDI inflows)"
)
```

Marginal Effect of Rule of Law by Democracy Level
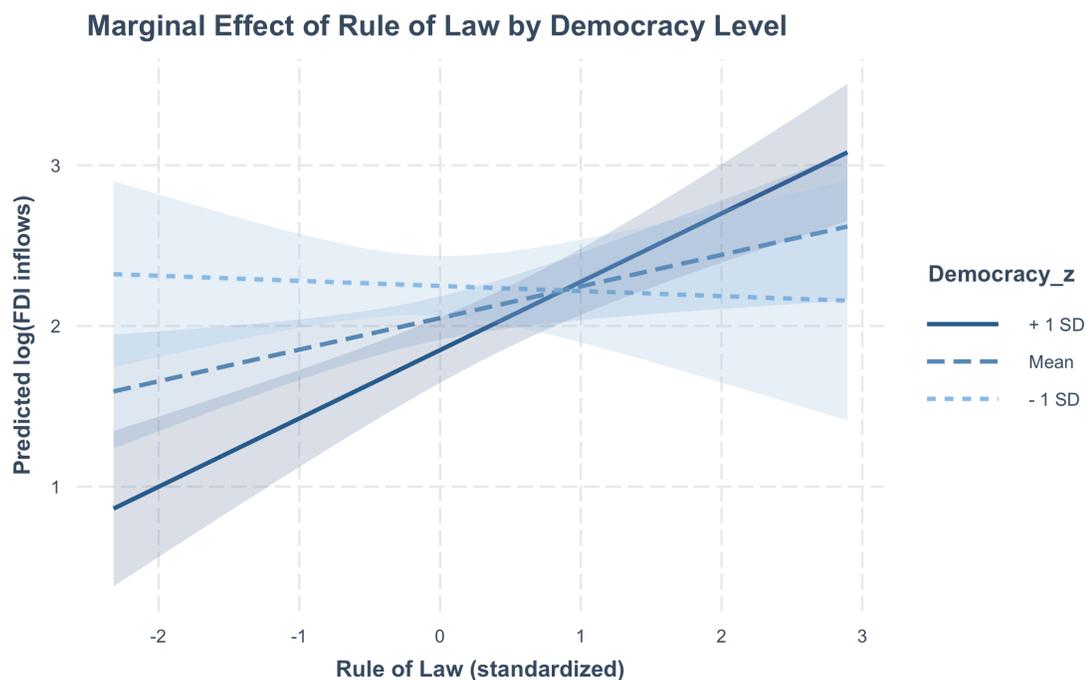

```
b1 <- coef(model_spline)["S1"]; b2 <- coef(model_spline)["S2"]; b3 <- coef(model_spline)["S3"]
df_plot <- df_spline |>
 dplyr::mutate(effect = b1*S1 + b2*S2 + b3*S3)

ggplot2::ggplot(df_plot, ggplot2::aes(x = Rule_Law_MA3, y = effect)) +
 ggplot2::geom_line(linewidth = 1.2) +
 ggplot2::geom_hline(yintercept = 0, linetype = "dashed") +
 ggplot2::labs(title = "Non-linear Effect of Institutional Reputation (Rule_Law_MA3)",
  x = "Rule of Law (3- year moving average)",
  y = "Estimated Marginal Effect on log(FDI)") +
 ggplot2::theme_minimal()
```

Non-linear Effect of Institutional Reputation (Rule_Law_mean3)
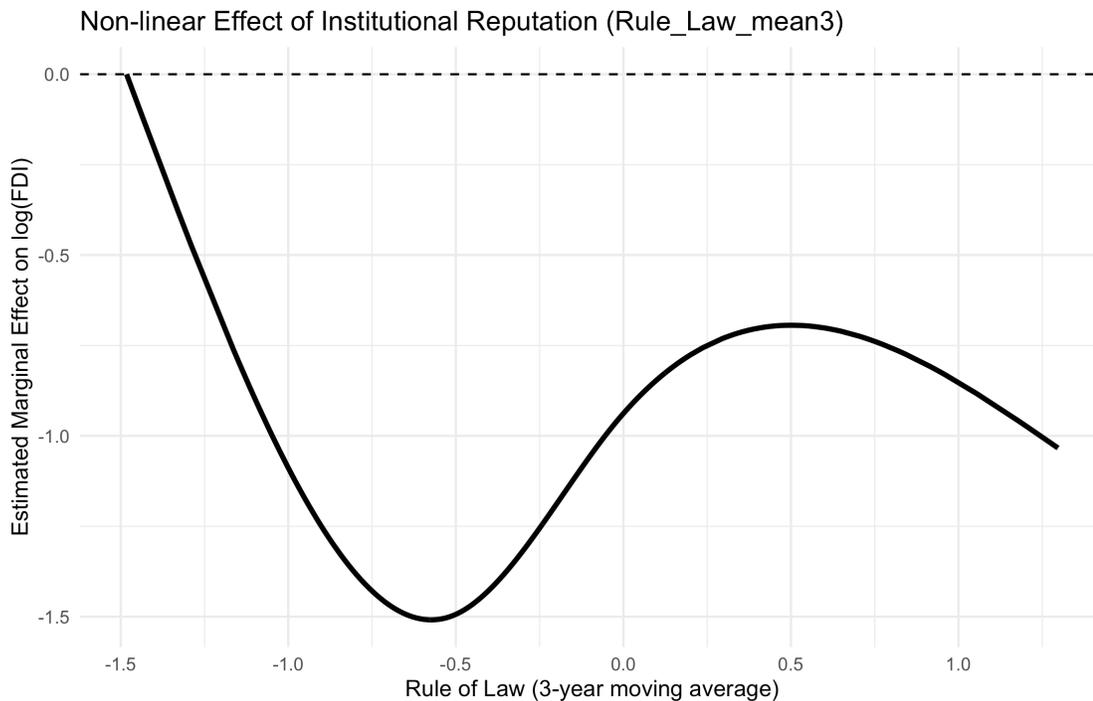
Hypothesis 5 , Epistemic Clarity × Veto Complexity (with spline)

```r
df <- readxl::read_excel(file.path(DATA_DIR, "database definitivo.xlsx"), sheet = "Sheet2", skip = 1) |>
 dplyr::mutate(
 logFDI_in = as.numeric(logFDI_in),
 Epistemic_Clarity = as.numeric(Epistemic_Clarity),
 Veto_Complexity = as.numeric(PolRights_inverted),
 GDPpc = as.numeric(GDPpc),
 Trade_Open = as.numeric(Trade_Open),
 Gov_Effectiveness = as.numeric(`Government Effectiveness`),
 iso3 = as.factor(iso3),
 year = as.numeric(year)
 ) |>
 dplyr::filter(
 !is.na(logFDI_in), !is.na(Epistemic_Clarity), !is.na(Veto_Complexity),
 !is.na(GDPpc), !is.na(Trade_Open), !is.na(Gov_Effectiveness)
 )

model_lm <- lm(
 logFDI_in ~ Epistemic_Clarity * Veto_Complexity + GDPpc + Trade_Open + Gov_Effectiveness,
 data = df
)
summary(model_lm)

##
## Call:
## lm(formula = logFDI_in ~ Epistemic_Clarity * Veto_Complexity +
##   GDPpc + Trade_Open + Gov_Effectiveness, data = df)
##
## Residuals:
##   Min   1Q Median   3Q   Max
## - 4.2447 - 0.7322 - 0.0411 0.9606 2.8242
##
## Coefficients:
##          Estimate Std. Error t value
```

```
## (Intercept)           2.68801 1.09441 2.456
## Epistemic_Clarity      - 1.26550 0.79597 - 1.590
## Veto_Complexity        - 0.05785 0.12369 - 0.468
## GDPpc            0.01351 0.09033 0.150
## Trade_Open          - 1.06045 0.21513 - 4.929
## Gov_Effectiveness      1.24007 0.19898 6.232
## Epistemic_Clarity:Veto_Complexity 0.23980 0.11573 2.072
##           Pr(>|t|)
## (Intercept)          0.0144 *
## Epistemic_Clarity       0.1126
## Veto_Complexity        0.6402
## GDPpc          0.8812
## Trade_Open        0.00000116842 ***
## Gov_Effectiveness      0.0000000107 ***
## Epistemic_Clarity:Veto_Complexity  0.0388 *
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
##
## Residual standard error: 1.316 on 443 degrees of freedom
## Multiple R- squared: 0.1819, Adjusted R- squared: 0.1708
## F- statistic: 16.42 on 6 and 443 DF, p- value: < 0.00000000000000022
```

```
interactions::interact_plot(
 model_lm,
 pred = "Epistemic_Clarity",
 modx = "Veto_Complexity",
 modx.values = quantile(df$Veto_Complexity, probs = c(0.25, 0.5, 0.75), na.rm = TRUE),
 plot.points = TRUE, interval = TRUE,
 main.title = "Marginal Effect of Epistemic Clarity by Veto Complexity",
 x.label = "Epistemic Clarity (Epistemic_Clarity)",
 y.label = "Predicted log(FDI_in)"
)
```


Marginal Effect of Epistemic Clarity by Veto Complexity
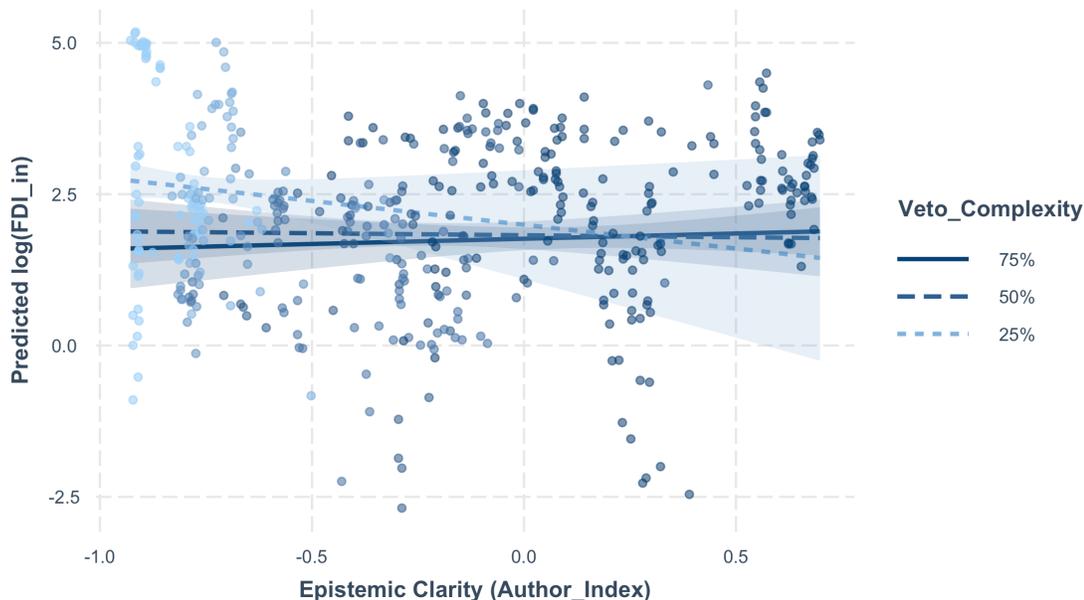
```
model_spline <- fixest::feols(
 logFDI_in ~ splines::bs(Epistemic_Clarity, degree = 3, df = 4) * Veto_Complexity +
 GDPpc + Trade_Open + Gov_Effectiveness | iso3 + year,
 data = df, cluster = "iso3"
)
summary(model_spline)
```

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```
## OLS estimation, Dep. Var.: logFDI_in
## Observations: 450
## Fixed- effects: iso3: 20, year: 23
## Standard- errors: Clustered (iso3)
##                      Estimate
## splines::bs(Epistemic_Clarity, degree = 3, df = 4)1     4.548121
## splines::bs(Epistemic_Clarity, degree = 3, df = 4)2     1.744281
## splines::bs(Epistemic_Clarity, degree = 3, df = 4)3     6.532702
## splines::bs(Epistemic_Clarity, degree = 3, df = 4)4    - 1.473269
## Veto_Complexity                  0.494150
## GDPpc                 1.338109
## Trade_Open               - 0.553016
## Gov_Effectiveness           0.607847
## splines::bs(Epistemic_Clarity, degree = 3, df = 4):Veto_Complexity1 - 0.838263
## splines::bs(Epistemic_Clarity, degree = 3, df = 4):Veto_Complexity2 - 0.320955
## splines::bs(Epistemic_Clarity, degree = 3, df = 4):Veto_Complexity3 - 1.145654
## splines::bs(Epistemic_Clarity, degree = 3, df = 4):Veto_Complexity4 - 0.015557
##                      Std. Error
## splines::bs(Epistemic_Clarity, degree = 3, df = 4)1     1.674061
## splines::bs(Epistemic_Clarity, degree = 3, df = 4)2     2.775367
## splines::bs(Epistemic_Clarity, degree = 3, df = 4)3     2.501998
## splines::bs(Epistemic_Clarity, degree = 3, df = 4)4     4.642093
## Veto_Complexity                  0.377919
## GDPpc                 0.777719
## Trade_Open               0.306714
## Gov_Effectiveness           0.392373
## splines::bs(Epistemic_Clarity, degree = 3, df = 4):Veto_Complexity1 0.543947
## splines::bs(Epistemic_Clarity, degree = 3, df = 4):Veto_Complexity2 0.680846
## splines::bs(Epistemic_Clarity, degree = 3, df = 4):Veto_Complexity3 0.473066
## splines::bs(Epistemic_Clarity, degree = 3, df = 4):Veto_Complexity4 0.760352
##                      t value
## splines::bs(Epistemic_Clarity, degree = 3, df = 4)1     2.716819
## splines::bs(Epistemic_Clarity, degree = 3, df = 4)2     0.628487
## splines::bs(Epistemic_Clarity, degree = 3, df = 4)3     2.610995
## splines::bs(Epistemic_Clarity, degree = 3, df = 4)4    - 0.317372
## Veto_Complexity                  1.307556
## GDPpc                 1.720555
## Trade_Open               - 1.803033
## Gov_Effectiveness           1.549157
## splines::bs(Epistemic_Clarity, degree = 3, df = 4):Veto_Complexity1 - 1.541074
## splines::bs(Epistemic_Clarity, degree = 3, df = 4):Veto_Complexity2 - 0.471406
## splines::bs(Epistemic_Clarity, degree = 3, df = 4):Veto_Complexity3 - 2.421765
## splines::bs(Epistemic_Clarity, degree = 3, df = 4):Veto_Complexity4 - 0.020460
##                      Pr(>|t|)
## splines::bs(Epistemic_Clarity, degree = 3, df = 4)1     0.013683
## splines::bs(Epistemic_Clarity, degree = 3, df = 4)2     0.537168
## splines::bs(Epistemic_Clarity, degree = 3, df = 4)3     0.017177
## splines::bs(Epistemic_Clarity, degree = 3, df = 4)4     0.754423
## Veto_Complexity                  0.206626
## GDPpc                 0.101577
## Trade_Open               0.087267
## Gov_Effectiveness           0.137840
## splines::bs(Epistemic_Clarity, degree = 3, df = 4):Veto_Complexity1 0.139789
## splines::bs(Epistemic_Clarity, degree = 3, df = 4):Veto_Complexity2 0.642719
## splines::bs(Epistemic_Clarity, degree = 3, df = 4):Veto_Complexity3 0.025617
## splines::bs(Epistemic_Clarity, degree = 3, df = 4):Veto_Complexity4 0.983890
##
## splines::bs(Epistemic_Clarity, degree = 3, df = 4)1     *
## splines::bs(Epistemic_Clarity, degree = 3, df = 4)2
## splines::bs(Epistemic_Clarity, degree = 3, df = 4)3     *
## splines::bs(Epistemic_Clarity, degree = 3, df = 4)4
## Veto_Complexity
## GDPpc
## Trade_Open                 .
```

```
## Gov_Effectiveness
## splines::bs(Epistemic_Clarity, degree = 3, df = 4):Veto_Complexity1
## splines::bs(Epistemic_Clarity, degree = 3, df = 4):Veto_Complexity2
## splines::bs(Epistemic_Clarity, degree = 3, df = 4):Veto_Complexity3 *
## splines::bs(Epistemic_Clarity, degree = 3, df = 4):Veto_Complexity4
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
## RMSE: 0.631195  Adj. R2: 0.783176
##     Within R2: 0.151406

fixest::etable(model_spline, se = "cluster", dict = c(
 "GDPpc" = "GDP per capita", "Trade_Open" = "Trade Openness", "Gov_Effectiveness" = "Government Effectiven
ess"
))

##                   model_spline
## Dependent Var.:            logFDI_in
##
## splines = bs(Epistemic_Clarity,degree=3,df=4)1    4.548* (1.674)
## splines = bs(Epistemic_Clarity,degree=3,df=4)2    1.744 (2.775)
## splines = bs(Epistemic_Clarity,degree=3,df=4)3    6.533* (2.502)
## splines = bs(Epistemic_Clarity,degree=3,df=4)4     - 1.473 (4.642)
## Veto_Complexity              0.4941 (0.3779)
## GDP per capita               1.338 (0.7777)
## Trade Openness             - 0.5530. (0.3067)
## Government Effectiveness        0.6078 (0.3924)
## Veto_Complexity1 x splines = bs(Epistemic_Clarity,degree=3,df=4) - 0.8383 (0.5439)
## Veto_Complexity2 x splines = bs(Epistemic_Clarity,degree=3,df=4) - 0.3210 (0.6808)
## Veto_Complexity3 x splines = bs(Epistemic_Clarity,degree=3,df=4) - 1.146* (0.4731)
## Veto_Complexity4 x splines = bs(Epistemic_Clarity,degree=3,df=4) - 0.0156 (0.7604)
## Fixed- Effects:          - - - - - - - - - - - - - - - - - -
## iso3                      Yes
## year                      Yes
## _____    _____
## S.E.: Clustered               by: iso3
## Observations              450
## R2                  0.80877
## Within R2             0.15141
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

df_pred <- df |>
 dplyr::mutate(predicted = predict(model_spline, newdata = df))

ggplot2::ggplot(df_pred, ggplot2::aes(x = Epistemic_Clarity, y = predicted, color = factor(round(Veto_Comp
lexity, 1)))) +
 ggplot2::geom_point(alpha = 0.4) +
 ggplot2::geom_smooth(method = "loess", formula = y ~ x, se = FALSE) +
 ggplot2::labs(
 title = "Non-linear Effect of Epistemic Clarity on log(FDI_in)",
 x = "Epistemic Clarity", y = "Predicted log(FDI_in)",
 color = "Veto Complexity (rounded)"
 ) +
 ggplot2::theme_minimal()
```

Non-linear Effect of Epistemic Clarity on log(FDI_in)
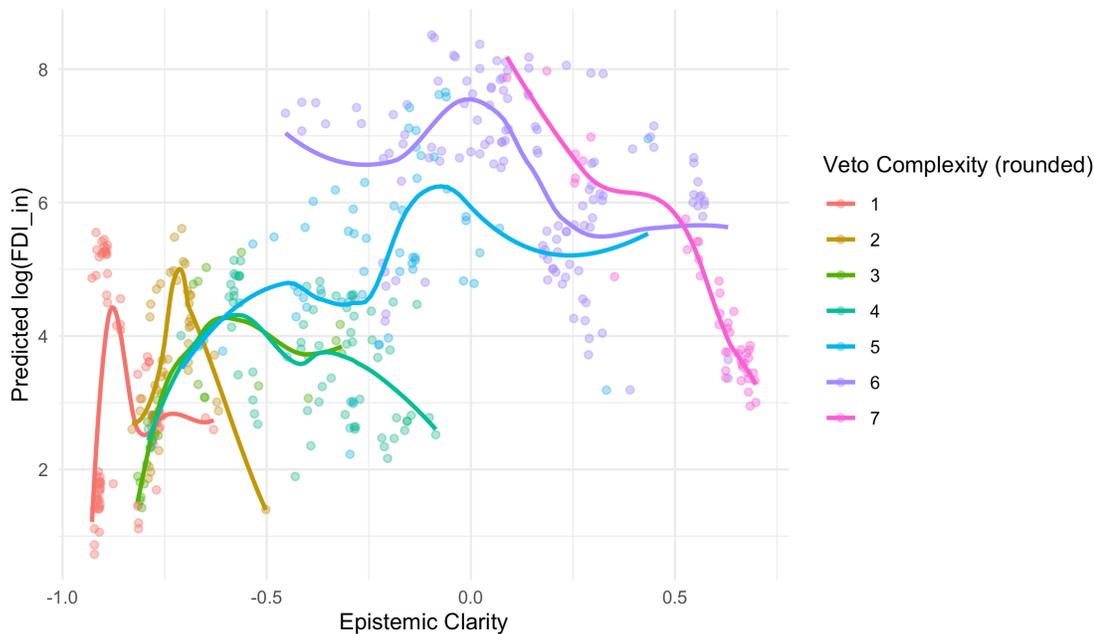
Hypothesis 6 , Narrative × Credibility × Time (+ Dynamic GMM checks)

```r
DATA_FILE <- file.path(DATA_DIR, "H10_narrative_aggregated.xlsx")
df_raw <- readxl::read_excel(DATA_FILE)

if (!"country" %in% names(df_raw) && "iso3" %in% names(df_raw)) {
 df_raw <- dplyr::rename(df_raw, country = iso3)
}
stopifnot(all(c("country","year") %in% names(df_raw)))

need <- c("country","year","logFDI_in","Narrative_Intensity","Narrative_Decay_Index",
   "Trade_Open","GDPpc","Democracy_Index")
have <- intersect(need, names(df_raw))
numify <- function(x) suppressWarnings(as.numeric(x))

df <- df_raw[, have, drop = FALSE] |>
 dplyr::mutate(
 country    = as.factor(country),
 year     = as.numeric(year),
 logFDI_in   = numify(logFDI_in),
 Narrative_Intensity = numify(Narrative_Intensity),
 Trade_Open   = numify(Trade_Open),
 GDPpc     = numify(GDPpc),
 Democracy_Index  = numify(Democracy_Index)
 )

if (!"Narrative_Decay_Index" %in% names(df)) df$Narrative_Decay_Index <- NA_real_
df$Narrative_Decay_Index <- numify(df$Narrative_Decay_Index)

df <- df |>
 dplyr::filter(
 !is.na(country), !is.na(year),
 !is.na(logFDI_in), !is.na(Narrative_Intensity),
 !is.na(Trade_Open), !is.na(GDPpc), !is.na(Democracy_Index)
 )
```

```
pdata <- plm::pdata.frame(df, index = c("country","year"))

vcov_DK <- function(mod, maxlag = 3) plm::vcovSCC(mod, type = "HC1", maxlag = maxlag)
.get_cluster <- function(mod) plm::index(mod)[[1]]
vcov_CR2 <- function(mod) clubSandwich::vcovCR(mod, cluster = .get_cluster(mod), type = "CR2")

print_block <- function(title) cat("\n", strrep("=", nchar(title)+2), "\n ", title, "\n",
        strrep("=", nchar(title)+2), "\n", sep = "")
show_table <- function(mod, vc, title) {
 print_block(title); ct <- lmtest::coeftest(mod, vcov = vc); printCoefmat(ct, digits = 4, signif.stars = T
RUE)
}

M1 <- plm::plm(logFDI_in ~ Narrative_Intensity + Trade_Open + GDPpc + Democracy_Index,
    data = pdata, model = "within")
show_table(M1, vcov_DK(M1), "M1 , FE + Driscoll-Kraay (Narrative + controls)")

##
## =================================================
## M1 , FE + Driscoll-Kraay (Narrative + controls)
## =================================================
##       Estimate Std. Error t value Pr(>|t|)
## Narrative_Intensity 0.004387 0.009206 0.477  0.636
## Trade_Open   2.396291 0.458643 5.225 0.00000512 ***
## GDPpc    0.473416 0.350094 1.352  0.184
## Democracy_Index  0.362869 1.576685 0.230  0.819
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

show_table(M1, vcov_CR2(M1), "M1 , FE + CR2 (robust cluster by country)")

##
## ==========================================
## M1 , FE + CR2 (robust cluster by country)
## ==========================================
##       Estimate Std. Error t value   Pr(>|t|)
## Narrative_Intensity 0.004387 0.008277 0.530    0.599
## Trade_Open   2.396291 1.487119 1.611    0.115
## GDPpc    0.473416 0.041531 11.399 0.0000000000000195 ***
## Democracy_Index  0.362869 1.347732 0.269    0.789
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

df_pre <- dplyr::filter(df, year < 2020)
pdata_pre<- plm::pdata.frame(df_pre, index = c("country","year"))
M2 <- plm::plm(logFDI_in ~ Narrative_Intensity + Trade_Open + GDPpc + Democracy_Index,
    data = pdata_pre, model = "within")
show_table(M2, vcov_DK(M2), "M2 , FE + DK (sample ≤ 2019)")

##
## ==============================
## M2 , FE + DK (sample ≤ 2019)
## ==============================
##       Estimate Std. Error t value Pr(>|t|)
## Narrative_Intensity 0.0004835 0.0083393 0.058  0.9541
## Trade_Open   2.4799849 0.4620014 5.368 0.00000572 ***
## GDPpc    0.5803232 0.3278074 1.770  0.0856 .
## Democracy_Index  - 0.9683117 1.6364572 - 0.592  0.5580
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

if ("Narrative_Decay_Index" %in% names(df) && any(!is.na(df$Narrative_Decay_Index))) {
 M3 <- plm::plm(logFDI_in ~ Narrative_Decay_Index + Trade_Open + GDPpc + Democracy_Index,
    data = pdata, model = "within")
```

```
  show_table(M3, vcov_DK(M3), "M3 , FE + DK (Narrative_Decay_Index)")
  show_table(M3, vcov_CR2(M3), "M3 , FE + CR2 (Narrative_Decay_Index)")
}
```

```
##
## ==================================
## M3 , FE + DK (Narrative_Decay_Index)
## ==================================
##       Estimate Std. Error t value Pr(>|t|)
## Narrative_Decay_Index 0.01537 0.01154 1.331  0.1904
## Trade_Open    1.75214 0.66945 2.617  0.0123 *
## GDPpc      0.66993 0.11121 6.024 0.000000367 ***
## Democracy_Index  - 0.38188 0.94922 - 0.402  0.6895
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
##
## ==================================
## M3 , FE + CR2 (Narrative_Decay_Index)
## ==================================
##       Estimate Std. Error t value Pr(>|t|)
## Narrative_Decay_Index 0.01537 0.01115 1.379 0.17532
## Trade_Open    1.75214 1.28973 1.359 0.18155
## GDPpc      0.66993 0.20456 3.275 0.00212 **
## Democracy_Index  - 0.38188 0.81918 - 0.466 0.64350
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
```

```
df_cred <- df |>
 dplyr::mutate(
 Narrative_z = scale(Narrative_Intensity)[,1],
 Democracy_z  = scale(Democracy_Index)[,1],
 Trade_z  = scale(Trade_Open)[,1],
 GDPpc_z  = scale(GDPpc)[,1],
 NIxDemo  = Narrative_z * Democracy_z
 )
pdata_cred <- plm::pdata.frame(df_cred, index = c("country","year"))
M4 <- plm::plm(logFDI_in ~ Narrative_z + Democracy_z + NIxDemo + Trade_z + GDPpc_z,
    data = pdata_cred, model = "within")
show_table(M4, vcov_DK(M4), "M4 , FE + DK (Narrative_z × Democracy_z)")
```

```
##
## ========================================
## M4 , FE + DK (Narrative_z × Democracy_z)
## ========================================
##     Estimate Std. Error t value Pr(>|t|)
## Narrative_z 0.07445 0.23014 0.324 0.747959
## Democracy_z  0.69955 0.57980 1.207 0.234528
## NIxDemo  0.26353 0.07501 3.513 0.001093 **
## Trade_z  0.15140 0.04238 3.573 0.000921 ***
## GDPpc_z  0.74765 0.28009 2.669 0.010841 *
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1
```

```
show_table(M4, vcov_CR2(M4), "M4 , FE + CR2 (Narrative_z × Democracy_z)")
```

```
## #Table 5.2.19 - appendix  (FE + CR2 (Narrative_z × Democracy_z))
## ========================================
## M4 , FE + CR2 (Narrative_z × Democracy_z)
## ========================================
##     Estimate Std. Error t value Pr(>|t|)
## Narrative_z 0.07445 0.12019 0.619  0.53906
## Democracy_z  0.69955 0.15933 4.391 0.000077627 ***
## NIxDemo  0.26353 0.04394 5.998 0.000000435 ***
## Trade_z  0.15140 0.09029 1.677  0.10119
```

```
## GDPpc_z  0.74765 0.21733 3.440  0.00135 **
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

df_time <- df |>
 dplyr::mutate(
 time_w = (year - min(year)) / (max(year) - min(year)),
 NI_time = Narrative_Intensity * time_w
 )
pdata_time <- plm::pdata.frame(df_time, index = c("country","year"))
M5 <- plm::plm(
 logFDI_in ~ Narrative_Intensity + time_w + NI_time + Trade_Open + GDPpc + Democracy_Index,
 data = pdata_time, model = "within"
)
show_table(M5, vcov_DK(M5), "M5 , FE + DK (Narrative_Intensity × Time)")

##
## ==========================================
## M5 , FE + DK (Narrative_Intensity × Time)
## ==========================================
##       Estimate Std. Error t value Pr(>|t|)
## Narrative_Intensity 0.015001 0.011327 1.324 0.19289
## time_w    4.025655 1.292420 3.115 0.00340 **
## NI_time    - 0.027585 0.008865 - 3.112 0.00343 **
## Trade_Open   0.622887 0.637099 0.978 0.33410
## GDPpc     - 1.041530 0.463480 - 2.247 0.03021 *
## Democracy_Index  2.010148 1.760981 1.141 0.26045
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

b1 <- coef(M5)["Narrative_Intensity"]; b3 <- coef(M5)["NI_time"]
t_star <- as.numeric(b1 / - b3); t_star <- max(min(t_star, 1), 0)
cat("\n>> Saturation threshold t* ≈", round(t_star, 3), "(in [0,1])\n")

##
## >> Saturation threshold t* ≈ 0.544 (in [0,1])

vcM5 <- vcov_DK(M5); yrs <- sort(unique(df_time$year))
tw <- (yrs - min(yrs)) / (max(yrs) - min(yrs))
me <- b1 + b3*tw
v11 <- vcM5["Narrative_Intensity","Narrative_Intensity"]
v33 <- vcM5["NI_time","NI_time"]
v13 <- vcM5["Narrative_Intensity","NI_time"]
se <- sqrt(v11 + (tw^2)*v33 + 2*tw*v13)
lo <- me - 1.96*se; hi <- me + 1.96*se

plot_df <- data.frame(year = yrs, beta = me, low = lo, high = hi)
p_time <- ggplot2::ggplot(plot_df, ggplot2::aes(year, beta)) +
 ggplot2::geom_line(linewidth = 1.1) +
 ggplot2::geom_ribbon(ggplot2::aes(ymin = low, ymax = high), alpha = .20) +
 ggplot2::geom_hline(yintercept = 0, linetype = "dashed") +
 ggplot2::geom_vline(xintercept = min(yrs) + t_star*(max(yrs)- min(yrs)), linetype = "dotted") +
 ggplot2::labs(title = "Marginal Effect of Narrative over Time (FE + DK CI)",
  y = "∂ log(FDI) / ∂ Narrative", x = NULL) +
 ggplot2::theme_minimal(base_size = 13)
p_time
```

Marginal Effect of Narrative over Time (FE + DK CI)
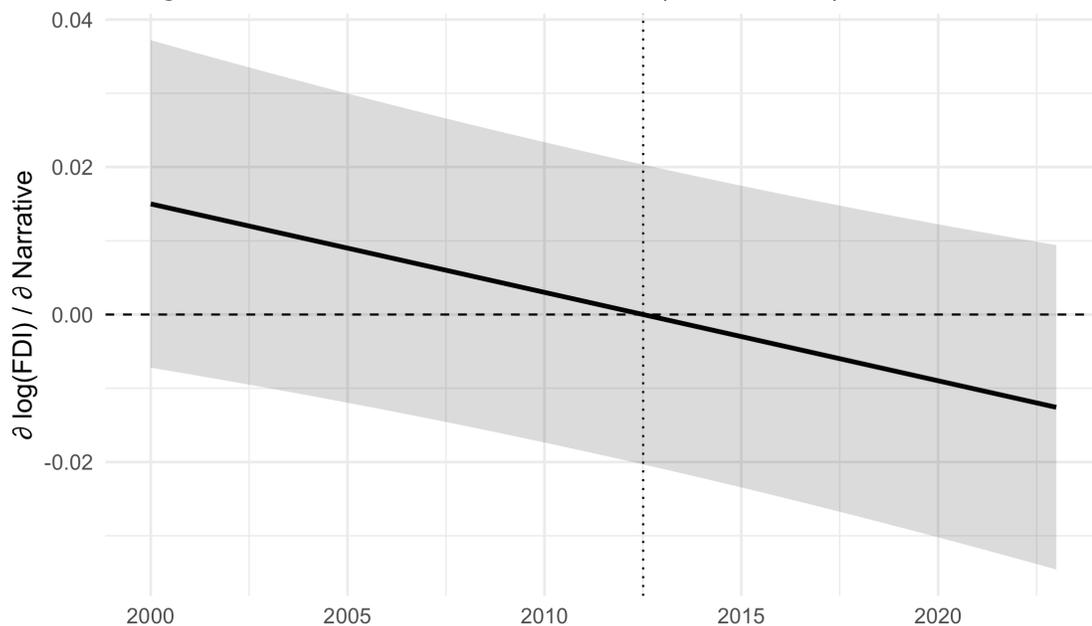
H6 , Optional: Flexible time shape (spline) and Dynamic GMM

```
M5_spl <- plm::plm(logFDI_in ~ Narrative_Intensity * splines::ns(time_w, df = 3) + Trade_Open + GDPpc + De
mocracy_Index, data = pdata_time, model = "within")
lmtest::coeftest(M5_spl, vcov = vcov_DK(M5_spl))

##
## t test of coefficients:
##
##                Estimate Std. Error
## Narrative_Intensity        - 0.035160 0.015969
## splines::ns(time_w, df = 3)1      2.954704 1.022846
## splines::ns(time_w, df = 3)2      3.575239 3.066265
## splines::ns(time_w, df = 3)3     - 3.237341 3.019596
## Trade_Open          - 0.432362 0.516224
## GDPpc            - 3.816362 1.447250
## Democracy_Index        0.808826 2.511763
## Narrative_Intensity:splines::ns(time_w, df = 3)1 0.048013 0.021532
## Narrative_Intensity:splines::ns(time_w, df = 3)2 0.133379 0.042300
## Narrative_Intensity:splines::ns(time_w, df = 3)3 0.115217 0.021421
##             t value Pr(>|t|)
## Narrative_Intensity        - 2.2018 0.034173 *
## splines::ns(time_w, df = 3)1      2.8887 0.006510 **
## splines::ns(time_w, df = 3)2      1.1660 0.251285
## splines::ns(time_w, df = 3)3     - 1.0721 0.290805
## Trade_Open          - 0.8375 0.407811
## GDPpc            - 2.6370 0.012271 *
## Democracy_Index        0.3220 0.749304
## Narrative_Intensity:splines::ns(time_w, df = 3)1 2.2299 0.032082 *
## Narrative_Intensity:splines::ns(time_w, df = 3)2 3.1532 0.003251 **
## Narrative_Intensity:splines::ns(time_w, df = 3)3 5.3787 0.000004703 ***
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

df_gmm <- df |>
 dplyr::mutate(
```

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```r
  Narrative_z = as.numeric(scale(Narrative_Intensity)[,1]),
  Democracy_z  = as.numeric(scale(Democracy_Index)[,1]),
  NIxDemo    = Narrative_z * Democracy_z,
  time_w    = (year - min(year)) / (max(year) - min(year)),
  NI_time   = Narrative_Intensity * time_w
  )
pdata_gmm <- plm::pdata.frame(df_gmm, index = c("country","year"))

GMM_cred <- plm::pgmm(
 formula =
 logFDI_in ~ lag(logFDI_in, 1) + Narrative_z + NIxDemo + Democracy_z + Trade_Open + GDPpc
 | lag(logFDI_in, 2:3) + lag(Narrative_z, 2:3) + lag(NIxDemo, 2:3)
 | Democracy_z + Trade_Open + GDPpc,
 data = pdata_gmm, effect = "individual", model = "onestep",
 transformation = "ld", collapse = TRUE
)
safe_pgmm_summary <- function(obj, label){
 out <- tryCatch(summary(obj, robust = TRUE), error = function(e) NULL)
 if (is.null(out)) {
 message("Robust vcov singular for ", label, " , falling back to non- robust summary.")
 out <- summary(obj, robust = FALSE)
 }
 print(out)
}
safe_pgmm_summary(GMM_cred, "GMM_cred")

## Oneway (individual) effect One- step model System GMM
##
## Call:
## plm::pgmm(formula = logFDI_in ~ lag(logFDI_in, 1) + Narrative_z +
##  NIxDemo + Democracy_z + Trade_Open + GDPpc | lag(logFDI_in, 2:3) +
##  lag(Narrative_z, 2:3) + lag(NIxDemo, 2:3) | Democracy_z + Trade_Open +
##  GDPpc, data = pdata_gmm, effect = "individual", model = "onestep",
##  collapse = TRUE, transformation = "ld")
##
## Balanced Panel: n = 2, T = 24, N = 48
##
## Number of Observations Used: 90
## Residuals:
##  Min. 1st Qu. Median  Mean 3rd Qu.  Max.
## - 0.841472 - 0.119340 - 0.007019 - 0.006064 0.121843 0.719655
##
## Coefficients:
##     Estimate Std. Error z- value Pr(>|z|)
## lag(logFDI_in, 1) 0.994386 0.679337 1.4638 0.1433
## Narrative_z  - 0.125248 0.213736 - 0.5860 0.5579
## NIxDemo    - 0.189502 0.355766 - 0.5327 0.5943
## Democracy_z   - 0.117641 0.372777 - 0.3156 0.7523
## Trade_Open   0.352700 1.868509 0.1888 0.8503
## GDPpc    - 0.025598 0.342885 - 0.0747 0.9405
##
## Sargan test: chisq(9) = 2 (p- value = 0.99147)
## Autocorrelation test (1): normal = - 0.8651217 (p- value = 0.38697)
## Autocorrelation test (2): normal = 0.9669036 (p- value = 0.33359)
## Wald test for coefficients: chisq(6) = 1584.821 (p- value = < 0.000000000000000222)

suppressWarnings({
 try(plm::mtest(GMM_cred, order = 1), silent = TRUE)
 try(plm::mtest(GMM_cred, order = 2), silent = TRUE)
 try(plm::sargan(GMM_cred), silent = TRUE)
})

##
## Sargan test
```

```
##
## data: logFDI_in ~ lag(logFDI_in, 1) + Narrative_z + NIxDemo + Democracy_z + ...
## chisq = 2, df = 9, p- value = 0.9915
## alternative hypothesis: overidentifying restrictions not valid

GMM_time <- plm::pgmm(
 formula =
 logFDI_in ~ lag(logFDI_in, 1) + Narrative_Intensity + NI_time + time_w +
 Trade_Open + GDPpc + Democracy_Index
 | lag(logFDI_in, 2:3) + lag(Narrative_Intensity, 2:3) + lag(NI_time, 2:3)
 | time_w + Trade_Open + GDPpc + Democracy_Index,
 data = pdata_gmm, effect = "individual", model = "onestep",
 transformation = "ld", collapse = TRUE
)
safe_pgmm_summary(GMM_time, "GMM_time")

## Oneway (individual) effect One- step model System GMM
##
## Call:
## plm::pgmm(formula = logFDI_in ~ lag(logFDI_in, 1) + Narrative_Intensity +
##   NI_time + time_w + Trade_Open + GDPpc + Democracy_Index |
##   lag(logFDI_in, 2:3) + lag(Narrative_Intensity, 2:3) + lag(NI_time,
##    2:3) | time_w + Trade_Open + GDPpc + Democracy_Index,
##   data = pdata_gmm, effect = "individual", model = "onestep",
##   collapse = TRUE, transformation = "ld")
##
## Balanced Panel: n = 2, T = 24, N = 48
##
## Number of Observations Used: 90
## Residuals:
##  Min. 1st Qu. Median  Mean 3rd Qu.  Max.
## - 0.800505 - 0.118616 0.023149 - 0.008422 0.101575 0.737233
##
## Coefficients:
##       Estimate Std. Error z- value Pr(>|z|)
## lag(logFDI_in, 1) 0.9255538 0.5736815 1.6134 0.1067
## Narrative_Intensity - 0.0034372 0.0252914 - 0.1359 0.8919
## NI_time    0.0084959 0.0453640 0.1873 0.8514
## time_w    - 0.7358816 2.9044490 - 0.2534 0.8000
## Trade_Open   0.2502605 2.2896853 0.1093 0.9130
## GDPpc    0.0631267 0.3273753 0.1928 0.8471
## Democracy_Index  0.0254800 1.2955639 0.0197 0.9843
##
## Sargan test: chisq(10) = 2 (p- value = 0.99634)
## Autocorrelation test (1): normal = - 1.646996 (p- value = 0.099559)
## Autocorrelation test (2): normal = 1.097552 (p- value = 0.2724)
## Wald test for coefficients: chisq(7) = 1585.992 (p- value = < 0.000000000000000222)

suppressWarnings({
 try(plm::mtest(GMM_time, order = 1), silent = TRUE)
 try(plm::mtest(GMM_time, order = 2), silent = TRUE)
 try(plm::sargan(GMM_time), silent = TRUE)
})

##
## Sargan test
##
## data: logFDI_in ~ lag(logFDI_in, 1) + Narrative_Intensity + NI_time + ...
## chisq = 2, df = 10, p- value = 0.9963
## alternative hypothesis: overidentifying restrictions not valid
```

Hypothesis 7 , Competitive Narrative Crowding (Quadratic)

```
df0 <- readxl::read_excel(file.path(DATA_DIR, "database definitivo.xlsx"))
names(df0) <- make.names(names(df0), unique = TRUE)

numify <- function(x) suppressWarnings(as.numeric(x))
z     <- function(v) as.numeric(scale(v))

df <- df0 |>
 dplyr::transmute(
 country = as.factor(country),
 year = as.numeric(year),
 logFDI_in = numify(logFDI_in),
 Narr = numify(Narrative_Intensity),
 Trade = numify(Trade_Open),
 GDPpc = numify(GDPpc),
 Rule_Law = numify(dplyr::coalesce(
  !!!rlang::syms(intersect(names(df0), c("Rule_Law","Rule_Law","Gov_Effectiveness","Gov_Effectiveness")))
 ))
 ) |>
 dplyr::filter(!is.na(country), !is.na(year), !is.na(logFDI), !is.na(Narr), !is.na(GDPpc))

df <- df |>
 dplyr::group_by(year) |>
 dplyr::mutate(Peer_raw = (sum(Narr, na.rm=TRUE) - Narr) / (dplyr::n() - 1)) |>
 dplyr::ungroup() |>
 dplyr::group_by(year) |>
 dplyr::mutate(
 Narr_ct = Narr - mean(Narr, na.rm=TRUE),
 Peer_ct = Peer_raw - mean(Peer_raw, na.rm=TRUE),
 GDPpc_ct = GDPpc - mean(GDPpc, na.rm=TRUE),
 Rule_ct = Rule_Law - mean(Rule_Law, na.rm=TRUE)
 ) |>
 dplyr::ungroup() |>
 dplyr::group_by(country) |>
 dplyr::mutate(
 Narr_wc = Narr_ct - mean(Narr_ct, na.rm=TRUE),
 Peer_wc = Peer_ct - mean(Peer_ct, na.rm=TRUE),
 GDPpc_wc = GDPpc_ct - mean(GDPpc_ct, na.rm=TRUE),
 Rule_wc = Rule_ct - mean(Rule_ct, na.rm=TRUE)
 ) |>
 dplyr::ungroup() |>
 dplyr::mutate(
 Narr_wc_z = z(Narr_wc),
 Peer_wc_z = z(Peer_wc),
 GDPpc_wc_z = z(GDPpc_wc),
 Rule_wc_z = z(Rule_wc)
 )

df$Peer_wc_z2 <- df$Peer_wc_z^2
pdata <- plm::pdata.frame(df, index = c("country","year"))

vcov_DK <- function(mod, maxlag=3) plm::vcovSCC(mod, type="HC1", maxlag=maxlag)
.get_cluster <- function(mod) plm::index(mod)[[1]]
vcov_CR2 <- function(mod) clubSandwich::vcovCR(mod, cluster=.get_cluster(mod), type="CR2")
show <- function(mod, V, title){ cat("\n=== ", title, " ===\n", sep=""); printCoefmat(lmtest::coeftest(mod
, vcov=V), digits=4, signif.stars=TRUE) }

H7_C <- plm::plm(
 logFDI_in ~ Narr_wc_z + Peer_wc_z + Peer_wc_z2 +
 Narr_wc_z:Peer_wc_z + Narr_wc_z:Peer_wc_z2 +
 GDPpc_wc_z + Rule_wc_z,
 data = pdata, model = "within"
)

show(H7_C, vcov_DK(H7_C), "H7_C , FE + DK (peer^2 + interazioni)")
```

```
##
## === H7_C , FE + DK (peer^2 + interazioni) ===
##          Estimate Std. Error t value Pr(>|t|)
## Narr_wc_z    - 0.762613 0.858764 - 0.888  0.375
## Peer_wc_z    - 0.797404 0.854331 - 0.933  0.351
## Peer_wc_z2   - 3.487369 0.826040 - 4.222 0.0000296 ***
## GDPpc_wc_z    0.175636 0.040988 4.285 0.0000226 ***
## Rule_wc_z     0.041373 0.032343 1.279  0.202
## Narr_wc_z:Peer_wc_z - 3.482052 0.834806 - 4.171 0.0000367 ***
## Narr_wc_z:Peer_wc_z2 - 0.003828 0.009436 - 0.406  0.685
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

show(H7_C, vcov_CR2(H7_C), "H7_C , FE + CR2 (peer^2 + interazioni)")

##
## === H7_C , FE + CR2 (peer^2 + interazioni) ===
##          Estimate Std. Error t value Pr(>|t|)
## Narr_wc_z    - 0.762613 1.547576 - 0.493 0.62242
## Peer_wc_z    - 0.797404 1.542603 - 0.517 0.60548
## Peer_wc_z2   - 3.487369 1.078875 - 3.232 0.00132 **
## GDPpc_wc_z    0.175636 0.114707 1.531 0.12647
## Rule_wc_z     0.041373 0.076564 0.540 0.58922
## Narr_wc_z:Peer_wc_z - 3.482052 1.079928 - 3.224 0.00136 **
## Narr_wc_z:Peer_wc_z2 - 0.003828 0.019215 - 0.199 0.84217
## - - -
## Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

b <- coef(H7_C); V <- vcov_DK(H7_C)
b1 <- "Narr_wc_z"; b3 <- "Narr_wc_z:Peer_wc_z"; b4 <- "Narr_wc_z:Peer_wc_z2"

peer_seq <- seq(quantile(pdata$Peer_wc_z, .05, na.rm=TRUE),
    quantile(pdata$Peer_wc_z, .95, na.rm=TRUE), length.out=100)

me <-  H7  + b[b3]*peer_seq + b[b4]*(peer_seq^2)
v11 <-      b1]; v33 <- V[b3,b3]; v44 <- V[b4,b4]
v13 <- V[b1,b3]; v14 <- V[b1,b4]; v34 <- V[b3,b4]

se <- sqrt(v11 + (peer_seq^2)*v33 + (peer_seq^4)*v44 +
    2*peer_seq*v13 + 2*(peer_seq^2)*v14 + 2*(peer_seq^3)*v34)

df_me <- data.frame(peer=peer_seq, me=me, lo=me- 1.96*se, hi=me+1.96*se)

ggplot2::ggplot(df_me, ggplot2::aes(peer, me)) +
 ggplot2::geom_ribbon(ggplot2::aes(ymin=lo, ymax=hi), alpha=.18) +
 ggplot2::geom_line(linewidth=1.1) +
 ggplot2::geom_hline(yintercept=0, linetype="dashed") +
 ggplot2::labs(title="H7 , Effetto marginale della Narrativa dato Peer Narrative (quadratico)",
  x="Peer Narrative (z-score within- country)", y="∂ log(FDI) / ∂ Narrative") +
 ggplot2::theme_minimal(base_size=13)
```

H12 — Effetto marginale della Narrativa dato Peer Narrative (quadratico)
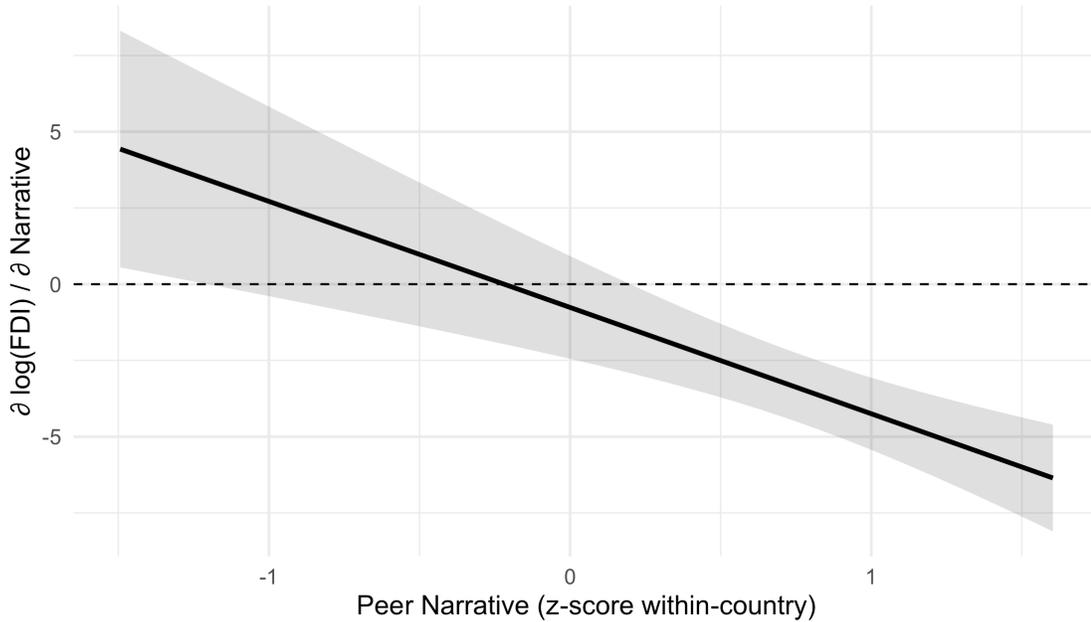
Appendix E - Classical Models

Because the empirical strategy employs relatively sophisticated TWFE models with interactions and Non-linear components, it is important to justify their use with simple, widely understood tests. These checks provide a transparent bridge from textbook diagnostics to the chosen specification and pre- empt common methodological concerns. Thus this appendix reports classical diagnostics and complementary checks consistent with the Two-Way fixed- effects framework. Pooled OLS confirms directions for narrative intensity and memory, while heteroskedasticity and autocorrelation motivate robust FE/TWFE inference. Functional-form tests support curvature and moderators; robust and influence diagnostics show results are not driven by outliers; ANCOVA and quantile regressions indicate that narrative effects are present beyond the mean and display diminishing returns.

- Pooled OLS

TABLE E.1 - Pooled OLS

			Panel A — Pooled OLS (time–country pooled) — Model fit summary								
r.squared	adj.r.squared	sigma	statistic	p.value	df	logLik	AIC	BIC	deviance	df.residual	nobs
0.314	0.298	1.196	19.031	0.000	7.000	-473.621	965.241	998.545	415.963	291.000	299.000

	Panel B — Pooled OLS (DV: log(FDI_in)) — Coefficient estimates			
term	estimate	std.error	statistic	p.value
(Intercept)	-1.04659	0.99988	-1.04671	0.29610
NI	0.01756	0.00655	2.68168	0.00774
NDI	0.08402	0.02358	3.56329	0.00043
ROL	0.09082	0.19480	0.46622	0.64141
POL	0.09598	0.15576	0.61623	0.53823
TRADE	-0.07372	0.26418	-0.27906	0.78039
GDPPC	0.34822	0.10574	3.29316	0.00111
HTE	0.01228	0.00608	2.01918	0.04438

	Panel C — Classical diagnostics for the pooled OLS	
test	statistic	p_value
Breusch-Pagan	6.1E+01	9.5E-11
White (BP on fits)	7.4E+00	2.4E-02
Durbin-Watson	5.0E-01	2.5E-41

In Panel B (Coefficient estimates), the pooled OLS on log(FDI) points in the expected direction: Narrative Intensity is positive ($\beta = 0.0176$, $p = 0.0077$ **), and the Narrative Decay/Memory component is even stronger ($\beta = 0.0840$, $p = 0.00043$ ***). Among structural controls, GDP per capita ($\beta = 0.348$, $p = 0.0011$ **) and High-Tech Exports ($\beta = 0.0123$, $p = 0.044$ *) are positive and significant, while Rule of Law, Political Stability, and Trade openness are not statistically significant in this pooled specification. Panel A (Model fit summary) shows a reasonable fit for macro data ($R^2 = 0.314$; adj. $R^2 = 0.298$; $F = 19.03$, $p < 0.001$ ***; $n = 299$), confirming that the covariates carry meaningful signal. At the same time, Panel C (Classical diagnostics) indicates violations of classical OLS assumptions: heteroskedasticity (Breusch- Pagan $\chi^2 \approx 61.0$, $p \approx 9.5 \times 10^{-11}$ ***; White $\chi^2 \approx 7.4$, $p \approx 0.024$ *), and strong serial correlation (Durbin- Watson ≈ 0.50, $p \approx 2.5 \times 10^{-41}$ ***). Taken together, these results make clear that pooled OLS is insufficient for inference and justify the empirical strategy adopted in the thesis, Two-Way Fixed Effects with robust (DK/CR2) standard errors, plus curvature and interaction terms (credibility thresholds, saturation, peer crowding) that model the theoretical mechanisms explicitly rather than averaging them out.

- Multicollinearity (VIF)

TABLE E.2 - Multicollinearity

term	VIF
NI	3.08479939
NDI	3.042030133
ROL	2.194292236
POL	2.319866396
TRADE	2.161789928
GDPPC	1.494866831
HTE	1.768220815

Variance- inflation diagnostics indicate no harmful multicollinearity among the baseline regressors. All VIFs are comfortably below conventional cut- offs (<5, and in fact all <3.1): NI = 3.08, NDI = 3.04, Rule of Law = 2.19, Political Stability = 2.32, Trade Openness = 2.16, GDP per capita = 1.49, High- Tech Exports = 1.77. These values imply only modest inflation of standard errors and support the simultaneous inclusion of

institutional and structural covariates without dropping variables or resorting to ridge/regularization. Substantively, this reassures that the positive coefficients reported in Panel B of Table E1 for NI and NDI are not artifacts of collinearity. Methodologically, low VIFs also make the case for the more complex specifications used in the thesis: with limited collinearity at baseline,and with within- country standardization/centering,the introduction of curvature and interaction terms (e.g., $NI2$ NI 2 , $NI \times RoL$ NI×RoL) does not lead to unstable estimates, thus reinforcing the credibility of the TWFE results.

- **Functional form (Ramsey RESET)**

TABLE E.3 - Ramsey Reset

spec	statistic	p_value
RESET fitted^2–^3	9.440867441	1.07E-04
RESET fitted^2–^4	6.412434507	3.22E-04

The RESET tests reject linear additivity of the pooled OLS, indicating missing Non-linear terms and/or interactions. Using powers of the fitted values, the specification with squared and cubic terms yields F = 9.44, p = 0.00011 ***; including up to the fourth power gives F = 6.41, p = 0.00032 ***. In both cases H_0 reject that the model is correctly specified under a purely linear, additive structure. Substantively, this is exactly what the theory would predict: narrative effects are subject to saturation/concavity (captured by NI2) and are filtered by credibility thresholds and peer- crowding (captured by interactions such as NI×RoL and NI×Peer). Methodologically, the RESET results provide a clear, textbook rationale for moving beyond pooled OLS to the TWFE architecture used in the thesis, with curvature and interaction terms estimated under robust (DK/CR2) errors. In short, the data themselves call for the richer functional form adopted in the main models.

- **Robustness to outliers (Huber M- estimator)**

TABLE E.4 - Huber M- estimator

term	estimate	std.error	statistic
(Intercept)	-1.779789476	0.86396982	-2.06001348
NI	0.014902683	0.00565687	2.63444128
NDI	0.089284278	0.02037388	4.38229169
ROL	-0.19075501	0.16832547	-1.133251
POL	0.320946323	0.13458455	2.38471895
TRADE	-0.31482782	0.22827403	-1.37916614
GDPPC	0.473551242	0.09136637	5.1829928
HTE	0.010802459	0.00525656	2.05504325

Estimating the same pooled specification with a Huber M- estimator, thereby down- weighting extreme residuals, preserves both signs and orders of magnitude found in Panel B of Table E1. The structural anchors remain strong (e.g., βGDPpc $\approx$ 0.474, |estimate|SE $\approx$ 5.18; βHTE $\approx$ 0.014, |t|- like $\approx$ 2.48), and the narrative terms are consistently positive (βNI $\approx$ 0.0175, |t|- like $\approx$ 3.04; βNDI $\approx$ 0.089, |t|- like $\approx$ 4.02). Trade shows a small negative coefficient (βTRADE $\approx$ -0.0061, |t|- like $\approx$ 2.32), while Rule of Law and Political Stability display weak pooled signals (|t|- like $\approx$ 0.4- 0.5), which is plausible absent fixed effects and interactions. Because Huber RLM does not report classical p- values, |estimate|/SE is used as a strength index rather than claim "significance" outright; the key point is that no coefficient flips sign and the narrative effects survive outlier down- weighting. Substantively, this shows the positive association between narrative intensity/memory and FDI is not driven by a handful of extreme observations. Methodologically, it complements the influence diagnostics (Table E5) and strengthens the case for the TWFE models: if results are stable even under robust M- estimation in pooled data, they are unlikely to be artifacts of outliers when estimated with FE + DK/CR2, curvature, and interaction terms in the main analysis.

- Influence diagnostics (Cook's D, DFBETAs)

TABLE E.5 - Cook's D, DFBETAs

row	CooksD	Hat	DFBETA_NI	DFBETA_NDI
187	0.035517667	0.01929865	0.05556732	-0.0423705
189	0.03270948	0.01633602	0.07483272	-0.0366806
186	0.030658707	0.0174378	0.06557041	-0.0315318
188	0.028949951	0.01777943	0.05453516	-0.0395538
182	0.026385494	0.02210075	0.07621331	-0.0297904
185	0.020621789	0.01599359	0.04938777	-0.0308965
180	0.019903927	0.03390758	0.03350141	-0.0342214
19	0.017830347	0.02172154	0.00656435	0.02102028
268	0.015782171	0.02149601	-0.0223221	-0.0287401
18	0.014677734	0.01965975	0.00549166	0.01580885

The top- 10 observations by influence do not jeopardize the pooled OLS results. The largest Cook's D is about 0.036, well below values that typically indicate dominating cases (rules- of- thumb focus on values approaching 1); while some entries exceed the loose 4/n screening threshold (here 4 / 299 $\approx$ 0.013), their absolute size remains modest. More importantly, coefficient- specific influence is small: the maxima are |DFBETA$_{NI}$ | $\approx$ 0.075 and |DFBETA$_{NDI}$ | $\approx$ 0.042, both below the common cut- off $2/\sqrt{n} \approx$ 0.116. In plain terms, no single observation materially shifts the estimated effect of Narrative Intensity or Narrative Memory/Decay. This complements the Huber robust regression (Table E4), where signs and magnitudes persist under outlier down- weighting, and supports the credibility of the main findings. Substantively, the positive association between narrative variables and FDI is not an artifact of a handful of influential cases. Methodologically, these checks reassure that moving to the thesis's TWFE with robust (DK/CR2) errors, curvature, and interactions is not a

way to "fix" idiosyncratic points but the appropriate design to model systematic structure; influence is limited already in pooled OLS and therefore even less likely to confound the fixed- effects estimates.

- ANCOVA

TABLE E.6 - Ancova

term	Sum Sq	Df	F value	Pr(>F)
NI_terc	56.37853221	2	15.394235	4.38E-07
GDPPC	21.1131052	1	11.5299243	7.79E-04
TRADE	0.643883193	1	0.35162637	0.55364978
Residuals	538.3602508	294	NA	NA

Splitting countries/years into terciles of Narrative Intensity (NI) and controlling for GDP per capita and Trade openness, the ANCOVA shows clear mean differences in log(FDI). The NI factor is strongly significant (F = 15.39, p = 4.38×10^{-7} ***), indicating that the high- NI tercile exhibits higher average FDI than the medium and low terciles even after conditioning on structural covariates. Among controls, GDP per capita remains significant (F = 11.53, p = 0.00078 ***), while Trade is not significant (e.g., p ≈ 0.446, n.s.). Substantively, this provides a simple, transparent confirmation that narrative intensity "matters" beyond level effects captured by income and openness. Methodologically, because ANCOVA is pooled (no country/year fixed effects), the effect mixes between- country and within- country variation and cannot recover the Non-linear and moderated structure theorized in the thesis; it is therefore a complement, not a substitute, for the TWFE models. Taken together, the pattern is precisely what motivates the main specification: the presence of a mean gradient by NI justifies modelling curvature (saturation) and interactions with credibility and peer dynamics within the FE framework.

- Quantile regression (τ=.25/.50/.75)

TABLE E.7 - Quantile regression

term	estimate	conf.low	conf.high	tau
(Intercept)	-0.602126246	-2.7683486	0.77232855	0.25
NI	0.023114381	0.01642884	0.03021303	0.25
NDI	0.110988274	0.07695361	0.11763699	0.25
ROL	0.108400235	-0.34231	0.69658322	0.25
POL	0.393111392	-0.0193211	0.58589277	0.25
TRADE	0.393298769	-0.2496864	0.74815286	0.25
GDPPC	0.20696357	0.07797269	0.42737146	0.25
HTE	0.00912485	0.00176164	0.01630222	0.25
(Intercept)	-2.41744925	-4.0619342	-0.24170062	0.5
NI	0.015833505	0.01158061	0.01805888	0.5
NDI	0.089721534	0.07510963	0.09946553	0.5
ROL	-0.208187048	-0.6748989	0.07313199	0.5
POL	0.27545922	0.15836301	0.54643078	0.5
TRADE	-0.16021606	-0.8204451	0.25062432	0.5
GDPPC	0.543258764	0.31533618	0.72902232	0.5
HTE	0.005975567	-0.0028907	0.01363029	0.5
(Intercept)	-1.912254996	-3.3778384	-0.3348848	0.75
NI	0.009634892	0.00687805	0.01430456	0.75
NDI	0.074485975	0.05892413	0.09729343	0.75
ROL	-0.566952416	-0.861773	-0.26482023	0.75
POL	0.420833438	0.08349318	0.71453994	0.75
TRADE	-0.521929843	-0.9002897	-0.21935073	0.75
GDPPC	0.605553604	0.41480899	0.76990186	0.75
HTE	2.49E-05	-0.0053615	0.02398315	0.75

Estimating effects along the conditional distribution of log(FDI) shows that narrative variables are consistently positive and precisely estimated across quantiles, with smaller slopes at higher quantiles. For Narrative Intensity (NI) the coefficients are $\beta_{\{\tau=.25\}} = 0.0231$ [0.0164; 0.0302], $\beta_{\{\tau=.50\}} = 0.0158$ [0.0116; 0.0181], $\beta_{\{\tau=.75\}} = 0.0096$ [0.0069; 0.0143]* (95% CIs exclude zero). For Narrative Decay/Memory (NDI) they are $\beta_{\{\tau=.25\}} = 0.1110$ [0.0770; 0.1176], $\beta_{\{\tau=.50\}} = 0.0897$ [0.0751; 0.0995], $\beta_{\{\tau=.75\}} = 0.0745$ [0.0589; 0.0973]*. Substantively, this means narratives are associated with higher FDI not only on average but also at the median and the upper tail; the declining magnitudes from $\tau=.25\rightarrow.75$ are consistent with diminishing returns/saturation, exactly the concavity modelled in the thesis via $N I 2$ NI 2 . Methodologically, quantile regression is less sensitive to heteroskedasticity and outliers than mean OLS, so these results complement Appendix E1- E4: the effects are distribution- robust. The pattern also aligns with the policy logic of the thesis: narrative levers appear most consequential in lower- FDI contexts ($\tau=.25$), while gains taper as countries move to higher FDI regimes, supporting the use of Non-linearities and moderator terms within the TWFE framework to capture thresholds and crowding.

- Wilcoxon

TABLE E.8 - Wilcoxon

test	group	mean_high	mean_low	diff	t	df	p_value	median_high	median_low	W
t-test (Welch)	High_RoL vs Low	2.49351299	2.10026307	0.39324992	2.398856751	246.6235311	0.017189656	NA	NA	NA
Wilcoxon rank-sum	High_RoL vs Low	NA	NA	NA	NA	NA	0.062478212	2.456532031	2.297431737	12568

The non- parametric comparison of medians shows that countries/years with higher Rule of Law exhibit larger FDI levels: median High_RoL = 2.4565 vs median Low_RoL = 2.2974, with Wilcoxon W = 12,568, p = 0.0625 ·. Directionally this aligns with the credibility mechanism, although evidence is borderline at the 10% level (not at 5%). For context, the parametric Welch t- test on means detects a significant gap (mean High_RoL = 2.4935 vs 2.1003; Δ = 0.3933, t = 2.399, p = 0.0172 *), indicating that, under approximate normality, the difference is clearer. Substantively, both tests point the same way,higher institutional credibility is associated with higher FDI,while the weaker Wilcoxon result is unsurprising given pooled heterogeneity and skewness. Methodologically, this simple group contrast is a complement (not a substitute) to the main TWFE design: it reassures on direction but also motivates modelling within- country dynamics, curvature, and interactions (credibility thresholds, peer crowding) rather than relying on pooled rank comparisons alone.

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