

FOREIGN DIRECT INVESTMENT AND SOFT POWER: HOW U.S. LEADERSHIP
IMPACTS FOREIGN INVESTMENT IN THE UNITED STATES

A Thesis
submitted to the Faculty of the
Graduate School of Arts and Sciences
of Georgetown University
in partial fulfillment of the requirements for the
degree of
Master of Public Policy

By

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Washington, D.C.
April 7, 2020

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FOREIGN DIRECT INVESTMENT AND SOFT POWER: HOW U.S. LEADERSHIP IMPACTS FOREIGN INVESTMENT IN THE UNITED STATES

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ABSTRACT

Since 2006, the United States has been the world's largest recipient of foreign direct investment ("FDI"). However, the United States experienced a 40 percent decrease in FDI inflow from 2016 to 2017, coinciding with the change in administration in Washington. This paper looks at the effects of the United States' soft power on FDI inflows to the United States. To quantify soft power, I use a Gallup survey in which participants in over 157 countries were asked whether they "approve or disapprove of the leadership of" the United States. Using panel data by host country from 2006 to 2017, I estimate OLS and fixed effects models and find that there is likely a significant positive relationship between FDI and soft power. While my models have limitations and more analysis is warranted, I conclude that FDI inflows to the United States increase as a host country's opinion of U.S. leadership increases.

The research and writing of this thesis
is dedicated to everyone who helped along the way.

Many thanks,
Erika

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I. INTRODUCTION

In this paper, I empirically study how soft power is related to the inflow of foreign direct investment (“FDI”) to the United States. More specifically, I study whether a foreign country’s attitude towards the United States affects foreigners’ willingness to invest in the United States. Foreigners’ approval or disapproval of U.S. leadership is used as a proxy measure for soft power. My hypothesis is that a decrease in the United States’ soft power decreases the amount of FDI flowing into the United States.

With globalization has come unprecedented interconnectedness so that the flow of information is perpetual and the borders of the past are broken down. The ability to access foreign markets with the press of a button has resulted in a rise in cross border transactions and international investment, such as FDI. FDI represents the value of investments made by foreigners into a specific country. FDI is a substantial contributor to the U.S. economy, amounting to over \$292 billion in 2017 alone. Despite this large number, this is a substantial decline from 2016, when FDI inflow reached an all-time high of \$486 billion.¹ While there are many economic factors that could help to explain this sharp decline, one major change from 2016 to 2017 was the nature of U.S. leadership and its corresponding soft power. In today’s political and economic climate, it is important to determine whether a link exists, and if so, the extent of the link between FDI and soft power.

The term “soft power,” as coined by Joseph Nye in the late 1980s, refers to the ability of a country to persuade without the use of force or coercion, which stems from that country’s culture, ideology, and institutions.² Soft power is best understood in contrast to hard power,

¹ OECD, *FDI Flows* (2019), <https://data.oecd.org/fdi/fdi-flows.htm>.

² Joseph S. Nye, Jr., *Soft Power*, 80 FOREIGN POL’Y 166-67 (1990), <https://www.jstor.org/stable/1148580>.

which refers to the ability to coerce as a result of a country's military and economic strength. More specifically, Nye explains soft power as the "ability to achieve goals through attraction rather than coercion" or hard power.³ Nye most recently described soft power as "the ability to affect others through the co-optive means of framing the agenda, persuading, and eliciting positive attraction in order to obtain preferred outcomes."⁴

To help policymakers understand the fluctuations in FDI, I use regression analysis and data to determine the effect soft power has on FDI. Specifically, I analyze data from 2006 to 2017 collected in a Gallup World poll in which approximately one thousand survey participants were asked whether they "approve or disapprove of the job performance of the leadership of the United States."⁵ While the poll is not a perfect indicator of soft power, it provides a substantial number of observations over time and reflects the general attitudes of foreigners towards the United States, which serves as an effective proxy measure for soft power.

While there are not many academic papers discussing the link between FDI and soft power specifically, in the next section, I will review the prior scholarship on FDI and soft power individually. In Section III, I will discuss the theoretical framework behind the empirical model that I discuss in Section IV. In Section V, I will provide an overview of the data collected and used for the regression analysis, the results of which are in Section VI. Finally, I conclude with a summary of my findings and policy recommendations.

³ JOSEPH S. NYE, JR., *SOFT POWER: THE MEANS TO SUCCESS IN WORLD POLITICS* 5, (2004).

⁴ Joseph S. Nye, Jr., *Soft Power and Public Diplomacy Revisited*, 14 HAGUE J. DIPL. 7 (2019), <https://www.hks.harvard.edu/publications/soft-power-and-public-diplomacy-revisited>. Nye also explained that "Soft power rests on the ability to shape the preferences of others... Soft power is ubiquitous at all levels of human behavior [sic] from individuals to nations, and it is likely to become increasingly important because of the information revolution that we are living through." *Id.* at 8-9.

⁵ GALLUP, *Approval of U.S. Leadership*, Topics in the World Poll, <https://www.gallup.com/analytics/234512/world%E2%80%90poll%E2%80%90topics.aspx>.

II. BACKGROUND AND LITERATURE REVIEW

In this section, I provide background information on FDI in the United States and review the relevant literature on FDI and soft power.

A. Overview of Foreign Direct Investment in the United States

Foreign direct investment in the United States (“FDIUS”) is defined as “the ownership or control, directly or indirectly, by one foreign person of 10 percent of the voting securities of an incorporated U.S. business enterprise or equivalent interest in an unincorporated U.S. business enterprise, including a branch.”⁶ The U.S. Department of Commerce (“Commerce”) measures FDIUS in three different ways. The first is on a historical cost basis, which provides the value of investment at the time of the investment. The second is on a current cost basis, which measures the current replacement cost of an investment. The third is on a market value or position basis, which represents the stock market valuation of an investment.⁷

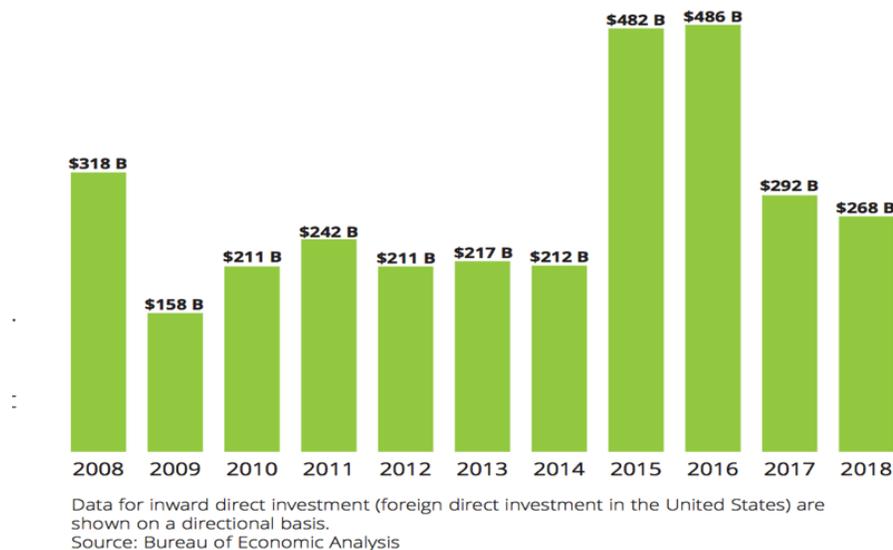
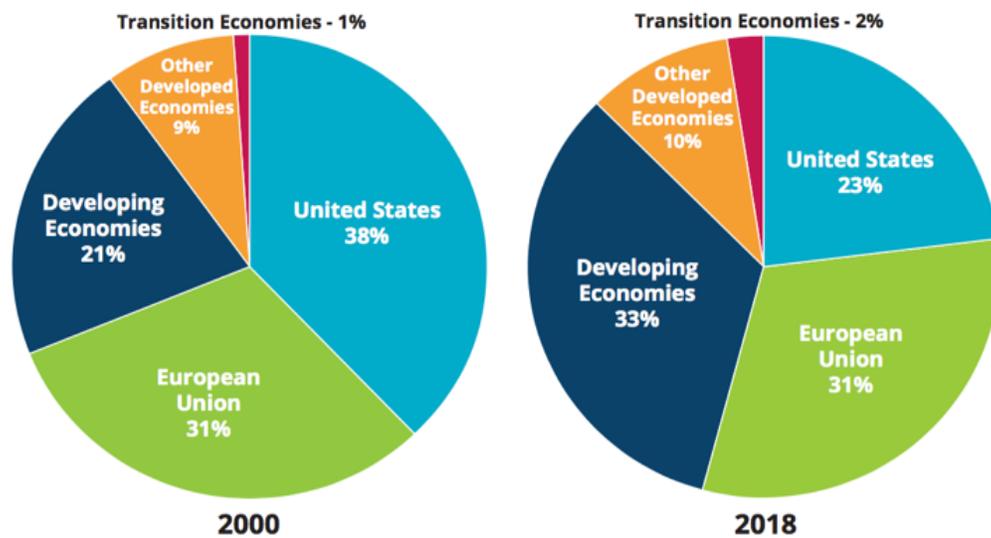


Figure 1. Foreign Direct Investment in the United States Flows (2008-2018).

⁶ 15 C.F.R. § 806.15(a)(1) (2011).

⁷ JAMES K. JACKSON, CONG. RESEARCH SERV., RS21857, FOREIGN DIRECT INVESTMENT IN THE UNITED STATES: AN ECONOMIC ANALYSIS 1-2 (2017).

The United States has been the world’s largest recipient of FDI since 2006. On a historical-cost basis, FDIUS has continually increased from 2013 to 2018, reaching a total of \$4.3 trillion in 2018.⁸ However, from 2016 to 2017, current-cost FDIUS decreased by approximately 40 percent from \$486 billion to \$292 billion and decreased by another eight percent to \$268 billion in 2016 (see Figure 1).⁹ This decline in FDI was also seen on a global level, with total global FDI falling by 23 percent from 2016 to 2017; however, the global fall is much less than the 40 percent fall the United States experienced from 2016 to 2017, and the additional 13 percent fall from 2017 to 2018.¹⁰



Source: UNCTAD's *WIR19*

Figure 2. Worldwide Inward Stock of Foreign Direct Investment, 2000 and 2018.

⁸ ORGANIZATION FOR INTERNATIONAL INVESTMENT (OFII), FOREIGN DIRECT INVESTMENT IN THE UNITED STATES 2019: UNPRECEDENTED COMPETITION IN THE GLOBAL RACE FOR JOBS (2019) 2, <http://ofii-docs.ofii.org/dmfile/FDIUS-2019-Report.pdf> [hereinafter OFII FDIUS 2019].

⁹ See *id.* at 1-2.

¹⁰ UNITED NATIONS CONF. ON TRADE AND DEV. (UNCTAD), WORLD INVESTMENT REPORT 2019 2 (2019), https://unctad.org/en/PublicationsLibrary/wir2019_en.pdf; UNCTAD, WORLD INVESTMENT REPORT 2018 2 (2018), https://unctad.org/en/PublicationsLibrary/wir2018_en.pdf.

The United States' share of global inward stock of FDI decreased from 38 percent in 2000 to 23 percent in 2018 (see Figure 2). While the 23 percent is an increase from the post-recession 2010 levels of 17 percent, this statistic shows the United States' position is decreasing in the global FDI landscape. In contrast, the shares of both the European Union and other developed economies have remained relatively stable from 2000 to 2018 at 31 percent and nine to ten percent respectively.¹¹

The International Trade Administration estimated that, on aggregate, FDIUS directly and indirectly employed a total of 12 million people in 2013, representing 8.5 percent of the U.S. labor force. Of this 12 million, 6.1 million people are directly employed at foreign firms, 2.4 million are indirectly employed from foreign firms, and 2.4 million people are indirectly employed from the productivity spillovers as a result of these foreign firms.¹²

Historically, the United States' official policy towards inward FDI is one of neutrality and openness.¹³ The United States promotes a rules-based system in which domestic and foreign investments are treated equally. Since 1977, every President has reiterated the United States' openness to FDI.¹⁴ In the most recent past administration, President Obama announced a new

¹¹ *See id.*

¹² JULIAN RICHARDS & ELIZABETH SHAEFER, INT'L TRADE ADMIN. OFFICE OF TRADE & ECON. ANALYSIS, JOBS ATTRIBUTABLE TO FOREIGN DIRECT INVESTMENT IN THE UNITED STATES (2016).

¹³ This paper will not provide an in-depth historical overview but will rather touch briefly on the main FDI policies currently in place. For historical background, see William L. Casey, *U.S. Inward FDI Policy: The Need for Rethinking, Revision, and Reform* 6-9 (2010); Elliot L. Richardson, *United States Policy Toward Foreign Investment: We Can't Have it Both Ways*, 4 AM. U. J. INT'L L. & POL'Y 281 (1989).

¹⁴ Covington & Burling, *CFIUS and Foreign Direct Investment under President Trump* (Nov. 23, 2016), https://www.cov.com/-/media/files/corporate/publications/2016/11/cfius_and_foreign_direct_investment_under_president_donald_trump.pdf. Also see President Obama's commitment to open investment policy, which has also been issued by every President since President Reagan in 1983. Statement on the United States

program, SelectUSA, within Commerce in 2011 to “facilitate job-creating business investment into the United States and raise awareness of the critical role that economic development plays in the U.S. economy.”¹⁵

Despite this history of openness, more recent developments in FDIUS policy may be indicating the opposite. While President Trump has referred to the United States’ commitment to an open investment environment,¹⁶ he also has promoted an “America First” policy and has taken a more closed investment policy approach in negotiations of the United States-Mexico-Canada Agreement through the elimination of an investor-state dispute settlement (“ISDS”) provision.¹⁷ Additionally, recent legislation passed by Congress and signed by President Trump, the Foreign Investment Risk Review Modernization Act (“FIRRMA”), expanded the scope of the Committee on Foreign Investment of the United States (“CFIUS”).

CFIUS was created by President Ford in 1975; however, it was not until 2007 with the implementation of the Foreign Investment National Security Act (“FINSAs”) that CFIUS took its current form.¹⁸ CFIUS is “an interagency committee authorized to review certain transactions involving foreign investment in the United States in order to determine the effect of such

Commitment to Open Investment Policy, 2011 DAILY COMP. PRES. DOC. 457 (June 20, 2011), <https://www.govinfo.gov/content/pkg/DCPD-201100457/html/DCPD-201100457.htm>.

¹⁵ SELECTUSA, *About SelectUSA*, <https://www.selectusa.gov/about-selectusa>.

¹⁶ *See e.g.*, Statement on Congressional Action on Legislation To Reduce the National Security Risks Posed by Certain Types of Foreign Investment, 2018 DAILY COMP. PRES. DOC. 459 (June 27, 2018), <https://www.govinfo.gov/content/pkg/DCPD-201800459/pdf/DCPD-201800459.pdf> (FIRRMA “will enhance our ability to protect the United States from new and evolving threats posed by foreign investment while also sustaining the strong, open investment environment to which our country is committed and which benefits our economy and our people.”).

¹⁷ CONG. RESEARCH SERV., R45474, INTERNATIONAL TRADE AND FINANCE: OVERVIEW AND ISSUES FOR THE 116TH CONGRESS 40-41 (2019); JACKSON, *supra* note 7, at 1.

¹⁸ For more information on CIFUS between 1974 and 2006 and CFIUS in general, see CONG. RESEARCH SERV., RL33388, THE COMMITTEE ON FOREIGN INVESTMENT IN THE UNITED STATES 4-10 (2019) [hereinafter CFIUS CRS REPORT].

transactions on the national security of the United States.”¹⁹ CFIUS has the ability to review foreign investments in the United States, and when it is found that the investment poses a risk to national security, impose limitations on transactions to mitigate such risk or advise the President to fully block such transactions.²⁰ While CFIUS has reviewed approximately 925 transactions and investigated 333 since 2008, only five transactions have ever formally been blocked by a President: two by President Obama in 2012 and 2016, and three by President Trump in 2017, 2018, and 2019.²¹ FIRRMA, passed in 2018 and currently in the process of implementation, broadens CFIUS’s power substantially. Two of the most expansive reforms in FIRRMA were redefining “covered transactions” and “critical technologies” more broadly to bring more transactions under CFIUS’s jurisdiction and implementing mandatory filings for certain transactions, making CFIUS more prominent in foreign investment.²² Because these changes are so recent, we have yet to see the effect of this expansion of CFIUS on FDIUS.

B. Foreign Direct Investment Literature

While there is an abundance of literature covering FDI in the context of U.S. investment abroad as well as FDI inflow to developing countries, there are only a handful of papers that look at FDI inflow to developed countries, and more specifically, to the United States.

¹⁹ U.S. DEP’T OF THE TREASURY, *The Committee on Foreign Investment in the United States (CFIUS)*, <https://home.treasury.gov/policy-issues/international/the-committee-on-foreign-investment-in-the-united-states-cfius>.

²⁰ U.S. DEP’T OF THE TREASURY, *Process Overview – Voluntary Notice*, <https://www.treasury.gov/resource-center/international/foreign-investment/Pages/cfius-overview.aspx>.

²¹ CFIUS CRS REPORT, *supra* note 18, at 21, 35.

²² For more information on FIRRMA, see CFIUS CRS REPORT, *supra* note 18.

Generally, literature examining the determinants of FDI focus on economic, geographic, and institutional indicators.²³ In the specific context of FDIUS,²⁴ Grosse and Travino develop a comprehensive explanatory model that uses pooled time-series, cross-sectional observations of FDI inflow to the United States from 23 countries from 1980 to 1991. The model includes several economic variables (bilateral trade, home country GDP, per capita income, cost of funds, relative rate of return, and exchange rate) and distance variables (geographic distance and cultural distance), along with one variable indicating political risk. They conclude that bilateral trade, GDP, and exchange rate are the main positive contributors to FDI whereas both geographic distance and cultural distance are the main negative contributors.²⁵

Although there is no existing literature on soft power and FDI, the relationship between FDI and various political indicators, such as political and economic uncertainty and political risk and stability, has been studied.²⁶ The two most relevant studies to this paper look at the relationship between uncertainty and FDIUS. Azzimonti develops the Trade Partisan Conflict Index (“TPCI”), which measures the degree of conflict among political parties, Congress, and the President on topics related to trade. While the “standard approach in this literature uses the

²³ For a review of the literature addressing general FDI determinants, see Isabel Faeth, *Determinants of Foreign Direct Investment – A Tale of Nine Theoretical Models*, 23 J. ECON. SURVEYS 165 (2009); Bruce A. Blonigen, *A Review of Empirical Literature on FDI Determinants*, 33 ATLANTIC ECON. J. 383 (2005). Also see, *infra* note 40 and accompanying text for more detail on gravity models.

²⁴ While this paper deals with FDI inflow to the United States as a whole, there is a line of literature that addresses determinants of FDI inflow to the United States by state. See Lucyna Kornecki & EM. Ekanayake, *State Based Determinants of Inward FDI Flow in the US Economy*, MODERN ECON. (2012).

²⁵ Robert Grosse & Len J. Trevino, *Foreign Direct Investment in the United States: An Analysis by Country of Origin*, 27 J. INT’L BUS. STUD. 139 (1996).

²⁶ There is also extensive literature on the connection between FDI and quality of institutions; however, most of this literature focuses on developing countries. Generally, better institutions result in greater FDI inflow. See e.g., Christian Daude & Ernesto Stein, *The Quality of Institutions on Foreign Direct Investment*, 19 ECON. & POL’Y 317 (2007).

timing of elections to measure variations in policy uncertainty,”²⁷ Azzimonti also considers the degree of conflict between the actors determining the policy itself through the TPCI. Using quarterly data from 1985 to 2016 for 38 host countries, Azzimonti finds that a one standard deviation increase in TPCI leads to an approximately 9.8 percent decrease in FDIUS flows as a percentage of positions in the country in a given quarter. Furthermore, though an analysis of geographic regions, Azzimonti concludes that on average, Canada and Mexico react less to high TPCI levels than other countries, and the same, although to a lesser extent, goes for OECD countries as compared to non-OECD countries.²⁸

A similar relationship exists between FDIUS and economic uncertainty. Krol uses indices developed by Baker, Bloom, and Davis, which measure economic policy uncertainty as well as ten other subcategories, including trade policy uncertainty. Krol uses vector autoregression (“VAR”) to account for the dynamic relationship between investment flows and the explanatory models, which provides impulse response functions. In the VAR model, Krol includes quarterly real GDP for OECD countries to measure world income, quarterly real U.S. GDP, exchange rate, and both the economic and trade policy uncertainty indices for 1986 to 2017. Krol concludes that economic policy uncertainty changes have a delayed but significantly negative effect on FDIUS and that this effect is much larger than the effect of trade policy uncertainty on FDIUS.²⁹

²⁷ Marina Azzimonti, *Does Partisan Conflict Deter FDI Inflows to the US?*, NAT’L BUREAU ECON. RES. 3 (2018) (citing Brandon Julio & Youngsuk Yook, *Political Uncertainty Irreversibility, and Cross-Border Flows of Capital*, 103 J. INT’L ECON. 13 (2016); Brandon Julio & Youngsuk Yook, *Political Uncertainty and Corporate Investment Cycles*, 67 J. FINANCE 45 (2012); Art Durnev, *The Real Effects of Political Uncertainty: Elections and Investment Sensitivity to Stock Prices* (2011)).

²⁸ Azzimonti, *supra* note 27.

²⁹ Robert Krol, *Does Uncertainty Over Economic Policy Harm Trade, Foreign Investment, and Prosperity?*, MERCATUS CENTER (2018).

In the context of political risk and stability, most studies look at the world as a whole and group the United States in with other high income developed countries. Kurecic and Kokotovic examine the effect of political stability on FDI inflows for three panels of countries: small economies (Panel A), large developed economies (Panel B), and economies threatened by terrorist attacks or instability (Panel C). They conclude that there is no statistically significant consistent link between FDI and political stability for Panel B, which includes the United States along with Australia, Canada, France, and the United Kingdom.³⁰ While Kurecic and Kokotovic use a measure for political stability that largely focuses on the absence of violence and covers only 1996 to 2013 (excluding 1997, 1999, and 2001),³¹ Akbar and Khan use 12 indices for political risk that cover a much broader range of risk, including the possibility that political events will affect the business climate, and use data spanning from 1986 to 2009.³² Akbar and Khan find that for high-income countries (33 countries including the United States), government stability, socioeconomic conditions, and investment profile have a negative significant effect on FDI inflows and corruption, military in politics, religion in politics, ethnic tensions, and bureaucratic quality have a positive significant effect on FDI inflows.³³

³⁰ Peter Kurecic & Filip Kokotovic, *The Relevance of Political Stability on FDI: A VAR Analysis and ARDL Models for Selected Small, Developed, and Instability Threatened Economies*, 5 MDPI OPEN ACCESS J. 1 (2017).

³¹ Kurecic and Kokotovic use the “political stability and absence of violence” indicator from the Worldwide Governance Indicators (“WGI”) project. For more information, see WORLD BANK, *Worldwide Governance Indicators*, <http://info.worldbank.org/governance/wgi/>.

³² Akbar and Khan use 12 indices from the International Country Risk Guide (“ICRG”): government stability, socioeconomic conditions, investment profile, internal conflict, external conflict, corruption, military in politics, religion in politics, law and order, ethnic tensions, democratic accountability, and bureaucratic quality. For more information, see PRS GROUP, *The International Country Risk Guide (ICRG)*, <https://www.prsgroup.com/explore-our-products/international-country-risk-guide/>.

³³ Mashfique Ibne Akbar & Mashrur Mustaque Khan, *The Impact of Political Risk on Foreign Direct Investment*, MPRA Paper 47283 (2013).

C. Soft Power Literature

The term “soft power” was first used by Joseph Nye in the late 1980s and has since become a widely used term in the field of international relations. Nye is the leading theorist on soft power and has written about soft power at length. While soft power can be defined in a multitude of ways, it generally refers to a country’s ability to persuade without the use of force or coercion.³⁴ Soft power stems from a country’s culture, ideology, and institutions and is unlike hard power, which stems from military and economic strength. A key component of soft power is a country’s attractiveness in the eyes of others. While soft power is hard to measure, Nye identifies public opinion polls as a quantitative measure for soft power.³⁵

Although there is a significant amount of theoretical literature on soft power, there are not many empirical studies involving soft power, likely because it is difficult to measure. The main studies on soft power, and those on which this paper is based on, are written by Rose and examine the relationship between soft power and exports. Rose uses three opinion polls to quantify soft power.³⁶ In his 2016 study, he focuses mostly on an opinion poll developed for BBC World Service in partnership with GlobeScan, an international polling firm (“GlobeScan”). The GlobeScan poll asks participants from 33 countries about whether eight countries, including the United States, have a mainly positive or negative influence in the world. In his 2019 study, Rose also uses the GlobeScan data but focuses mainly on the Gallup Leadership Approval Poll in

³⁴ Nye, *supra* note 2.

³⁵ See Joseph S. Nye, Jr., *Think Again: Soft Power*, Foreign Policy (2006), <https://foreignpolicy.com/2006/02/23/think-again-soft-power> (“In fact, its [sic] quite possible to quantify sources of soft power... Public opinion polls can quantify changes in a country’s [sic] attractiveness over time”).

³⁶ See Andrew K. Rose, *Soft Power and Exports* (July 1, 2019); Andrew K. Rose, *Like Me, Buy Me: The Effect of Soft Power on Exports* (Jan, 12, 2016).

which participants from 157 countries were asked whether they approved or disapproved of the job performance of the leadership of four countries, including the United States. In both studies, Rose also uses a poll conducted by the Pew Research Center that asked participants in 57 countries whether they had a favorable or unfavorable view of five countries, including the United States.³⁷

In both studies, Rose uses a gravity model³⁸ to estimate the effect of soft power on exports. While Rose concludes that there is a statistically significant positive relationship between soft power and exports in his 2016 model, he qualifies these results with the need for more data and that when using dyadic fixed effects,³⁹ this relationship becomes insignificant and decreases in magnitude. In Rose’s 2019 model, he slightly increases the sample size by use of the Gallup Poll and finds the same statistically significant positive relationship; however, the results are still sensitive to including dyadic fixed effects.

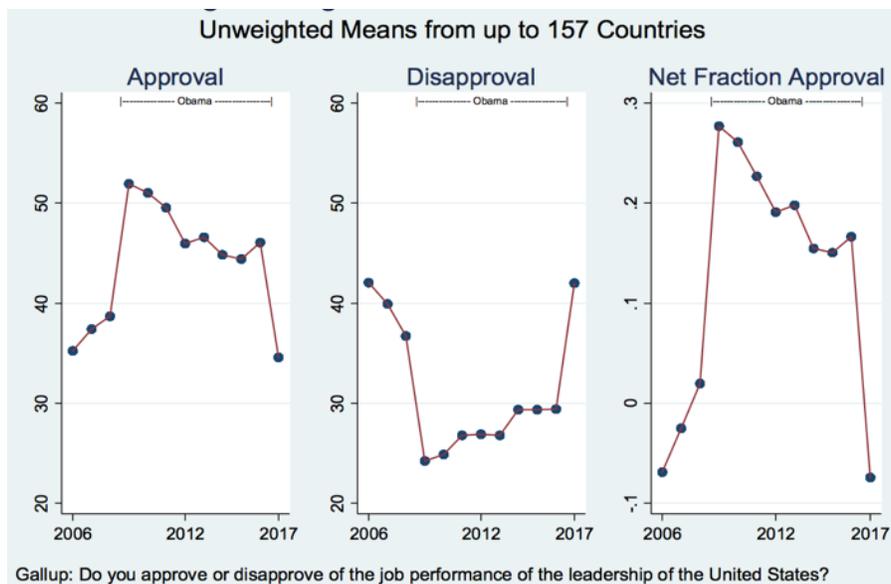


Figure 3. Average Foreign Views about the United States.

³⁷ For more information on these three polls, see *infra* Section V.

³⁸ For more information on gravity models, see *infra* note 40 and accompanying text.

³⁹ Dyadic data analysis is often used when the data is in the form of pairs, such as pairs of countries.

Furthermore, in the 2019 paper, Rose focuses more specifically on the United States, given the high volatility the Gallup Poll shows to U.S. leadership (see Figure 3). The Gallup Poll shows an extreme spike in approval ratings when Obama took office in 2009 and an extreme decline in approval ratings when Trump took office in 2017. While Rose's results are still subject to the issues discussed above, Rose estimates that a one percentage point increase in net U.S. leadership approval results in a one one-hundredth of a percent increase in U.S. exports, which is a large effect in absolute dollar terms.

This paper builds on the current studies on FDI generally and FDIUS as well as Rose's studies on soft power and exports to provide more insight into the determinants of FDIUS and the effect soft power has on the economic health of the United States. Given the unprecedented changes in the U.S. Presidency over the past decade with the United States' first black President and first President to have never held public office or served in the military, the perception of the United States abroad has experienced major upswings and downswings. This paper studies whether these major swings in perception actually effect the decisions of foreigners to invest in the United States, and therefore, the economic health of the United States.

In the next section, I discuss the theoretical framework of my analysis.

III. THEORETICAL FRAMEWORK

To examine the impact of the United States' soft power on inflows of FDIUS, I develop the theoretical model described below. This framework illustrates the factors that should, in theory, influence the inflows of FDI to the United States. I developed the empirical model that follows using this framework, and the empirical model tests the implications of this theoretical framework. My theoretical framework is the following:

$$FDIUS = f(\text{Economic Size, Distance, Trade Relationship, Soft Power, } e) \quad (1)$$

This framework builds on the previously established gravity model, which has become the dominant theoretical model used to predict bilateral trade and investment flows.⁴⁰ The basic gravity model for FDI between two countries divides a constant (G) and the economic size of the two countries (Y_i, Y_j) by the distance between the two countries (D_{ij}):

$$FDI = G * \frac{Y_i * Y_j}{D_{ij}} \quad (2)$$

This can be manipulated into linear form for the purposes of regression analysis by taking the log of both sizes. For the purposes of this paper, I build on the basic gravity model to include additional characteristics to account for the soft power of the United States and the trade relationship between the United States and the host country. While the gravity model is the standard method for bilateral trade flows, there is significant debate over whether this method

⁴⁰ For a thorough discussion of the gravity model and its use in determining FDI flows, see Dean E. DeRosa, *Gravity Model Analysis, in* MAGHREB REGIONAL AND GLOBAL INTEGRATION: A DREAM TO BE FULFILLED 45-68 (Gary Clyde Hufbauer & Claire Brunel, eds. 2008); Giuseppina Maria Chiara Talamo, *Institution, FDI and the Gravity Model*, ECONOMIC GROWTH: INSTITUTIONAL AND SOCIAL DYNAMICS (2007).

leads to biased estimates.⁴¹ A major cause of bias relevant to this paper results from the inability to include zero and negative numbers in the model. Because over 50 percent of my dependent variables consist of zeros, I use the foundation of the basic gravity model but use OLS and fixed effects as a substitute. In this paper, I estimate OLS and fixed effects models, which produce consistent results without the risk of bias that the gravity model produces.

In the next section, I discuss the empirical model I use for my analysis.

⁴¹ For a thorough discussion of the bias that could result from the gravity model, see Richard Baldwin & Daria Taglioni, *Trade Effects of the Euro: A Comparison of Estimators*, 22 J. ECON. INTEGRATION 780 (2007), James E. Anderson & Eric Van Wincoop, *Gravity with Gravitas: A Solution to the Border Puzzle*, 93 AM. ECON. REV. 170 (2003), and Estrella Gómez-Herrera, *Comparing Alternative Methods to Estimate Gravity Models of Bilateral Trade*, 44 EMPIRICAL ECON. 1087 (2013).

IV. EMPIRICAL MODEL

$$FDIUS_t = \beta_0 + \beta_1(SOFTPOWER_t) + \beta_2(POPSIZE_{ijt}) + \beta_3(GDPPERCAP_{ijt}) + \beta_4(EXPORTS) + \beta_5(DISTANCE) + \beta_6(BORDER) + \beta_7(COMLANG) + \beta_8(RTA) + \beta_9(CFIUS_t) + \mu \quad (3)$$

Where:

FDIUS is the amount of foreign direct investment inflows into the United States from the host country at time *t*;

SOFTPOWER is a bilateral measure of the soft power that the United States is perceived to have from the host country at time *t*;

POPSIZE is the population size of the host country (*j*) and the United States (*i*) at time *t*;

GDPPERCAP is the gross domestic product per capita of the host country (*j*) and the United States (*i*) at time *t*;

EXPORTS is the nominal value of bilateral exports from host country to the United States at time *t*;

DISTANCE is the great circle distance between the host country and the United States;⁴²

BORDER is whether the host country shares a border with the United States;

COMLANG is whether the host country shares a common language with the United States;

RTA is whether the host country and the United States have a regional trade agreement in place at time *t*;

CFIUS is the number of notices of covered transactions filed with the Committee on Foreign Investment in the United States from the importing country at time *t*; and

μ is the random error.

⁴² The great circle distance measures the shortest distance between the two points along the surface of the sphere.

Table 1. Expected Relationship to *FDIUS*

VARIABLE	EXPECTED SIGN
<i>SOFTPOWER</i> (<i>APPG</i>)	+
<i>POPSIZE_i</i> (<i>EXPPOP</i>)	+
<i>POPSIZE_j</i> (<i>USPOP</i>)	+
<i>GDPPERCAP_i</i> (<i>EXPGDP</i>)	+
<i>GDPPERCAP_i</i> (<i>USGDP</i>)	+
<i>EXPORTS</i>	+
<i>DISTANCE</i>	-
<i>BORDER</i>	+
<i>COMLANG</i>	+
<i>RTA</i>	+
<i>CFIUS</i>	-

FDIUS is the dependent variable used to account for the level of inflow of foreign direct investment from a host country to the United States in a given year. *SOFTPOWER* is the independent variable of interest and is used to determine whether the host country's perception of the United States in a given year impacts the amount it invests in the United States. Based on the hypothesis of this paper, I expect that as the United States' soft power increases, *FDIUS* will also increase.

I use *POPSIZE* and *GDPPERCAP* to adjust for both the United States' and the host country's economic size. A larger population size and GDP per capita signify more people and money in the host country to invest in the United States, and those in the United States signify a growing economy and thus a more attractive investment location; therefore, I expect that as these variables increase, *FDIUS* will also increase.

I use *DISTANCE*, *BORDER*, and *COMLANG* to adjust for the host country's ease in doing business in the United States.⁴³ Although globalization and technological advancements have brought the world closer together and have made both the transfer of money from across the world and quick translations possible at the touch of a button, and thus the impact of distance and language on FDIUS has likely decreased over time, the closer a country is to the United States and the easier it is to communicate across borders, the easier it is to do business in the United States. I expect that as distance increases, FDIUS will decrease. I expect that if the host country and the United States share a border as well as a common language, FDIUS will increase.

I use *EXPORTS*, *RTA*, and *CFIUS* to adjust for the host country's overall trade relationship with the United States. Countries with robust exports to the United States and countries with a regional trade agreement with the United States likely have better relationships with the United States, and thus, those countries are likely to invest more in the United States. I expect that if the host country has a regional trade agreement with the United States and that as exports increase, FDIUS will also increase. Because filing with CFIUS is a time consuming and expensive process that could result in the transaction being blocked, I would expect that as the number of CFIUS reviews from a country increases, investing in the United States would become less appealing, and thus, FDIUS will decrease.

In the next section, I discuss the data I use in my analysis.

⁴³ These three variables, along with *RTA*, do not vary year-to-year and are thus dropped from the fixed effects models; however, because they are fixed, the fixed effects model should still account for them.

V. DATA

In order to estimate these models, I use panel data by host country from 2006 to 2017. The panel contains 2,450 observations of countries (imbalanced) across 11 years. These data have been carefully collected from a variety of government sources and from a well-regarded researcher who focuses on economic analysis of international trade patterns.

The dependent variable, *FDIUS*, is a continuous variable that provides the amount of direct investment inflow to the United States from the host country. The variable is in millions of U.S. Dollars and is measured by three metrics: (1) position on a historical cost-basis (*FDIPOS*), (2) financial transactions without current-cost adjustment (*FDITRANS*), and (3) income without current-cost adjustment (*FDIINC*). These data were originally collected from the U.S. Bureau of Economic Analysis.

The independent variables of interest are the proxy measures for soft power. This includes opinion poll data from Gallup. These data are taken from the data set made available by Andrew Rose for his paper “Soft Power and Export Controls” (“Soft Power data set”).

The Gallup variables are continuous variables that represent the results of a survey conducted by the Gallup World Poll. The survey asks participants in 157 countries whether they “approve or disapprove of the job performance of the leadership of” the United States. These data were collected from 2006 to 2017. The variables provide the percent of survey respondents in the investor country that approve (*APPG*), disapprove (*DISG*), or do not know / refuse to answer whether they approve or disapprove (*DKRG*) of U.S. leadership. I also created the variable, *APPROVE*, from *APPG*, which is an indicator variable that equals 1 if 50 percent or

over of the host country approves of U.S. leadership and 0 if under 50 percent of the host country approves of U.S. leadership.

POPSIZE is a continuous control variable, indicating the population of the United States (*USPOPSIZE*) and the host country (*EXPPOPSIZE*). *GDPPERCAP* is a continuous control variable, indicating the real gross domestic product per capita of the United States (*USGDP*) and the host country (*EXPGDP*) as measured in millions of USD. *EXPORTS* is a continuous control variable, indicating the nominal average value of free on board (“FOB”) exports between the host country and the United States. *LDISTANCE* is a continuous control variable, indicating the log of the great-circle distance between the host country and the United States. *BORDER* is an indicator variable that equals 1 if the host country shares a border with the United States and 0 if it does not. *COMLANG* is an indicator variable that equals 1 if the host country shares a common language with the United States and 0 if it does not. *RTA* is an indicator variable that equals 1 if the United States has a regional trade agreement with the host country and 0 if it does not. These data are from the Soft Power data set.⁴⁴

CFIUS is a continuous control variable, indicating the number of covered transactions by each host country in which notices were filed with CFIUS.⁴⁵ This variable was created from the unclassified annual reports CFIUS filed with Congress for CY 2006 through 2017.⁴⁶

⁴⁴ These data were originally collected from the IMF’s Direction of Trade Statistics and the CIA’s World Factbook.

⁴⁵ For more information on CFIUS, see *supra* notes 18-22.

⁴⁶ U.S. DEP’T OF THE TREASURY, *CFIUS Reports and Tables*, <https://home.treasury.gov/policy-issues/international/the-committee-on-foreign-investment-in-the-united-states-cfius/cfius-reports-and-tables>.

Table 2. Summary Statistics.

VARIABLE * = dummy variable	OBSERVATIONS	MEAN / % OF POPULATION	MINIMUM	MAXIMUM	STANDARD DEVIATION
<i>EXPPOP</i>	3,126	33,500,000	9,635	1,390,000,000	132,000,000
<i>EXPGDP</i>	2,967	12,886.23	193.87	94,903.19	17,801.41
<i>USPOP</i>	3,254	307,000,000	288,000,000	326,000,000	11,800,000
<i>USGDP</i>	3,254	49,353.47	45,428.65	53,128.54	2,021.45
<i>LDISTANCE</i>	3,161	8.61	6.98	9.26	0.46
<i>EXPORTS</i>	3,105	9,318.296	0.000164	433,744.9	37,458.34
<i>CFIUS</i>	2,649	0.60	0	60	3.02
<i>BORDER*</i>	3,161	1.01%	-	-	-
<i>COMLANG*</i>	3,161	34.93%	-	-	-
<i>RTA*</i>	3,161	1.52%	-	-	-
FOREIGN DIRECT INVESTMENT					
<i>FDIPOS</i>	2,831	11,928.94	-13,030	540,922	52,606.03
<i>FDITRANS</i>	2,904	1,021.12	-94,851	75,327	5,900.12
<i>FDIINC</i>	3,016	640.62	-3,767	36,555	640.62
APPROVAL OF U.S. LEADERSHIP (GALLUP)					
<i>APPG</i>	1,434	43.95	1	95	20.29
<i>DISG</i>	1,434	31.39	1	91	18.86
<i>DKRG</i>	1,434	24.65	0	78	14.32
<i>APPROVE</i>	1,434	37.87%	-	-	-

VI. RESULTS

I use ordinary least squared (“OLS”) and fixed effects (“FE”) models to determine whether and to what extent the United States’ soft power impacts foreign direct investment in the United States. The results from the OLS and FE models appear to be consistent and show that there is a significant positive relationship between approval of U.S. leadership and FDIUS. Due to data limitations, these results likely suffer from omitted variable bias and specification errors; however, the consistent positive significant relationship between soft power and foreign direct investment across models indicates such a relationship likely exists and warrants further analysis.

I begin my analysis by estimating different models using three different measures of FDIUS as my dependent variable: (1) *FDIPOS* refers to the FDI position in the United States on a historical cost basis; (2) *FDITRANS* refers to the FDI financial transactions in the United States without current-cost adjustment; and (3) *FDIINC* refers to the FDI gross income in the United States without current-cost adjustment. Interestingly, the models using *FDIPOS* and *FDIINC* as the dependent variable produce much better results for both OLS and fixed effects than the models using *FDITRANS* as the dependent variable. The *FDITRANS* OLS models indicate a positive and marginally significant relationship between approval of U.S. leadership and FDIUS, but have substantially lower overall F statistics and R² statistics; the *FDITRANS* fixed effect models do not produce significant results. Accordingly, I include *FDITRANS* models in Table 5 of the Appendix and focus most of my analysis in this section on *FDIPOS* and *FDIINC*.

First, I report the results from the *FDIPOS* and *FDIINC* OLS models in Table 3. *FDIPOS* OLS Model 1 and *FDIINC* OLS Model 1 include all the control variables, as shown in equation (3), and the subsequent models adjust from that equation accordingly.

Table 3. *FDIPOS* and *FDIINC* OLS Regression Results

Variables	(1) <i>FDIPOS</i>	(2) <i>FDIPOS</i>	(3) <i>FDIPOS</i>	(4) <i>FDIINC</i>	(5) <i>FDIINC</i>	(6) <i>FDIINC</i>
	OLS Model 1	OLS Model 2	OLS Model 3	OLS Model 1	OLS Model 2	OLS Model 3
<i>APPG</i>	292.3*** (51.06)	285.2*** (50.42)	282.5*** (49.97)	15.95*** (3.359)	16.36*** (3.537)	16.05*** (3.517)
<i>EXPORTS</i>	1.120*** (0.125)	1.120*** (0.125)	1.120*** (0.125)	0.0589*** (0.00887)	0.0590*** (0.00886)	0.0588*** (0.00887)
<i>BORDER</i>	-211,670*** (36,709)	-211,659*** (36,684)	-207,283*** (36,362)	-10,264*** (2,555)	-10,260*** (2,553)	-9,786*** (2,559)
<i>COMLANG</i>	-9,948*** (2,725)	-9,837*** (2,696)	-10,614*** (2,516)	-574.6*** (163.8)	-582.0*** (162.2)	-656.9*** (156.9)
<i>EXPPOP</i>	-2.45e-05*** (7.02e-06)	-2.47e-05*** (6.97e-06)	-2.57e-05*** (6.99e-06)	-1.24e-06*** (4.15e-07)	-1.22e-06*** (4.15e-07)	-1.32e-06*** (4.15e-07)
<i>EXPGDP</i>	0.512*** (0.127)	0.511*** (0.126)	0.518*** (0.125)	0.0366*** (0.00946)	0.0367*** (0.00945)	0.0374*** (0.00940)
<i>USPOP</i>	0.000366*** (0.000138)	0.000435*** (0.000124)	0.000433*** (0.000123)	6.16e-06 (1.10e-05)		
<i>USGDP</i>	0.468 (0.801)			-0.0261 (0.0553)		
<i>LDISTANCE</i>	-2,879 (1,881)	-2,860 (1,883)		-289.3*** (100.0)	-287.9*** (99.69)	
<i>RTA</i>	-84,982*** (12,534)	-85,050*** (12,512)	-85,141*** (12,530)	-5,644*** (803.9)	-5,645*** (807.7)	-5,656*** (809.3)
<i>CFIUS</i>	13,260*** (1,642)	13,267*** (1,641)	13,276*** (1,641)	744.0*** (108.3)	743.4*** (108.2)	744.7*** (108.3)
<i>CONSTANT</i>	-130,378*** (40,192)	-128,235*** (38,685)	-152,088*** (39,678)	951.5 (2,579)	1,541* (846.4)	-918.5*** (186.7)
Observations	1,231	1,231	1,231	1,289	1,289	1,289
R-squared	0.776	0.776	0.775	0.706	0.706	0.705
F Statistic	95.02***	103.5***	111***	54.05***	64.87***	72.51***
SPECIFICATION LINK TEST						
_hatsq P > t	0.091*	0.087*	0.083*	.024**	.025**	.020**
RAMSEY RESET TEST						
F statistic	161.30***	161.41***	155.88***	89.16***	88.90***	84.09***

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

While the OLS models are less rigorous than the fixed effects models, the OLS models produce the most significant and interesting results. There are consistent relationships across the different models as well as across the different measures of FDIUS among all of the independent variables and FDIUS. While the magnitude of the coefficients in the *FDIPOS* models are vastly different than the magnitude of those in the *FDIINC* models, the fact that the signs are consistent on the coefficients for the same variables across the two measures shows the strength of the models. The magnitude of the coefficients differs due to the difference in the two measurements of FDIUS; the FDI position of the host country is traditionally a much larger measure than the FDI gross income of the host country.⁴⁷

Ultimately, I find that Model 3 for both *FDIPOS* and *FDIINC* is the best model for each measure. These models have the highest overall F statistic with relatively the same R² value as Model 1 (the difference of the R² between Model 1 and Model 3 for both measures is only 0.001), and all independent variables are statistically significant at the 99 percent confidence level. Both Model 3s exclude *LDISTANCE* and *USGDP*, and the *FDIINC* Model 3 also excludes *USPOP*.

The coefficients on the independent variable of interest, *APPG*, are statistically significant at the 99 percent confidence level for all models for both measures of FDIUS. Most importantly, both show significant positive relationships between soft power and FDIUS, which is consistent with my hypothesis. A one percent increase in a host country's approval rating of U.S. leadership leads to an, on average, approximately \$282.5 million increase in the FDI position of that host country in the United States on a historical cost basis. A one percent

⁴⁷ See *supra*, Table 2. Summary Statistics.

increase in a host country's approval rating of U.S. leadership leads to an, on average, approximately \$16.05 million increase in the FDI gross income of that host country in the United States without current cost adjustment.

Despite these models having high F statistics, R^2 values, and highly significant variables, there does appear to be specification and omitted variable bias issues. I run two main tests on these OLS models: the first is the link test for model specification and the second is the Ramsey RESET test for omitted variable bias. Additionally, the variance inflation factors for each model do not indicate there is collinearity that is high enough for there to be any substantial concern. The link test indicates there may be specification errors above the 90 percent confidence level for the three *FDIPOS* models and above the 95 percent confidence level for the three *FDIINC* models. For this reason, I estimated two additional specifications in Tables 6 and 7 in the Appendix. I report the results for the gravity model estimation in Table 6, which includes all of the logged versions of the variables. As discussed in the theoretical section, these estimations significantly limit the number of observations in my model, eliminating approximately one thousand observations. In these models, the coefficients on $\text{Log}(APPG)$ are not statistically significant, indicating there is not a significant relationship between soft power and FDIUS. This is an important finding and shows that more analysis must be done to confidently conclude such a relationship exists; however, due to the limited number of observations in these models, I still believe the relationship shown in Tables 3 and 4 is reliable. The link test shows there is a specification error for the $\text{Log}(FDIPOS)$ model, but no such error exists for the $\text{Log}(FDIINC)$ and $\text{Log}(FDITRANS)$ models. I report the results for the model estimations using an indicator variable as my soft power variable, *APPROVE*, in Table 7. Similar to the OLS results in Table 3

and consistent with my hypothesis, this specification shows a significant positive relationship between soft power and FDIUS: host countries with a 50 percent or over approval rating of U.S. leadership are more likely to invest in the United States. Nevertheless, the *FDIPOS* and *FDIINC* models also do not pass the link test.

All of the OLS models estimated in Table 3, as well as in Tables 6 and 7, fail the Ramsey RESET test. The results of this test show that we reject the null hypothesis that the model has no omitted variables, and thus, these models suffer from omitted variable bias. Although this is a problem, it is one I expected to occur due to data limitations. Furthermore, even though this issue exists with the OLS models, I expect it to be the same in the fixed effects models. While fixed effects accounts for variables fixed across time within country-pair and accounts for any important omitted fixed variables in the OLS models, it does not account for relevant variables that vary over time across countries. Therefore, there is no reason to believe the fixed effects models have solved the omitted variable bias problems in the OLS models.

Second, I report the results from the *FDIPOS* and *FDIINC* fixed effects models in Table 4. There are two versions for each model, one with year controls and one without year controls.

Table 4. *FDIPOS* and *FDIINC* FE Regression Results

Variables	(1) <i>FDIPOS</i> FE Model with Year Controls ⁴⁸	(2) <i>FDIPOS</i> FE Model without Year Controls	(4) <i>FDIINC</i> FE Model with Year Controls ⁴⁹	(5) <i>FDIINC</i> FE Model without Year Controls
<i>APPG</i>	301.2*** (85.03)	288.4*** (80.13)	11.06** (4.526)	10.27** (4.529)
<i>EXPORTS</i>	0.143 (0.158)	0.128 (0.156)	0.0226 (0.0145)	0.0245* (0.0143)
<i>EXPPOP</i>	-0.000106 (7.42e-05)	-0.000104 (7.34e-05)	-6.33e-06 (3.96e-06)	-6.27e-06 (3.86e-06)
<i>EXPGDP</i>	3.436*** (0.799)	3.434*** (0.798)	0.171* (0.100)	0.167* (0.0996)
<i>USPOP</i>	-0.000197 (0.000270)	0.000204** (9.78e-05)	-4.84e-05** (2.33e-05)	4.84e-06 (6.14e-06)
<i>USGDP</i>	4.894* (2.584)	1.436** (0.564)	0.327** (0.159)	-0.0323 (0.0269)
<i>CFIUS</i>	2,381 (2,786)	2,376 (2,774)	196.6*** (56.66)	194.3*** (57.41)
<i>CONSTANT</i>	-224,535*** (74,699)	-172,876*** (56,687)	-3,363 (2,924)	-1,575 (1,942)
Observations	1,231	1,231	1,289	1,289
R-squared	0.232	0.229	0.136	0.122
# of Pairs	147	147	152	152
F Statistic	4.322***	6.220***	6.498***	6.424***
Country FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

The more rigorous fixed effects models are less compelling than the OLS results; nevertheless, they still indicate significant positive relationships between soft power and FDIUS. The coefficients on the independent variable of interest, *APPG*, are statistically significant at the

⁴⁸ Year controls omitted from table.

⁴⁹ Year controls omitted from table.

99 percent confidence level for the *FDIPOS* models and are such at the 95 percent confidence level for the *FDIINC* models. A one percent increase in a host country's approval rating of U.S. leadership leads to an, on average, approximately \$288.4 million increase in the FDI position of that host country in the United States on a historical cost basis. A one percent increase in a host country's approval rating of U.S. leadership leads to an, on average, approximately \$10.27 million increase in the FDI gross income of that host country in the United States without current-cost adjustment. These numbers are relatively similar to the OLS numbers.

Despite this significant positive relationship, overall the models' F statistics and R² values are lower than those in the OLS models and most of the other independent variables are not highly significant. The poor significance of the overall model and individual variables may be a result of missing important controls on fixed effects due to limitations in the data. As previously discussed, there is no reason to believe the fixed effects model solves the omitted variable bias present in the OLS models. Additionally, the fixed effects models may be accounting for fixed cultural attitudes towards the United States, and therefore, the model would be adjusting for the very thing I am trying to measure. The FE models in the alternative specification models in Tables 6 and 7 do not show any better results and other than in the *FDIPOS* FE Model using *APPROVE* as the dependent variable of interest, in which *APPROVE* is significant at a 90 percent confidence level, the relationship between soft power and FDIUS is not statistically significant.

Next, I discuss the policy implications and recommendations that result from these findings.

VII. CONCLUSION AND POLICY RECOMMENDATIONS

This paper explores the relationship between the United States' soft power, measured by the host country's opinion of U.S. leadership, and the inflow of foreign direct investment to the United States. The results of my empirical model show there is likely a positive relationship between FDIUS and soft power such that FDIUS increases as a host country's opinion of U.S. leadership increases. While my model has limitations, including specification errors and omitted variable bias, which indicate more analysis should be done, the consistent nature of my results indicates such a relationship likely exists.

The policy recommendations based on my results stem from one overarching conclusion: who we elect as president matters. Given the large incline at the start of the Obama Administration and the substantial decline at the start of the Trump Administration in the net approval ratings of U.S. leadership, the data shows the perception of the President is a significant factor in the United States' attractiveness abroad. While choosing a President has obvious implications on policy in the United States domestically, I show that it also has consequences for whether foreigners choose to invest in the country. The approval of U.S. leadership abroad has an impact on the economic health of the United States. Ultimately, it is critical to have the right person in charge.

The major implication from this paper is that presidential actions and behavior matters. Presidential action and behavior, even in the absence of an actual change in policy, have a concrete economic impact. In today's global and interconnected economy, mere rhetoric about matters that seems to be purely international can have a substantial effect on the domestic economy. Trade wars and protectionist language are bad in more dimensions than just trade

itself: they affect not only future decisions of foreigners to invest in the United States, but also affect the billions of foreign investment currently in the United States, which support the employment of over 12 million people. The United States is the largest player on the international stage and the President is the one holding the microphone.

Several recommendations result from these findings. The first is regarding electoral reform. I propose that the United States should abandon the electoral college and elect the President based on the popular vote. The roles of the state and federal governments in the United States have drastically changed over the past 200 years, with U.S. citizens identifying more with their country than the specific state they may live in at the time of the election. Furthermore, any state interests are reinforced through Congress. The citizens of the United States should determine who the President is, not a procedure in which some citizens votes count less than others based on the electoral college. While foreigners may still disapprove of the President, elections by popular vote provide a much better safeguard against elections through gaming the electoral college and representing the actual desires of a majority of U.S. citizens.

The following recommendations involve data collection and the analysis of such data. I recommend that more data measuring the attractiveness of the United States abroad be collected. There are relatively few comprehensive surveys measuring the soft power of the United States that cover a large amount of countries. While the Gallup survey is the most comprehensive, access to such data is severely limited due to its significant cost. Furthermore, Gallup only surveys one thousand participants in 157 countries. I also recommend the standardization of data. In compiling my dataset, I was surprised to see the lack of standardized data available and

combining datasets proved very difficult as most sources either did not include country codes or included a different version of country codes in the dataset.

Additionally, I recommend the development of a new model to measure bilateral trade and investment flows that accounts for the reality that many countries do not do business with each other, and therefore, includes zeros as values. Finally, I recommend that more studies be conducted to determine the impact of U.S. soft power, specifically the impact of U.S. leadership, on the U.S. economy.

VIII. APPENDIX

Table 5. *FDITRANS* OLS and FE Regression Results

Variables	(1) <i>FDITRANS</i> OLS Model 1	(2) <i>FDITRANS</i> OLS Model 2	(3) <i>FDITRANS</i> OLS Model 3	(4) <i>FDITRANS</i> FE Model with Year Controls ⁵⁰	(5) <i>FDITRANS</i> FE Model without Year Controls
<i>APPG</i>	22.11*** (8.514)	22.14*** (8.405)	23.15** (9.130)	-0.770 (16.02)	5.319 (16.41)
<i>EXPORTS</i>	0.0809*** (0.0171)	0.0809*** (0.0171)	0.0768*** (0.0166)	-0.0166 (0.0475)	-0.0202 (0.0489)
<i>EXPPOP</i>	-1.96e-06** (7.65e-07)	-1.94e-06** (7.76e-07)		-2.67e-06 (9.29e-06)	-1.37e-06 (9.33e-06)
<i>EXPGDP</i>	0.0653*** (0.0202)	0.0652*** (0.0200)	0.0686*** (0.0192)	0.553*** (0.212)	0.563*** (0.215)
<i>USPOP</i>	-2.36e-05 (2.53e-05)	-2.35e-05 (2.51e-05)		0.000336** (0.000161)	-2.95e-05* (1.78e-05)
<i>USGDP</i>	0.303*** (0.115)	0.303*** (0.114)	0.211** (0.0991)	-2.742** (1.231)	0.193 (0.126)
<i>CFIUS</i>	1,103*** (273.6)	1,103*** (274.2)	1,108*** (273.1)	705.7 (443.6)	700.0 (440.8)
<i>BORDER</i>	-9,171 (5,861)	-9,233 (5,861)	-8,243 (5,764)		
<i>COMLANG</i>	-842.7** (396.5)	-831.6** (350.1)	-921.5*** (322.3)		
<i>LDISTANCE</i>	41.35 (324.9)				
<i>RTA</i>	-6,993*** (1,632)	-6,991*** (1,637)	-6,965*** (1,602)		
<i>CONSTANT</i>	-9,654 (6,251)	-9,312 (6,738)	-12,198** (5,251)	30,185** (14,281)	-6,734 (7,093)
Observations	1,241	1,241	1,241	1,241	1,241
R-squared	0.453	0.453	0.452	0.071	0.065
F Statistic	18.81***	18.85***	23.34***	5.612***	3.754***
# of Pairs	-	-	-	150	150
Country FE	-	-	-	YES	YES
Year FE	-	-	-	YES	YES
SPECIFICATION LINK TEST					
\hat{Q} P > t	0.180	0.181	0.137	-	-

⁵⁰ Year controls omitted from table.

RAMSEY RESET TEST					
F Statistic	12.06***	12.10***	12.38***	-	-

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 6. Alternative Specification Regression Results – Gravity Models

Variables	(1) Log (<i>FDIPOS</i>) OLS Model	(2) Log (<i>FDIINC</i>) OLS Model	(3) Log (<i>FDITRANS</i>) OLS Model	(4) Log (<i>FDIPOS</i>) FE Model	(5) Log (<i>FDIINC</i>) FE Model	(6) Log (<i>FDITRANS</i>) FE Model
Log(<i>APPG</i>)	0.148 (0.157)	0.172 (0.200)	0.340 (0.283)	0.0992 (0.0695)	0.195 (0.164)	0.0403 (0.183)
Log(<i>EXPORTS</i>)	0.406*** (0.0838)	0.508*** (0.101)	0.405*** (0.133)	0.153 (0.247)	0.414 (0.402)	0.135 (0.630)
<i>BORDER</i>	-1.357*** (0.455)	-1.717** (0.664)	-0.955 (0.693)			
<i>COMLANG</i>	0.400** (0.162)	0.468** (0.181)	0.634*** (0.242)			
Log(<i>EXPPPOP</i>)	0.587*** (0.112)	0.570*** (0.152)	0.596*** (0.180)	0.348 (1.857)	-3.816 (3.085)	-2.255 (1.976)
Log(<i>EXPGDP</i>)	1.614*** (0.170)	1.523*** (0.197)	1.437*** (0.265)	2.182** (0.815)	2.360 (1.566)	2.279 (1.423)
Log(<i>USPOP</i>)	8.095* (4.888)	-2.325 (6.268)	-6.134 (6.502)	8.446** (3.263)	4.705 (5.860)	2.464 (5.848)
Log(<i>USGDP</i>)	0.219 (3.655)	0.805 (5.240)	5.185 (5.374)	-1.456 (1.488)	-2.760 (4.040)	-0.164 (3.773)
<i>LDISTANCE</i>	-1.062*** (0.283)	-1.847*** (0.356)	-0.911*** (0.336)			
<i>RTA</i>	-0.800*** (0.182)	-1.616*** (0.398)	-1.029** (0.518)			
Log(<i>CFIUS</i>)	0.425*** (0.0835)	0.400*** (0.106)	0.359*** (0.122)	0.0554 (0.0426)	0.111** (0.0521)	0.283** (0.106)
<i>CONSTANT</i>	-173.3*** (65.46)	28.23 (77.37)	48.85 (83.45)	-169.7*** (36.95)	-18.32 (52.22)	-24.82 (64.65)
Observations	230	205	199	230	205	199
R-squared	0.749	0.743	0.658	0.404	0.147	0.111
F Statistic	129.8***	86.56***	30.94***	17.40***	4.531***	2.428**
# of Pairs	-	-	-	38	38	39
Country FE	-	-	-	YES	YES	YES
Year FE	-	-	-	YES	YES	YES
SPECIFICATION LINK TEST						
hatsq P > t	.005***	.637	.183	-	-	-
RAMSEY RESET TEST						
F Statistic	15.45***	5.74***	3.99***	-	-	-

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 7. Alternative Specification Regression Results – *APPROVE* Models

Variables	(1) <i>FDIPOS</i>	(2) <i>FDIINC</i>	(3) <i>FDITRANS</i>	(4) <i>FDIPOS</i>	(5) <i>FDIINC</i>	(6) <i>FDITRANS</i>
	OLS Model	OLS Model	OLS Model	FE Model	FE Model	FE Model
<i>APPROVE</i>	10,833*** (2,330)	607.2*** (154.1)	669.9* (364.8)	2,939* (1,681)	126.7 (104.8)	-424.2 (644.9)
<i>EXPORTS</i>	1.138*** (0.126)	0.0599*** (0.00886)	0.0823*** (0.0171)	0.149 (0.165)	0.0252* (0.0142)	-0.0209 (0.0485)
<i>BORDER</i>	-215,384*** (36,916)	-10,445*** (2,546)	-9,469 (5,871)			
<i>COMLANG</i>	-9,929*** (2,701)	-582.2*** (165.1)	-798.2** (385.7)			
<i>EXPPOP</i>	-2.72e-05*** (6.90e-06)	-1.37e-06*** (4.03e-07)	-2.26e-06*** (7.33e-07)	-0.000123 (8.57e-05)	-6.89e-06* (4.15e-06)	-2.06e-06 (9.32e-06)
<i>EXPGDP</i>	0.470*** (0.124)	0.0343*** (0.00923)	0.0616*** (0.0200)	3.337*** (0.807)	0.164 (0.100)	0.559** (0.216)
<i>USPOP</i>	0.000450*** (0.000143)	1.04e-05 (1.13e-05)	-1.55e-05 (2.69e-05)	0.000383** (0.000152)	1.05e-05 (7.87e-06)	-2.08e-05 (2.03e-05)
<i>USGDP</i>	-0.197 (0.779)	-0.0581 (0.0552)	0.244** (0.115)	0.205 (0.350)	-0.0730** (0.0344)	0.138 (0.105)
<i>LDISTANCE</i>	-2,921 (1,917)	-284.6*** (101.6)	45.06 (329.1)			
<i>RTA</i>	-86,391*** (12,477)	-5,714*** (800.1)	-7,075*** (1,650)			
<i>CFIUS</i>	13,224*** (1,646)	742.1*** (108.3)	1,101*** (273.4)	2,242 (2,834)	190.1*** (58.97)	685.7 (443.8)
<i>CONSTANT</i>	-113,443*** (39,674)	1,681 (2,546)	-8,497 (6,073)	-153,375*** (53,925)	-844.1 (1,807)	-6,143 (6,468)
Observations	1,231	1,289	1,241	1,231	1,289	1,241
R-squared	0.775	0.705	0.452	0.205	0.117	0.065
F Statistic	93.17***	53.41***	18.46***	5.962***	6.094***	3.910***
# of Pairs				147	152	150
Country FE	-	-	-	YES	YES	YES
Year FE	-	-	-	YES	YES	YES
SPECIFICATION LINK TEST						
$\hat{h}_{atsq} P > t $.080*	.025**	.224	-	-	-
RAMSEY RESET TEST						
F Statistic	156.61***	86.35***	11.26***	-	-	-

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

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