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Working Paper No. 142

**ETHNICITY AND INDIVIDUAL
ATTITUDES TOWARDS
INTERNATIONAL INVESTORS:
SURVEY EVIDENCE FROM
SUB-SAHARAN AFRICA**

by Thilo Bodenstein

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by **Thilo Bodenstein**

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ABSTRACT

Scholarly literature has recently advanced our understanding of why citizens prefer or reject free trade. Empirical results based on OECD countries confirm the Heckscher-Ohlin model of trade. The paper shifts the focus towards Sub-Saharan Africa and tests the determinants of individual support toward foreign investors. It proposes a model that explains why foreign direct investment reinforces policy making along ethnic cleavages and predicts that individual trade attitudes are mainly formed by individuals' politically relevant ethnic group identity. Using data from 19 countries and over 15000 respondents of Afrobarometer's fourth round the paper presents evidence for the role of ethnicity as a determinant for individual support for foreign investors. The results do not confirm the predictions of the Heckscher-Ohlin model.

INTRODUCTION¹

Attracting foreign direct investment (FDI) is an important strategy for Sub-Saharan African governments to increase growth and welfare and to embark on a path of sustainable development. Academic literature supports the idea that FDI is conducive for growth (Borensztein, De Gregorio, & Lee, 1998; Adams, 2009; Morrissey, 2012) and, more importantly, for poverty alleviation (Gohou & Soumare, 2012). Apart from economic benefits, the present literature argues that FDI and international market integration promote democratization (Freeman & Quinn, 2012) and reduce the incidence of armed conflicts in the long run (Bussmann, Schneider, & Wiesehomeier, 2005). Given the positive benefits of FDI on various dimensions, it is important to identify the supporters of foreign investors in Sub-Saharan Africa in order to better understand the future scope of FDI and global economic integration in the region as a whole.

The analysis of individual preferences for foreign investment in Sub-Saharan Africa is part of a larger theoretical debate on the determinants of individual attitudes towards trade. One important insight is the predictive power of the Heckscher-Ohlin trade model, which argues that a country's comparative specialization occurs according to factor lines. Owners of factors by which a country is relatively scarcely endowed will lose from an open trading regime, whereas owners of abundant factors find themselves on the winning side. The model predicts that in advanced industrial countries, which are abundantly endowed with capital, better educated individuals are more likely to favor trade openness than the less educated. The model has been empirically confirmed in a number of studies (Scheve & Slaughter, 2001; O'Rourke & Sinnott, 2001; Mayda & Rodrik, 2005; Kaltenthaler, Gelleny, & Ceccoli, 2004; Hays, Ehrlich, & Peinhardt, 2005; Hainmueller & Hiscox, 2006; Sanz & Coma, 2008).

The results, however, are mainly based on studies on developed industrial nations. Little empirical research has been devoted to the sample of developing countries, and hardly anything on Sub-Saharan African countries. Studies investigating capital scarce and labor abundant nations have come up with mixed findings regarding the Heckscher-Ohlin model, according to which owners of capital in developing countries will oppose trade integration (Beaulieu, Yatawara, & Wang, 2005; Baker, 2005; Kleinberg & Fordham, 2010; Díez Medrano & Braun, 2012). More importantly, Mansfield and Mutz (2009) present a group model of trade attitude formation and argue that individual attitudes are formed by group identity rather than economic positions. The effects of group identity on trade attitudes are difficult to show in surveys, because the causal direction between attitudinal variables cannot be correctly identified (Fordham & Kleinberg, 2012).

This paper's contribution lies in its focus on Sub-Saharan Africa and in its investigation of the role of ethnic group identity as an alternative explanation to the Heckscher-Ohlin model. Sub-Saharan African countries belong to the group of labor rich and capital scarce nations, about which little is known in terms of trade and investment preference formation. It draws attention to the impact of politically relevant ethnic group identity on investment related attitudes, as literature suggests that ethnicity has a significant bearing on economic outcomes in Sub-Saharan Africa (Posner, 2005).

This paper uses micro-level data from 19 countries surveyed in the fourth round of the Afrobarometer survey. It tests how individual assessments of ethnicities' political standing influence attitudes towards foreign investors. The dependent variable is a survey question asking whether foreign investors and businesses are good for the country or not. The set of independent variables consists of respondents' assessments of an ethnicity's political influence and support of the ruling party next to other individual level control variables and variables testing the Heckscher-Ohlin model. As in previous studies, the analysis uses multi-level logit and ordered probit estimations (Rodrik & Mayda, 2005). In order to

¹Financial support by the FP7 project "GR: EEN – Europe's Role in the Emerging Global Order" is gratefully acknowledged. I would also like to thank Achim Kemmerling and the reviewers of the Afrobarometer Working Paper series for their helpful comments.

overcome the problem of using attitudinal data as independent variables this paper additionally includes country level variables to corroborate the statistical findings at the individual level.

The results show that an absolute majority of respondents in each of the survey's countries supports foreign investors, which is a remarkable number in itself. Nevertheless, there is substantial variance between and within countries. Regarding the determinants of trade attitude formation, respondents who believe their own ethnicity has more political influence than other ethnicities in the same country and respondents who support and trust the ruling party are significantly more likely to welcome foreign investors. By contrast, the predictions of the Heckscher-Ohlin model find no empirical support. The results matter for the understanding of trade and economic policy making in Sub-Saharan African countries. The paper provides micro-level evidence that group identity has stronger effects on attitudes towards foreign economic policy than individuals' economic positions.

The remainder of the paper is structured as follows. Section two discusses the theoretical background of individual trade preferences and derives testable hypotheses. It elaborates how ethnicity can be related to attitudes towards international trade and contrasts this approach with predictions from the Heckscher-Ohlin model as alternative hypothesis for explaining individual attitudes towards foreign trade and investment. Section three describes the distribution of support for foreign investors in the 19 countries of the sample and explains the construction of the independent variables. Section four tests the hypotheses with various model specifications and discusses the results. Section five discusses implications for research.

THEORETICAL FRAMEWORK

Academic literature has put forward a number of factors accounting for individual attitude formation towards trade and investment. A widely corroborated determinant is based on the distributional implications predicted by the Heckscher-Ohlin model (c.f. Mayda & Rodrik, 2005). In the case of OECD countries, additional explanations include consumer preferences (Baker, 2003, 2005), home ownership (Scheve & Slaughter, 2001) and level of education (Hainmueller & Hiscox, 2006). An alternative approach to economic interests explanations are group identity models, which focus on the role of ethnocentrism or nationalist attitudes (Mayda & Rodrik, 2005; Mansfield & Mutz, 2009).

In the case of Sub-Saharan African countries, ethnicity is a plausible alternative explanation for trade attitudes. The link between ethnicity and trade attitudes works through strategies of political coalition formation. Fearon (1999) suggests a model that explains how ethnic mobilization occurs around certain types of public goods. The first question to be solved is how ethnic cleavages come into being in the first place. According to the premordialist view, ethnic identities as a key feature of human social relationships are particularly stable (Geertz, 1973). The alternative, instrumentalist view posits that ethnic identities are changeable. Identities can be constructed and mobilized to achieve certain political or economic goals. In this view, ethnic communities are political coalitions to achieve scarce goods (Bates, 1983). Fearon (1999) argues that many ethnic communities, not only in Africa, are recent constructions that emerged as a result of new independent states or changes of borders, among other reasons. The following model exposes Fearon's (1999) explanation for why ethnic coalitions may emerge around certain types of public goods.

Ethnic Groups and Trade Attitudes

The reason why political coalitions are often based on ethnicity rather than religion or other forms of identity lies in political strategies to distribute specific kinds of public goods. Political systems deliver various kinds of public goods such as issue space goods, polarized goods and 'pork' goods, which differ in terms of citizens' preference distribution over these goods. The distribution of citizens' preferences over issue space goods is unimodal, where citizens cluster around the mean and 'extremist' views are found on the tail ends of the distribution. A canonical example for issue space goods is the income tax

rate, but any public policy where the preference distribution is unimodal belongs to the same class of goods, in particular issues related to public spending. The shape of the preference distribution is another way to describe issue space goods – their distribution has a small median distance from the median (Alesina, Baqir & Easterly, 1999).

Polarized public goods, by contrast, have a large median distance from the median. Citizens' preferences over polarized public goods have a bimodal shape with only few citizens clustering around the median. The choice of an official language falls into this category as well as the choice of an official state religion or other state symbols. Finally, 'pork' goods are divisible and excludable goods that are rivalrous in consumption. In contrast to issue spaced or polarized public goods, 'pork' goods have a very small median distance to the median, as everybody wants them. Assuming a lump-sum tax identical for everyone for financing the 'pork' good, the median distance to the median may even be close to zero. Thus, with pork goods it is possible to make randomly selected people better off at the expense of everybody else. Examples are jobs in the public service, public funds, tariffs and quotas and public investments that are spatial such as hospitals, schools, roads.

The political strategies to achieve those goods differ depending on each type (Fearon, 1999). Issue spaced goods with a unimodal preference distribution create incentives to converge on the median voter's position and will thus give rise to moderate politicians or political parties. In this setting, the winning coalition is not necessarily based on ethnic identities, as any other coalition that entails the median voter position will be a winning coalition. Likewise, polarized public goods will lead to coercive bargaining, but there is no bargaining advantage in basing the coalition on ethnic groups. 'Pork' goods, however, lead to different coalition formation dynamics. The strategic rationale is to build a winning coalition to get control over the 'pork' good. The strategy is to form a minimal winning coalition in order to maximize the good for each member of the coalition. This derives from rivalry in 'pork' goods consumption.

A minimal winning coalition may be based on any type of cleavage, but ethnic cleavages lend themselves particularly well to forming stable minimal winning coalitions. First, a winning coalition based on ethnic identity has stable boundaries, as outsiders cannot easily join the coalitions by themselves. This is different, for instance, in case of universalistic categories such as religion or class, as outsiders may join it. It is hard to join an ethnic group, or only at very high cost. Second, social coordination to establish a winning coalition is complicated and can lead to multiple equilibria. Once the coordination problem is solved and an ethnic coalition has been formed, ethnicity serves as a focal point for future coalitions and stabilizes the ethnic cleavage (Fearon, 1999). Consequently, for the distribution of 'pork' goods political mobilization is often based on exclusivist categories such as ethnicity rather than universalistic categories.

As far as ethnic coalition building is a politically viable strategy to distribute 'pork' goods, the question arises how FDI may benefit favored co-ethnics. In terms of Fearon's (1999) model, FDI shares key features of a 'pork' good. Investments in resource extraction, agriculture and the manufacturing sector are geographically highly concentrated. The jobs that come with FDI can be distributed among favored groups. Co-ethnics may also control foreign trade related offices, which give them access to rents generated through tariffs and license fees. For instance, Bienen (1990) shows that in many African countries government officials decide the distribution of imports and have access to the rents that come with it. FDI may be distributed by ruling politicians to regions of favored ethnicities. Posner (2005: 96) reports that in Zambia foreign aid is channeled towards favored groups. He also reports that interview partners in Zambia believe that the president's home region gets more of development related investment (Posner, 2005: 96). Ilorah (2009) and Burgess, Jedwab, *et al.* (2010) report similar results for Kenya where public investment in road building is significantly biased towards the presidents' natal regions. Finally, tariff revenues generated by FDI could also go mainly to ethnicities close to the incumbent president. Posner concludes that "[...], Africa is a region whose poverty and weak government institutions lead citizens to view the state as a resource to be consumed by the ethnic kin of those who

control its offices” (Posner, 2005: 256).² The first hypothesis, therefore, states that respondents who belong to politically privileged ethnicities are more likely to support foreign investors.

From the preceding discussion, it is clear that the concept of ethnicity comprises politically relevant ethnicity, be it based on tribal or language groups. It bears mentioning that ethnicity is difficult to conceptualize in practice as Chandra (2006) convincingly argues. For the purpose of this paper, ethnicity is cultural or reflects the ethnic self-identification of respondents as reported in the Afrobarometer. Arguing that ethnicity is a useful category for political coalition formation to distribute ‘pork’ goods does not mean that ‘pork’ is a sufficient condition for the emergence of ethnic coalitions. Many other categories can also serve as the basis for coalition formation, and in quite a few countries ethnicity is not a politically relevant category. In Sub-Saharan Africa, however, ethnicity has been a focal point for coalition formation. Political leaders may support co-ethnics because favors to own co-ethnics are cheaper than to other ethnic groups. Furthermore, co-ethnics are more reliable in rendering political support (Franck & Rainer, 2012).

The present literature shows that office retention is often based on ethnic rather than economic cleavages (Eifert, Miguel, & Posner, 2010) and political campaigning mobilizes ethnic identities (Bratton & Kimenyi, 2008; Kimenyi & Shugart, 2010; Collier & Vicente, 2012). Moreover, if the economy is controlled by the state, the size of the economic rent further exacerbates ethnic cleavages and tensions (Steinberg & Saideman, 2008). Public spending and economic redistribution may become biased towards powerful ethnic groups (Vigdor, 2004; Alesina & La Ferrara, 2005). Thus, politically relevant ethnicity is often an important category in Sub-Saharan African countries.

Factor Endowments and Trade Attitudes

FDI is not exclusively a ‘pork’ good. Ideally, the benefits of investments spill over to other sectors of the economy that were initially not targeted by FDI. These dynamics are the essence of development through FDI. In that sense, FDI is also an issue spaced good. Citizens’ preferences for FDI will cluster around the median, with some rejecting it, as their businesses will lose and some preferring more to the extent that they clearly benefit from spill-over effects. It is important to investigate an alternative explanation for citizens’ support for foreign investors, which is based on the Heckscher-Ohlin model of trade theory.

Standard trade theory makes clear predictions about the patterns of gains and losses in international trade, based on the shifting of high- and low-skill wages (Rodrik, 1995; Leamer, 1984). In the Heckscher-Ohlin framework, countries specialize in their abundant factors. Global trade induces high-income countries to specialize in skill-intensive products and shifts economic activities away from sectors that employ low-skill factors. Trade causes the relative prices of skill-intensive products to rise and the wages of higher skilled laborers and relative prices of low-skill products to fall. The latter will either decrease the wages of low skilled workers or increase unemployment where wages are sticky (Rodrik, 1995). Consequently, workers’ exposure to trade-induced labor market risks depends on their human capital endowment or sector employment. In countries abundantly endowed with capital workers with higher levels of education or workers employed in the export oriented sector should be more likely to support international trade and vice versa.

In the case of Sub-Saharan African countries, which are abundantly endowed with the factor labor, the model predicts low skilled workers to favor trade and FDI, whereas the better educated workforce

² Note that the perception of ethnic favoritism does not necessarily imply that real distributive politics follow ethnic lines. Posner (2005) insists on the distinction between perceptions of people and actual distributions. Franck and Rainer (2012), however, present empirical evidence that favored ethnicities are better off in terms of investment in education and health, but the question is not decisive here. What is central is that people’s beliefs about ethnic favoritism trigger political dynamics which lead to ethnic mobilization.

opposes it. If countries are abundantly endowed with the factor land owners of land will favor trade and FDI. In line with the Heckscher-Ohlin model Bates (1981) and Rodrik (1998) argue that in the context of Africa the benefits of trade liberalization mostly go to rural workers at the expense of urban elites. Thus, the second and alternative hypothesis states that respondents who are low-skilled or farmers will be more likely to support foreign investors than better educated respondents and urban dwellers. Ultimately, it is an empirical question whether the distributional costs of FDI unfold along ethnic cleavages or along factor endowment lines. It bears mentioning that there is no a priori reason to assume that both should be mutually exclusive.

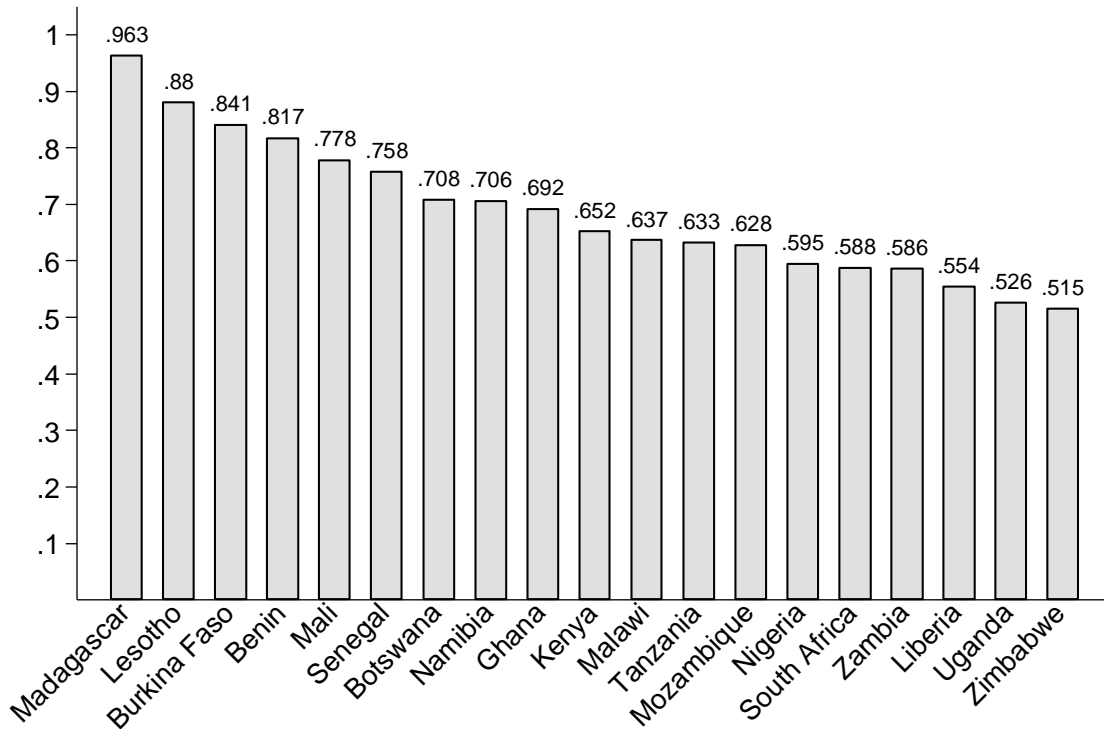
DATA – SUPPORT FOR FOREIGN INVESTORS AND VARIABLE CONSTRUCTION

The Afrobarometer is one of the first surveys that provides information on trade and investment preferences of citizens in Africa. The survey's fourth wave dates from 2008 and comprises 19 African countries. Survey question Q98e refers to a respondent's attitude towards foreign investment:

“In your opinion, how much do each of the following do to help your country, or haven't you heard enough to say: International businesses and investors?”

The response categories are do nothing, no help (0), help a little (1), help somewhat (2) and help a lot (3). In addition to the ordinal variable based on the response categories 0-3 a dummy variable is included that takes on the value of 1 if respondents think investors help a lot (3) or help somewhat (2) and the value of 0 if they think investors do nothing (0) or help a little (1). The rationale for using the dummy variable is comparability with similar studies, which proceed in the same way (cf. Hainmueller & Hiscox, 2006). Figure 1 shows the binary variable for each country. The distribution of the ordinal variable for each country is shown in Appendix 1.

Figure 1: Approval of Foreign Investors in Percentage



It is striking that in all countries a majority of respondents welcome international investors. In Zimbabwe, which has the lowest support rate for international investors, still 52 percent of respondents think international investors help somewhat or help a lot. Lesotho and Madagascar have very high support rates with 88 and 96 percent respectively. Given that Sub-Saharan African countries are capital scarce and need more FDI for developing their economies and fighting poverty, such high approval rates are encouraging. For the sake of comparison, the International Social Survey Programme (ISSP) reveals that – in contrast to Sub-Saharan African countries – support for free trade in OECD countries is much lower. On average less than 50 percent of respondents support free trade, with the highest support rate in Denmark (48 percent) and the lowest in Poland (12 percent).

The independent variables to test the ethnicity-related hypothesis refer to a respondent’s ethnicity and political support. All variables are taken from the Afrobarometer’s fourth round. *Ethnic group political influence* is coded as 1 if a group’s influence is much better or 5 if it is much worse than other groups’ influence. *Support for ruling party* is a dummy variable, which takes on the value of 1 if a respondent supports the governing party at the time the interview took place and 0 otherwise. *Trust in ruling party* is an ordinal variable coded as 0 if a respondent does not trust at all and as 3 if she trusts a lot.

As the individual level variable *ethnic group political influence* is a subjective perception of group standing objective country level variables are also included. Country level variables include Posner’s (2004a) *politically relevant ethnic fragmentation index* (PREG) in order to test for the role of ethnicity. PREG is the number of ethnic groups that are politically relevant in a country. Thus, the difference between PREG and other indices of ethnic fragmentation is that it does not take into consideration the total number of ethnicities in a country, but only those who are also capable of political mobilization. The index is thus better suited to test the political effects of ethnic fragmentation than other fragmentation

indices. In addition to this, the empirical estimations include *ethnic power rank* ranging from 1 (discriminated ethnicity) to 7 (political monopoly by ethnicity) based on data by Cederman, Wimmer and Min (2010). The final measure of ethnic political power is the length of office duration if a president is a co-ethnic (*office duration of co-ethnic leader*). A similar variable has been suggested by Franck and Rainer (2012). The variable is coded as 0 if the president is not a co-ethnic of a respondent and as the number of years in office otherwise.

To test the Heckscher-Ohlin related hypothesis income levels and education have been used in previous studies as variables (Mayda & Rodrik, 2005). *Employment* ranges from 0 if the respondent is unemployed and not looking for a job to 5 if the respondent has a full time job and is looking for a new job. *Urban* refers to whether a respondent lives in rural (1) or urban (2) area. If the Heckscher-Ohlin model applies then rural respondents should be more likely to support FDI. *Education* is coded as 0 for no formal schooling and as 9 for post-graduate education. The sign of the variable is expected to be negative if the Heckscher-Ohlin model is correct, because high-skilled labor is scarce and owners of the scarce factor should oppose liberalization. The Afrobarometer does not directly ask about income. Instead, there are three questions related to the possession of specific items. The variable *income* is coded as 3 if respondents own a car, as 2 if they own a TV, as 1 if they own a radio, and as 0 if they do not own any of the three items. The hypothesized sign of *income* is negative in the case of the Heckscher-Ohlin model, as poorer citizens should benefit more from FDI. Another variable is a respondents' assessment of personal *living conditions* (12 months ago), where 1 denotes living conditions much worse and 5 much better than others. As the latter variable is a subjective assessment, access to public services is also tested as an objective measure. In Afrobarometer the interviewers report whether a respondent has access to electricity, water system and sewage. Access to all three public services is coded as 3 and 0 if there is no access at all.

The Afrobarometer reports a number of individual level characteristics that can be used as control variables. The set of demographic control variables is comprised of respondents' age, gender, and access to information in line with other studies. Older people are more skeptical about free-trade (Mayda & Rodrik, 2005). Regarding the role of gender, it has been shown that women are much more skeptical about free trade (Burgoon & Hiscox, 2008). *Gender* is coded as 2 for women and 1 for men. Also, *newspaper information* measures a respondent's access to information, where 0 is coded for no access to newspapers and 4 for daily access. Appendix 2 summarizes the data and the data sources and Appendix 3 shows the bivariate correlations.

EMPIRICAL ASSESSMENT

The discussion thus far leads to two testable predictions. First, the political influence of a respondent's ethnic group and support for the ruling party will increase the likelihood of supporting foreign investors. Second, in line with the Heckscher-Ohlin model, less educated respondents, respondents of lower income groups and respondents in rural areas will support foreign investors, as Sub-Saharan African countries are capital scarce. To test these hypotheses a multi-level model is employed, as the individual level data are nested in the country level data (Steenbergen & Jones, 2002; Goldstein, 2003). The estimations that use the binary dependent variable are mixed-effects logistic regressions controlling for random effects for the binary dependent variable. All models are also tested with the original ordinal dependent variable using an ordered probit model and robust cluster standard errors. Models without country level data are estimated with country fixed effects to grasp the multilevel structure of the data. Table 1 shows the results with the binary dependent variable.

Table 1: Logistic Regressions

	1	2	3	4	5	6
<i>Ethnicity and political support related variables</i>						
Ethnic group political influence	-.092*** (.017)	-.085*** (.017)	-.079*** (.018)	-.085*** (.017)	-.081*** (.022)	-.081*** (.019)
Support for ruling party		.200*** (.040)		.197*** (.034)	.182*** (.048)	.161*** (.042)
Trust in ruling party			.221*** (.017)			
<i>Control variables</i>						
Age	.001 (.001)	.0003 (.001)	-.0002 (.001)	.0004 (.001)	.001 (.002)	-.001 (.002)
Gender	.004 (.037)	.004 (.037)	-.012 (.037)	.004 (.037)	.076 (.044)	.028 (.039)
Newspaper information	.024 (.015)	.026 (.015)	.028 (.015)	.025 (.015)	.025 (.018)	.024 (.016)
<i>Income related variables</i>						
Employment	.020 (.012)	.020 (.012)	.014 (.012)	.020 (.012)	.021 (.014)	.011 (.013)
Urban	.101* (.050)	.090 (.049)	.072 (.050)	.090 (.049)	.163** (.059)	.081 (.051)
Education	.023* (.012)	.025* (.012)	.031* (.012)	.025* (.012)	.037** (.014)	.025* (.012)
Income	.010 (.020)	.011 (.020)	.017 (.021)	.011 (.020)	-.002 (.024)	.010 (.021)
Living conditions (12 months ago)	.093*** (.017)	.088*** (.017)	.077*** (.017)	.087* (.017)	.094*** (.020)	.104*** (.018)
Access to public services	.017 (.023)	.020 (.023)	.033 (.024)	.019 (.023)	.051 (.028)	.021 (.024)
<i>Country level variables</i>						
Politically relevant ethnic fragmentation (PREG)				-2.438*** (.443)	-1.398** (.487)	-2.315*** (.515)
<i>Group level variables</i>						
Ethnic power rank					.148*** (.031)	
Office duration of co-ethnic president						.010* (.004)
Country dummies	Yes	Yes	Yes	No	No	No
Number of countries	19	19	19	19	16	16
Number of observations	15876	15876	15501	15876	10156	13751
Log likelihood	-9354.0	-9341.4	-9085.0	-9384.4	-6338.6	-8225.2
Wald χ^2	988.9***	1010.5***	1081.9***	138.5***	134.3***	125.9***
Correctly predicted results (average, %)	62.18%	62.2%	62.4%	60.4%	57.7%	60.6%

Note: All models are multilevel mixed-effects logistic regressions with random effects. The dependent variable is a dummy variable for pro-investor preferences (1 = in favor of foreign investors, 0 = otherwise; the sample mean of the dependent variable is .676 with a standard deviation of .468). Standard errors are in parentheses. * p<.05, **p<.005, ***p<.001; In model 5 there is no data available for Burkina Faso, Lesotho and Madagascar; in model 6 information is lacking for Lesotho, Mozambique and Tanzania.

The control variables are the set of covariates that have been shown in previous studies to be significant determinants of individual trade preferences. The variables partially replicate the findings of previous studies on trade attitudes (cf. Mayda & Rodrik, 2005). For instance, older people (*age*) and women (*gender*) are more likely to reject foreign investors, but the variables are not statistically significant. Respondents with access to *newspaper information* are more positive about foreign investors. The reason for this could be that better educated respondents also more frequently read newspapers, as the variables *education* and *newspaper information* are correlated, with a correlation coefficient of .514.

Models 1-3 report the effects of the main independent variables *ethnic group political influence*, *support for ruling party* and *trust in ruling party*. The coefficient signs and significance levels of the ethnicity and political support related independent variables lend support to the first hypothesis. The variables have the expected signs and are highly statistically significant. This is a strong indication that a respondent's perception about her ethnic group's political influence and her support for the ruling party is an important determinant for assessing foreign investors. Individuals who perceive their own ethnic group as politically more influential are more likely to believe that international investors are good for their country. The size of the effect is substantial. A switch from the minimum to the maximum value of *ethnic group political influence* decreases the likelihood of favoring international investors by 7 percentage points. Closeness to the ruling party, especially trust in the ruling party is also a strong determinant of approval of foreign investors. Switching from the lowest to the highest value of *support for ruling party* and *trust in ruling party* increases the likelihood of approval by 4 and 14 percentage points respectively. The effect especially for *trust in ruling party* is very strong given the complexity of individual preference formation.

The Heckscher-Ohlin model cannot be corroborated in models 1-6. It is important to note that the endowment model would predict holders of the abundant factor to be in favor of international trade. As African economies are abundantly endowed low-skilled labor respondents with lower education, respondents living in rural areas and respondents with lower income should be supporting foreign investors. However, the variables related to factor endowments are either not statistically significant, or they have the opposite coefficient signs. *Income* lacks statistical significance. *Education* has a positive sign showing that better educated respondents are also more likely to support foreign investors. The marginal effect of *education* is strong, as a change from no education to 9 years of education increases the likelihood of support by 5 percentage points, whereas the Heckscher-Ohlin model would predict decreasing support. The variable *urban* lacks statistical significance in models 1 and 5 and does not have the expected sign. The marginal effect size of *urban* is relatively small with 4 percentage points. One interpretation of the positive coefficient is that urban owners of capital are more likely to favor foreign investment, which would contradict the Heckscher-Ohlin model. As an alternative interpretation Eifert, Miguel and Posner (2010) show that urban dwellers have a stronger ethnic identification than the rural population. In that case the coefficient of *urban* would support the ethnic group model. Individuals with better *living conditions than 12 months ago* are significantly more likely to favor trade and the effect is rather strong with 7 percentage points. Whether the variable, however, is a good test for the Heckscher-Ohlin model is ambiguous. A more objective variable for a respondent's economic situation is *access to public services*, which turns out statistically insignificant.

One objection against using attitudinal variables, such as *ethnic group political influence*, for explaining attitudinal outcome variables is that both variables may be subject to the same unobservable error-generating process and the causal relationship may not be correctly identified (Zaller & Feldman, 1992; Hamermesh, 2004; Fordham & Kleinberg, 2012). Models 4-6 thus introduce the second level country variables *PREG*, *ethnic power rank* and *office duration of co-ethnic president* in order to cross-verify the key independent variables of models 1-3. The country level variables are not attitudinal data and exogenous to the survey. In models 4-6 *PREG* is highly statistically significant with the expected coefficient sign. This is an important insight. It shows that more intense competition along ethnic lines increases the effect of ethnic attributes in the assessment of foreign investment. What we can see is that in

countries where more ethnicities are politically mobilized, respondents are less likely to think that foreign investors ‘help a lot’ and more likely to think that they ‘do nothing’. *PREG* has also a very strong and substantial effect. A change from the lowest to the highest level of *PREG* decreases the likelihood by 34 percentage points. In models 5 and 6 *ethnic power rank* and *office duration of co-ethnic president* are significant and have the expected positive sign. *Ethnic power rank* also has a large substantial effect with 14 percentage points. Respondents whose ethnicity has a high power rank and co-ethnics of long-ruling presidents are more likely to favor international investors.

To explore the overall predictive quality of the empirical estimations the models indicate the overall prediction success – defined as the average count of successfully predicted positive and negative outcomes – as a measure for the goodness of the model (Wooldridge, 2009: 581). The threshold for a successful prediction is the average value of the dependent variable in each model, which is about 68 percent. Model 1 predicts 61.8 percent of the results correctly. Since the formation of individual preferences is a highly complex and idiosyncratic process correctly predicted results between 57.6 (model 5) and 62.4 percent (model 2) is a very high prediction rate. This also shows the impact of the key independent variables. For instance, dropping *ethnic group political influence* from model 1 decreases the overall prediction rate from 61.8 percent to approximately 50 percent. Finally, the results are checked for country outliers. Neither the coefficients nor the significance levels of the key independent variables are affected when any single country is left out of the estimations.

Table 2 shows the models with the original ordinal dependent variable using an ordered probit model in order to see whether the choice of the dependent variable is affecting the results.

Table 2: Ordered Probit Regressions

	1	2	3	4	5	6
<i>Ethnicity and political support related variables</i>						
Ethnic group	-.050**	-.045*	-.041*	-.039*	-.031	-.038*
political influence	(.018)	(.018)	(.017)	(.017)	(.025)	(.019)
Support for ruling party		.117***		.094*	.096*	.081
		(.024)		(.038)	(.045)	(.042)
Trust in ruling party			.130***			
			(.013)			
<i>Control variables</i>						
Age	-.0004	-.001	-.001	-.001	-.001	-.002
	(.001)	(.001)	(.001)	(.001)	(.001)	(.001)
Gender	-.023	-.023	-.033	-.032	-.010	-.028
	(.018)	(.019)	(.018)	(.020)	(.023)	(.021)
Newspaper information	.021*	.022*	.024*	.009	.016	.011
	(.009)	(.009)	(.009)	(.014)	(.019)	(.015)
<i>Income related variables</i>						
Employment	.005	.005	.003	.004	.003	.003
	(.011)	(.011)	(.011)	(.010)	(.013)	(.013)
Urban	.065*	.059	.047	.018	.039	.039
	(.030)	(.031)	(.031)	(.039)	(.039)	(.039)
Education	.019*	.020*	.024*	.009	.004	.004
	(.009)	(.009)	(.009)	(.012)	(.013)	(.013)
Income	.019	.019	.022*	.026*	.026	.026
	(.010)	(.010)	(.010)	(.012)	(.017)	(.017)
Living conditions (12 months ago)	.053**	.051*	.044*	.024	.036	.036
	(.020)	(.020)	(.019)	(.027)	(.033)	(.033)
Access to public services	.013	.015	.021	-.013	.009	.009
	(.019)	(.019)	(.020)	(.024)	(.025)	(.025)
<i>Country level variables</i>						
Politically relevant ethnic fragmentation (PREG)				-1.183***	-.797**	-1.024***
				(.236)	(.267)	(.232)
<i>Group level variables</i>						
Ethnic power rank					.096**	
					(.035)	
Office duration of co-ethnic president						.003 (.009)
Cut 1	-.627	-.626	-.553	-1.828	-1.040	-1.784
	(.123)	(.127)	(.121)	(.124)	(.244)	(.142)
Cut 2	.236	.239	.318	-.973	-.197	-.923
	(.097)	(.100)	(.093)	(.118)	(.265)	(.144)
Cut 3	1.161	1.165	1.251	-.065	.727	.005
	(.106)	(.108)	(.102)	(.133)	(.279)	(.154)
Country dummies	Yes	Yes	Yes	No	No	No
Number of countries	19	19	19	19	16	16
Number of observations	15876	15876	15501	15867	10156	13751
Log pseudo likelihood	-19817.5	-19799.2	-19261.4	-20056.2	-13204.6	-17528.5
Pseudo R ²	.040	0.041	0.045	0.028	0.015	0.023
Wald χ^2				178.61***		

Note: All models are multilevel ordered probit models with robust clustered standard errors. The dependent variable is an ordinal variable asking how much foreign investors help the country (0 = do nothing, no help, 1 = help a little, 2 = help somewhat, 3 = help a lot; the sample mean of the dependent variable is 1.91 with a standard deviation of .98). Standard errors are in parentheses. * p<.05, **p<.005, ***p<.001; In model 5 there is no data available for Burkina Faso, Lesotho and Madagascar; in model 6 information is lacking for Lesotho, Mozambique and Tanzania.

The results are basically robust. The three key independent variables have the expected negative sign and are statistically significant. The same is true for the country-level variable *PREG*. *Ethnic power rank* and *office duration of co-ethnic president* also have the same coefficient sign as in the logistic model, but the latter variable is not statistically significant anymore. The first hypothesis is thus supported by the ordered probit estimations. By contrast, the models do not support the second hypothesis. *Urban* and *education* have the wrong sign and are statistically significant only in some models.

The effect sizes of the variables are estimated with the software Clarify (King, Tomz, & Wittenberg, 2000). A change from the lowest to the highest value of *ethnic group political influence* decreases the likelihood of answering category 3 (“help a lot”) from 51 to 45 percent. For the same answer category, a respective change of *support for ruling party* increases the likelihood from 48 to 52 percent and a change of *trust in ruling party* from the lowest to the highest value from 48 to 61 percent. Switching from the lowest to the highest value of *PREG* decreases the likelihood from 50 to 20 percent. The effect of education is relatively weak, as it increases the likelihood only from 53 to 56 percent. The empirical tests corroborate the hypothesis that ethnicity impacts on individual attitudes towards foreign investment. On the other hand, there is no significant and robust correlation between skills and wealth related variables (*education, income*) and trade attitudes. The conclusion, however, that the Heckscher-Ohlin model has no explanatory power in the case of Sub-Saharan Africa in general would be premature. Some crucial variables such as income are not precise enough and others such as sector of employment and exposure to trade are not available yet. Future research should focus more on the link between individual endowments and attitudes towards trade and foreign investment in Sub-Saharan Africa.

CONCLUSION

The central result of the paper is the role of ethnicity for the individual attitudes towards foreign investors. The economic interests model, based on the Heckscher-Ohlin model, cannot be corroborated in the case of Sub-Saharan African countries. The paper advances our understanding in a region where until now little is known about people’s attitudes towards FDI. Insights based on previous studies highlight that individual trade attitudes can to an important degree be explained by the Heckscher-Ohlin model of trade. If a country’s abundant factor is capital individuals with higher endowments in terms of human capital are also more in favor of open trade. If trade attitudes were formed according to the Heckscher-Ohlin model respondents with high capital endowments in capital-scarce Sub-Saharan African countries should favor less international investment.

The paper investigates an ethnic group model as an alternative and advances the idea that the redistributive costs of FDI in African countries could be borne not only along factor cleavages but also along ethnic cleavages. This assumption rests on a large body of research that shows that ethnicity plays an important role in political competition (Eifert, Miguel, & Posner, 2010), provision of public goods (Habyarimana, Macartan, et al., 2007), and economic redistribution (Alesina & La Ferrara, 2005) in Sub-Saharan Africa. More specifically, the paper argues that foreign investment is similar to a ‘pork’ good (Fearon, 1999) in that it can be delivered by a government first and foremost to its ethnic support groups. Ethnic mobilization and ethnicity based coalition formation occurs because it facilitates the distribution of ‘pork’ goods – goods, that everybody wants but that are rivalrous in consumption.

Using the fourth wave of the Afrobarometer the paper shows that ethnicity related variables are among the strongest predictors of individual trade attitudes. Respondents who believe that their own ethnicity is politically more influential than others are also more likely to think that international investors are good for their country. The same is true for respondents who trust the ruling party. In order to overcome the ‘attitudes on attitudes’ problem of survey research (Fordham & Kleinberg, 2012) the study also includes country exogenous country level variables. Respondents living in countries with higher politically relevant ethnic fragmentation are less likely to favor international investors. Variables testing the

Heckscher-Ohlin model, however, are statistically and substantially not significant. This result is not entirely unexpected, as Beaulieu, Yatawara, and Wang (2005) report similar results for Latin American countries. It bears mentioning that the results may not be generalized to other Sub-Saharan countries that did not participate in the Afrobarometer. One condition for participation in the survey is some introduction of democratic or market reforms, which excludes non-democratic countries of the region.

The results have further implications for research. They are not only important for our understanding of the sources of trade support, but also contribute to the debate on the role of economic globalization on the onset of civil war. Bussmann and Schneider (2007) contend that global economic integration reduces the likelihood of civil war in the long-run, but increases it in the short-run. This result would be expected, if FDI was distributed along ethnic cleavages rather than economic ones, as short-term tensions would be mounted and only medium to long-term spill-over effects would diffuse more evenly across ethnic communities. A similar implication is relevant for the debate on FDI's role on poverty alleviation (Gohou & Soumare, 2012). In the short-term FDI might not help to alleviate poverty, but rather increase inequality among ethnic groups.

Finally, the paper has to treat politically relevant ethnic identification and the degree of a country's ethnic mobilization as exogenous, as longitudinal data are not yet available. But, it would be worthwhile to endogenize the relationship between ethnic identity and public policies. It cannot be ruled out that existing economic policies, including foreign trade policies, have shaped patterns of ethnic identification and political struggle in the first place. In any case, ethnic identity in Africa is not a primordial category and empirical studies have shown how politics shape ethnic identity. Eifert, Miguel and Posner (2010) study the effects of proximity of elections on ethnic identity and come to the conclusion that ethnic salience fluctuates with electoral timing. In a comparison between Zambia and Malawi Posner (2004b) argues that an ethnic group's size determines its political salience and not the existence of ethnic cleavages as such. Bates (1983) and Posner (2005) among others see the politicization of ethnicity as an advantageous strategy for politicians. It is thus reasonable to assume ethnicity as endogenous factor.

Further research may explore the causal direction in more detail. Fearon's (1999) theoretical framework offers two predictions to be investigated. If the type of public policy emerges through exogenous shocks, we should observe changes regarding the role of ethnicity in coalition formation. For instance, discovery of commodities – which is similar to 'pork' goods – should foster ethnicity based coalition formation. Similarly, macroeconomic shocks that forced governments in Africa to pursue partial trade liberalization (Rodrik, 1994, 1998) should also have reinforced patterns of ethnic mobilization. On the other hand, existing patterns of ethnicity based politics should lead to emphasis of certain types of public goods. A country like Tanzania that is more successful in nation building and manages to reduce the role of ethnicity as a base for political mobilization (Miguel, 2004) should spend more on issue space goods than Kenya, where ethnic mobilization is dominant. The question of how group identity formation and specific types of public policies are causally linked merits further research.

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Appendix 1: Preferences for International Investment

Country	Pro-trade dummy Mean and its Std.Dev.	Help of int. investors for the country ¹ Percentage and number of respondents				Number of respondents
		0	1	2	3	
Benin	.817 .387	3.6	14.7	38.2	43.5	733
		26	108	280	319	
Botswana	.708 .455	5.8	23.4	39.8	31.1	782
		45	183	311	243	
Burkina Faso	.841 .366	3.0	12.9	25.0	59.1	797
		24	103	199	471	
Ghana	.692 .462	6.8	24.1	35.9	33.3	785
		53	189	282	261	
Kenya	.652 .477	10.2	24.5	41.1	24.2	762
		78	187	313	184	
Lesotho	.880 .325	8.4	3.6	15.3	72.8	918
		77	33	140	668	
Liberia	.554 .497	8.3	36.4	30.6	24.7	1051
		87	382	322	260	
Madagascar	.963 .189	0.9	2.8	51.6	44.7	968
		9	27	499	433	
Malawi	.637 .482	20.5	15.9	28.4	35.3	366
		75	58	104	129	
Mali	.778 .416	6.5	15.8	34.1	43.7	971
		63	153	331	424	
Mozambique	.628 .484	7.7	29.5	24.7	38.1	725
		56	214	179	276	
Namibia	.706 .456	10.9	18.6	40.6	30.0	1023
		111	190	415	307	
Nigeria	.595 .491	12.6	28.0	39.2	20.3	1576
		198	441	617	320	
Senegal	.758 .428	10.0	14.2	24.2	51.7	662
		66	94	160	342	
South Africa	.588 .492	17.3	23.9	33.2	25.5	1562
		270	374	519	399	
Tanzania	.633 .482	8.4	28.3	40.6	22.8	878
		74	248	356	200	
Uganda	.526 .499	12.8	34.7	31.3	21.3	1655
		211	574	518	352	
Zambia	.586 .493	15.9	25.4	24.8	33.9	735
		117	187	182	249	
Zimbabwe	.515 .500	23.3	25.2	30.5	21.1	660
		154	166	201	139	

¹ Question: “How much help country: international businesses/investors”; 0=Do nothing, no help, 1=Help a little bit, 2=Help somewhat, 3=Help a lot. Source: Afrobarometer, Round 4.

Appendix 2: Summary of Data

Variable	Obs	Mean	Std. Dev.	Min	Max	Source
Ethnic group	23993	3.1	1.1	1	5	Afrobarometer (Q81)
political influence						
Support for ruling party	26449	.36	.48	0	1	Keesing's World News Archive
Trust in ruling party	25020	1.6	1.1	0	3	Afrobarometer (Q49e)
Age	26116	36.3	14.4	18	110	Afrobarometer (Q1)
Gender	26449	1.5	.5	1	2	Afrobarometer (Q101)
Newspaper information	26327	1.1	1.5	0	4	Afrobarometer (Q12c)
Employment	26358	1.6	1.6	0	5	Afrobarometer (Q 94)
Urban	26449	1.6	.5	1	2	Afrobarometer (Q113)
Education	26408	3.2	2.0	0	9	Afrobarometer (Q89)
Income	26423	1.3	1.0	0	3	Afrobarometer (Q92 a,b,c)
Living conditions (12 months ago)	25868	2.9	1.1	1	5	Afrobarometer (Q6b)
Access to public services	26076	1.2	1.2	0	3	Afrobarometer (EA_SVC_A, B, C)
PREG	26449	.4	0.3	0	0.71	Posner (2004a)
Ethnic power rank	16741	4.3	.8	1	5	(Cederman, Wimmer, Min, 2010)
Office duration of co-ethnic president	22841	2.1	5.2	0	22	Keesing's World News Archive

Appendix 3: Bivariate Correlations

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Ethnic influence (1)	1.000						
Support for ruling party (2)	-.068						
Trust in ruling party (3)	-.086	.341					
Age (4)	-.016	.056	.070				
Gender (5)	.014	-.022	.023	-.102			
Newspaper information (6)	-.046	-.016	-.100	-.110	-.119		
Employment (7)	-.036	.002	-.037	-.051	-.140	.265	
Urban (8)	.043	.098	.132	.066	.001	-.381	-.142
Education (9)	-.051	-.039	-.151	-.255	-.119	.514	.308
Income (10)	-.056	-.034	-.092	.077	-.160	.334	.250
Living conditions (12 months ago) (11)	-.109	.043	.110	-.036	-.026	.037	.011
Access to public services (12)	-.074	-.076	-.117	-.040	-.001	.458	.196
PREG (13)	.055	.009	-.096	-.121	-.001	.158	.100
Ethnic power rank (14)	-.269	.007	.039	.032	.002	-.058	-.030
Office duration of co-ethnic president (15)	-.172	.043	.036	.024	.004	-.048	-.030

Appendix 3: Bivariate Correlations (Continued)

	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Education (9)	-.308						
Income (10)	-.276	.310					
Living conditions (12 months ago) (11)	-.013	.031	.005				
Access to public services (12)	-.637	.366	.330	.020			
PREG (13)	-.060	.271	.038	-.026	.065		
Ethnic power rank (14)	-.039	-.060	.039	.110	.045	-.102	
Office duration of co- ethnic president (15)	.013	-.065	-.004	.055	-.036	-.198	.330

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