TAX HAVEN FDI AMONGST MULTINATIONAL ENTERPRISES (MNES) FROM LEAST DEVELOPED COUNTRIES

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Thesis Summary

The last four decades have seen a steady rise in foreign direct investment (FDI) to become the main vehicle in driving the internationalisation of multinational enterprises (MNEs). Studies on FDI have largely concluded that MNEs are responsible for much of the global flows of FDI capital. Recent OECD (Organisation of Economic Co-operation and Development) reports show total world flow of FDI in 2021 stood at 1,815 billion US dollars – an increase of 88 percent on the previous year. However, much of these FDI flows are channelled through tax havens, allowing MNEs to sometimes avoid taxes altogether on these vast capital flows. Consequently, the role of tax havens in global trade have received growing interests in the international business (IB) literature. However, much of these research interests have concentrated on outward FDI from developed countries, leaving a void in the IB literature regarding the outward tax haven FDI practices amongst MNEs from developing countries.

This thesis presents the findings of three independent empirical investigations into outward tax haven FDI by MNEs from developing countries. Each of the three investigations utilised a firm-level panel dataset covering the period 2008-2018. The first investigation explored the impact of internal country-level risks on tax haven FDI. The second focused on corruption and its impact on the likelihood of state-owned MNEs (SO MNEs) to engage in tax haven FDI. The final investigation looked into the relationship between democratic accountability and tax haven FDI.

Analysis of the first investigation showed all three measures of internal country risks to be strongly and positively correlated with tax haven FDI, with heterogeneity seen across MNEs operating across different industries. Corruption was seen to have a positive effect on tax haven FDI amongst state-owned firms, whilst authoritarian governments had a positive effect on MNEs propensity to engage in tax haven FDI.

Keywords: Foreign Direct Investment (FDI), Tax Havens, Conflict Countries, State-Ownership, Democratic Accountability, Developing/Emerging Countries.

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GLOSSARY of KEY TERMS

Foreign Direct Investment

Foreign Direct Investment (FD1) is a classification of cross-border investment where an investor or company resident in one country, or government, acquires a direct *'...lasting interest in and a significant degree of influence*' of an enterprise resident in a foreign country. A lasting interest and significant degree of control is broadly accepted to be achieved when the investor in question acquires at least a ten percent (10%) ownership stake of the voting power of the foreign enterprise (OECD, 2022a).

Foreign Direct Investment Flows

Foreign direct investment inflows (inward FDI) refer to all transactions from an investment partner country flowing into the reporting country (for example, from developed countries into developing countries). Outward FDI are those transactions from the reporting country into partner countries (for example, from developing countries into developed countries) (OECD, 2022a).

Multinational Enterprise

This paper adopts the OECD (2013) and UNCTAD (2013) conventional definition of a multinational enterprise (MNE) as *'...any firm that owns at least 10% in at least one subsidiary located abroad'*.

Tax Haven

A tax haven is a term widely used to refer to jurisdictions or countries that create laws and other legislations designed to assist non-resident investors to pay zero, or near zero rates of tax. They do so by creating legal *loopholes* that allow foreign investors to circumvent the regulatory (usually tax) laws of their home countries, or in countries where they undertake their economic activity (Palan et al., 2010).

Lists of Abbreviations and Explanations

Abbreviations

BvD	Bureau van Dijk
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IB	International Business (literature)
MNE(s)	Multinational Enterprises
NACE	Statistical classification of economic activities within the European Community
OECD	Organisation for Economic Co-operation and Development
SO MNEs	State-owned Multinational Enterprises
UNCTAD	United Nations Conference on Trade and Development
US	United States (of America)

Explanations

Risks	In Chapter 4, risks/internal risks used interchangeably to refer collectively to internal conflict, internal tension and internal violence.
Transfer Pricing	Intra-firm trading where one subsidiary within a trading group charges another for products or services rendered. This strategy is often employed by MNEs to legally shift profits out of high tax jurisdiction, and into jurisdictions with low or zero rates of tax.

Chapter 1

Introduction

A review of the current and past scholarly examinations into foreign direct investment (FDI) reveals that over the last four decades FDI has risen to become arguably the main vehicle in driving the internationalisation of multinational enterprises (MNEs), and the current consensus is that MNEs presently account for a significant portion of total global flows of FDI capital (Beebeejaun, 2019; Driffield, Jones, Kim and Temouri, 2021). Recent OECD (Organisation of Economic Co-operation and Development) reports show the total world flow of FDI in 2021 was 1,815 billion US dollars – an increase of 88 percent on the previous year – and preliminary 2022 results show a 28 percent increase on fourth quarter 2021 results (OECD, 2022b). Earlier theoretical and empirical work by notable scholars such as Dunning (1979 – 1981; 1989); Casson (1980); Calvet (1981); Rugman (1980 – 1981) and Grosse (1981), have been advanced by further contemporaneous empirical studies on FDI which have highlighted the steady increase in global FDI capital flows and the role of MNEs in the facilitation of cross-border FDI flows (see Lall and Narula, 2004; OECD, 2019; Rugman, 2019; OECD, 2022a; Tan, Su, Mahoney and Kor, 2020).

Given these vast cross-border flow of capital, it is unsurprising that governments from both developed and in particular, developing countries, have relied on the tax revenues from FDI as a significant part of their tax base (Witte, Burger, Ianchovichinas, and Pennings, 2017; Getz and Oetzel, 2010). However, globalisation and the use of tax havens have reduced the ability of governments to effectively tax these FDI capital flows (Chakrabarti, 2001) given that much of these vast capital flows are routed through tax havens (Palan, Murphy and Chavagneux, 2010; Driffield, Jones, Kim and Temouri, 2021; Desai, Foley and Hines, 2006a). Some have noted that tax havens have opened up this aspect of globalisation to abuse (see Sebele-Mpofu,

Mashiri and Schwartz, 2021; Gašić, Marčetić, Stojiljković and Ivanović, 2014) given that MNEs can structure their operations across subsidiaries located across different borders in ways that minimises, or altogether avoids, their tax liability by shifting profits from high tax jurisdictions to tax havens that offer low and/or zero rates of tax (Mashiri, 2018; Jones and Temouri, 2016, 2018; UNCTAD, 2020).

There is further clear consensus in the contemporaneous international business (IB) literature that developing countries are especially exposed to the effects of the attrition of their tax base due to profit shifting (see McNair, Dottey and Cobham, 2010; Cooper et al., 2017; Oguttu, 2016, 2017; UNCTAD, 2020; Johannesen, Tørsløv, and Wier; 2020). Moreover, whilst many of the previous studies that have investigated the use of tax havens amongst MNEs from developing countries have concentrated on Asian (see Driffield, Jones and Temouri, 2021; Ha and Quyen, 2017; Cui and Jiang, 2012; Ramasamy, Yeung and Laforet, 2012) and African countries (see Beebeejaun; 2019; Kabala and Ndulo, 2018; Hearson, 2018; Hearson and Brooks, 2010), Johannesen et al (2020) took a more holistic view comparing the tax avoidance practices of MNEs from developing countries with their developed country counterparts. Relatively fewer studies have investigated the tax haven FDI activity amongst state-owned firms (Chen, Lin, Ding and Zhu, 2018; Ha and Quyen, 2017; Zhang, Li, and Jian, 2013).

An examination of these previous studies have highlighted a number of important research gaps especially when linked to other tenets of the IB literature that examined the relationship between FDI and developing countries. Some studies investigated MNEs decisions to invest in developing countries experiencing differing types of risks, such as conflict (Driffield, Jones, and Crotty; 2013; Oetzel and Getz, 2012), violence (Oh, Shin and Oetzel, 2021; Oh and Oetzel, 2017; Getz and Oetzel, 2009); ethnic risks (Oetzel and Oh, 2019; Parrotta, Pozzoli and Sala, 2016); corruption (Arif, Khan and Waqar, 2020; Kasasbeh, Mdanat and Khasawneh, 2018;

Gupta and Ahmed, 2018); and institutional risks and its effect on FDI (Witte et al., 2017; Witt and Lewin 2007; Wu and Chen, 2014). Wu, Rui and Wu (2013) went further by investigating the relationship between firm taxation and its institutional environment. However, these studies provided no direct link between the level of risks within a country; institutional quality; and tax haven FDI. Identifying these gaps are important for developing countries given the greater need they place on income from MNEs (UNCTAD, 2015).

Hence, the purpose of this thesis is to fill these gaps by investigating how internal country factors within developing countries affect home country MNEs decisions to conduct tax haven FDI. Firstly, Chapter 4 examined the impact of country risks (*internal conflict*, ethnic and religious *tensions*, and *violence*) on the decisions of MNEs to conduct tax haven FDI. Secondly, given the dependence of developing country governments on income from home MNEs (UNCTAD, 2015; UNCTAD, 2020), Chapter 5 explored the effects of corruption on the propensity of state-owned firms (SO MNEs) to engage in tax haven FDI. Chapter 6 examined the effect of political institutions of a country, namely democratic accountability, on the decisions of home MNEs to conduct tax haven FDI.

The structure of this thesis is as follows: to address the commonality amongst the three (3) independent investigations, Chapter 2 gives an overview of tax havens and how they facilitate and aid MNEs to avoid taxes on their worldwide income. Chapter 3 outlies the data used across all three empirical investigations, and the methodology followed to construct the appropriate variables needed for this research.

Chapter 4 investigated countries experiencing risks and the impact of internal conflict, tensions (ethnic and religious) and violence on MNEs propensity to engage in tax haven FDI. Whilst empirical evidence shows that developing country MNEs do engage in tax haven FDI, much of the extant theoretical literature highlights how country risks deter FDI. This led to the

hypothesis that country risks are positively correlated to outward tax haven FDI. The results revealed all three measures of internal risks to be strongly and positively correlated with tax haven FDI, with heterogeneity seen across MNEs operating across different industries. These cross-sector differences would have remained hidden had further specific investigations not been conducted to determine whether or not the findings were driven by MNEs operating across specific sectors. Moreover, not only were MNEs across all industries seen to be engaging in tax haven FDI, but they were also found to invest across tax haven countries that offer purely opportunities for tax avoidance, rather than across tax haven countries that also provided opportunities for real economic growth.

Chapter 5 investigated the impact of institutional corruption on the likelihood of state-owned (SO) MNEs to engage in tax haven FDI. Whilst the theoretical and empirical literature is ambiguous regarding SO-MNEs propensity to engage in tax haven FDI, the overall results showed corruption to have a positive effect on the likelihood on MNEs to conduct tax haven FDI. Further analysis revealed however, that it was indeed MNEs with lower levels of state-ownership that were most likely to have a tax haven presence.

Chapter 6 explored how the democratic accountability of a country impacts the decision of its MNEs to engage in tax haven FDI. It examined to what extent being a democratic or authoritarian state influences the tax haven FDI decisions of a firm. Both theoretical and empirical literature is scarce on this issue. However, the results presented some interesting findings and showed that countries with a more authoritarian leadership, the more likely its MNEs were to engage in tax haven FDI. Property rights were found to be an insignificant factor in the decisions of MNEs to engage in tax haven FDI.

Chapter 7 provides a conclusion of the empirical results and its implications for policymakers seeking to use national MNEs as a significant part of their tax base. This is followed by the References used in this thesis, which is then followed by the Appendices at the end.

Chapter 2

Overview of FDI Literature on Tax Haven FDI

The subsequent empirical chapters each contains their own review of relevant literature and hence, to avoid repetition, this chapter provides a theoretical overview of FDI and its facilitation of tax haven usage. It also highlights the theoretical framework underpinning the subsequent empirical chapters.

Desai et al. (2006) had earlier concluded that the demand for tax havens will likely increase over time. This was supported by Jones and Temouri (2016, p246) who concluded that the use of tax havens is likely to become more widespread across industries in the future. Regarding the key determinants of MNEs most likely to be found engaging in tax haven FDI, Dischinger and Riedel (2011) concluded that MNEs with higher the levels of intangible assets had a greater likelihood that they will have at least one subsidiary in low tax jurisdictions. This was later supported by Taylor et al. (2014) and Taylor et al. (2015) who concluded that intangible asset is a strong determining factor in an MNEs tax haven strategies.

Much of the existent IB literature regarding MNE tax haven FDI is concentrated mainly on MNEs from OECD countries (see Jones and Temouri, 2016; Desai et al., 2001; Jones et al., 2016). Whilst developing countries are getting increased recognition in the IB literature, much of these studies are focused mainly on China and other Asian countries (see Alcaraz, Zamilpa and Torres, 2017; Ha and Quyen; 2017).

2.1 Overview of Tax Haven FDI

The ability of an MNE to conduct investments in countries classed as tax havens is largely due to the increased growth of internationalisation and FDI (Palan et al., 2010). Gravelle (2009) and Contractor (2016) outlined various strategies MNEs adopt to avoid home country taxes. Many countries consider the income from foreign subsidiaries of its national MNEs as taxable Palan et al., 2010; Eden, 2009).

However, many of these countries allow MNEs to defer taxes until foreign income is repatriated back into the MNEs home country (Markle, 2016). Kano and Verbeke (2019) noted that the deferral of taxes now acts as an obvious regulatory loophole that MNEs can exploit to their advantage. Rather than repatriate back to the home countries of the MNE, these funds are instead transferred to tax havens to avoid payment of taxes had these funds been repatriated back to the MNE's home country (Klassen and Laplante, 2012). This has led many researchers to conclude that oftentimes, subsidiaries located in tax havens are shell companies that are established mainly for tax avoidance purposes, and that these subsidiaries engage in little or no real economic activity (Al Karaawy and Al Baaj, 2018; Palan et al., 2010; Sikka, 2016; Chari and Acikgoz, 2016).

To facilitate tax avoidance through the use of tax havens, MNEs often engage in process commonly referred to as transfer pricing whereby the prices of intra-firm transactions are manipulated to redistribute profit to certain subsidiaries within the business group (Palan et al., 2010; Gravelle, 2009). Oftentimes, these redistributed profits are to subsidiaries located across countries classed as tax havens (Ahmed, Jones and Temouri, 2020; Jones and Temouri, 2016). Given that these transactions occur within the business group and not at market rates, Dyreng and Lindsey (2009) noted that tax auditors find it difficult to determine what is a reasonable

transfer price, and what is not. Furthermore, in conjunction with transfer pricing, MNEs often employ royalty payments in their tax avoidance strategies (Contractor, 2016; Eden, 2009).

Sikka (2016) and Palan et al (2010) outlined how MNEs with large intangible assets such as patents and brands, would transfer these assets to subsidiaries located in tax havens and subsequently make royalty payments to these subsidiaries. Given that royalty payments are often tax deductible, this further reduces the tax burden in the MNEs home country (Ahmed et al., 2020; Sikka, 2016). It is well documented in the IB literature that MNEs with larger intangible assets were found to be the ones most likely to engage in these types of tax avoidance strategies (See Ahmed et al., 2020; Jones and Temouri, 2016, 2018; Eden, 2009; Palan et al., 2010; Desai, Foley and Hines, 2006a, 2006b).

2.2 Theoretical Framework and Tax Haven FDI

Dunning (1977; 1988; 1995; 1998; 2000) eclectic *Ownership-Location-Internalisation* (OLI) paradigm is perhaps the most widely used theoretical framework on studies of FDI. Bowe (2009) in Jones and Temouri (2016, p238) noted that the increased growth of global financial markets integration has been matched by an increase in the globalisation of international business activities. Due to a combination of factors including the presence of tax havens; the secrecy offered by these tax havens; different laws and regulations regarding transfer pricing across different countries; cross-country differences in taxation, accounting standards and regulations, have all had significant financial implications for MNEs.

A key consensus among existing studies is that MNEs need specific advantages before deciding to engage in FDI, and that the financial strength of an MNE affects its ability to engage in FDI (Dunning, 2001). Dunning (1993) conceptualised the financial ability of an MNE to engage in

FDI as they having a *financial asset advantage* and in possession of *superior knowledge of, and access to, foreign sources of capital* compared to their non-MNE counterparts. Recognising that Dunning (1993) failed to specify exactly what constituted a financial asset advantage, Oxelheim et al. (2001, p382), in seeking to bridge the gap between FDI literature and international cost of capital, extended Dunning (2000) OLI paradigm by incorporating a theoretical bridge with the international cost of capital literature.

Oxelheim et al. (2001, p.382-383), argued that MNEs adopt reactive and proactive financial strategies and applied finance-specific factors within the OLI paradigm to determine the ability of MNEs to engage in FDI. Included in the list of examples of reactive strategies were attempts to minimise tax avoidance via the use of tax havens. Proactive strategies include strategies aimed at reducing the overall cost of capital for a firm such as maintaining competitive credit ratings and competitive sourcing of capital (Jones and Temouri, 2016). Oxelheim et al. (2001) argued tax minimisation to be a reactive strategy. This was corroborated by Loretz and Moore (2012) who asserted that firms consider the behaviour of their competitors when planning their own tax strategies. However, in a subsequent study, Loretz and Moore (2013) later concluded that MNEs proactively adopt multiple tax avoidance strategies and given that their tax decisions are made in competitive environments, they actively seek to reduce the tax burden on their profits and engage in other activities aimed at lowering their overall effective tax rates.

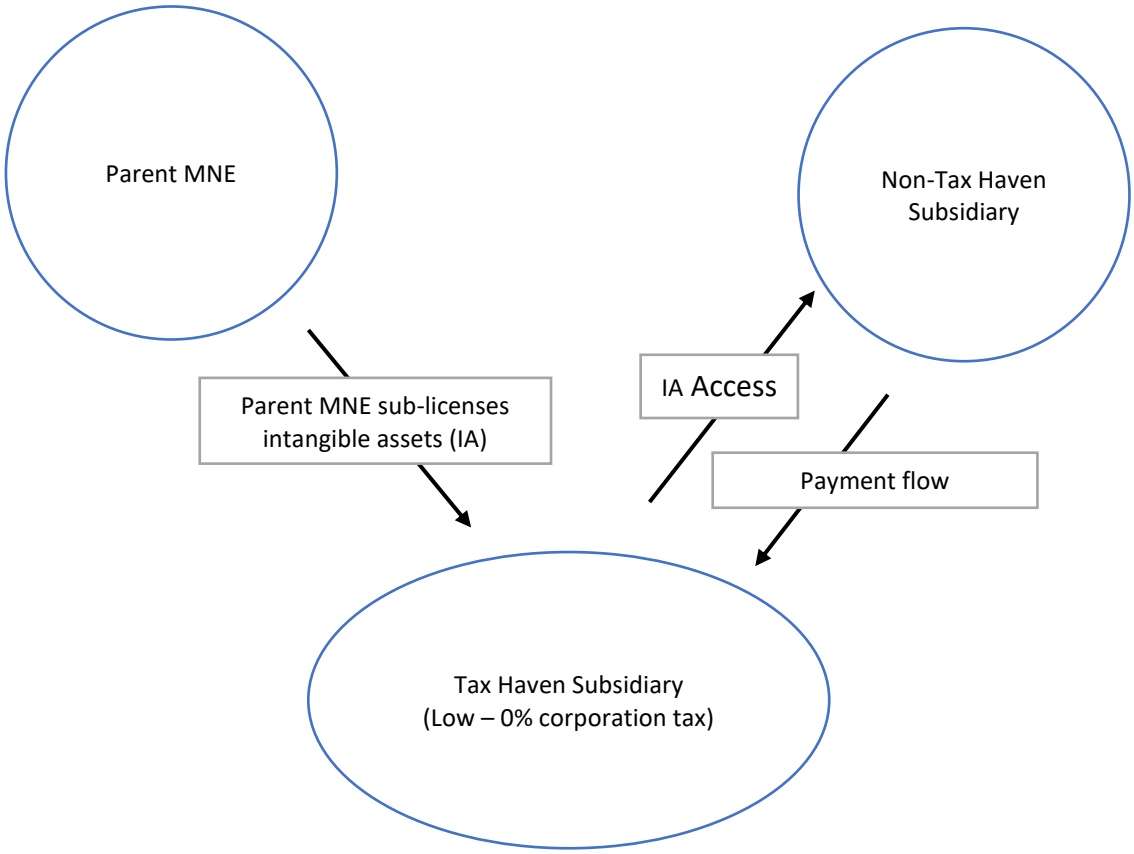
These later arguments were then corroborated by Jones and Temouri (2016; p238) who took the opposite view to Oxelheim et al. (2001) and argued that classifying tax haven usage as a reactive strategy dilutes the impact that tax minimisation could have on FDI activity. This view is strongly supported by current empirical evidence in the international business (IB) literature. Desai et al (2006) had earlier found that MNEs that possess larger intangible assets

aggressively seek to minimise their tax burdens, which would suggest a proactive, rather than a reactive strategy.

Moreover, Oxelheim (2001) and Eden (2009) noted that the financial success of an MNE is largely dependent on its tax avoidance strategies and in particular its transfer pricing strategies. By engaging in aggressive tax haven FDI through transfer pricing, MNEs can minimise, defer, and sometimes pay zero tax on profits by transferring these profits to tax havens that offer low, and zero rates of tax. Palan et al. (2010) noted that in addition to low and zero rates of tax, tax havens create laws and regulations that can be easily circumvented, whilst simultaneously providing high levels of secrecy embedded in law. They further noted that these conditions are intentionally created to allow MNEs the ability to arbitrage cross-country differences in tax codes to reduce their tax burdens.

Noted by the OECD (2013) and later shown by Jones and Temouri (2016), MNEs that possess large levels of intangible assets and operate within the same industry have similar financial blueprints in regard to their use of tax havens. Subsidiaries in these tax havens subsequently receive payments for these intangible assets from companies in non-tax havens – usually their home and other high-taxed countries in which they operate. The subsequent sale of these intangible assets back to the parent companies are usually at very high prices thus, allowing the home country firm to pay less corporation tax due to these higher cost (Jones and Temouri, 2016; Desai et al., 2001), and oftentimes no tax at all if the price charged by tax haven subsidiaries for the use of these intangible asset results in a 'loss' for the parent company located in the high tax jurisdiction (Palan et al., 2010). See Figure 1 below.

Figure 1: Financial blueprint for tax avoidance using tax havens



(Modified from Jones & Temouri, 2016, p240)

However, as Dunning (1977; 1988; 1995; 1998; 2000) kept on evolving his eclectic paradigm, so to have past FDI researchers such as Oxelheim et al. (2001), Loretz and Moore (2012; 2013) and Desai et al. (2006) also continued to modify his framework to suit their own research objectives. Jones and Temouri (2016) were no different. In seeking to advance the international business literature and to conceptualise the role of tax havens in international business, they rejected Oxelheim et al. (2001) approach and accepted Rugman (2010) argument that the OLI eclectic paradigm is perhaps overdetermined. Rugman (1981; 2009; 2010) argued that the two key determinants of FDI are country-based and firm-level factors which he called country specific advantages (CSAs) and firm specific advantages (FSAs) respectively, further noting that since FSAs are firm level advantages, hence, they are strongly routed in internalisation

theory. His argument stemmed from his postulations that Dunning (1977; 1988; 1995; 1998; 2000) eclectic OLI paradigm is broad in nature, and focuses on factors more at the industry level, and that the joining of the O, L, and I advantages lead to a descriptive and holistic explanation of the motivations of MNEs to engage in FDI.

At its core, the Rugman (1981) traditional FSA-CSA matrix seeks to explain the outward FDI decisions of an MNE based upon its FSAs and home-country CSAs. Thus, the FSA-CSA framework is essentially a home country, outward FDI framework. In contrast, Dunning (1977; 1988; 1995; 1998; 2000) eclectic OLI paradigm seeks to determine an MNE's outward FDI decisions based on opportunities present in the intended host country. Furthermore, all of Dunning's O, L, and I variables are analysed from the host country perspective, thus his 4 motives– *natural resource-seeking, market-seeking, efficiency-seeking, and strategic asset-seeking* – are the main reasons for an MNE to engage in outward FDI (Rugman, 2009, p5; Cavusgil et al., 2013, p132-135).

Hence, Jones and Temouri (2016) adopted his further assertions that internalisation theory is focused at the firm level, since it is focused on the decisions of the MNE. This, Jones and Temouri (2016) argued, is in itself advantageous as it demonstrates the heterogeneity that exists among firms. As an example, the close links between the OLI advantages purported by Rugman (2010), Jones and Temouri (2016) noted a firm's ownership (O) advantage of a model for corporate tax avoidance is strongly linked to the internalisation (I) advantage of the firm. Indeed Oxelheim et al. (2001. p384) also noted that a firm's strategic decisions, in this instance, its strategic tax avoidance decisions, are closely associated with the firm's O advantages.

Additionally, and in line with earlier assertions by Cantwell et al. (2010) and Dunning and Lundan (2008) that firms need to have the right ownership advantages such as financial ownership advantages that allow them to conduct FDI, Jones and Temouri (2016) noted the possibility for locational (L) advantages such as the secrecy and low or zero rates of tax offered by tax havens can be transformed into an ownership (O) advantage.

Within Rugman (1981; 2009; 2010) FSA-CSA matrix, Jones and Temouri (2016) highlighted how MNEs with greater financial FSAs are becoming increasing able to exploit host country tax avoidance CSA benefits, and are also most likely to be the firms developing dynamic and complex financial tax avoidance strategies. However, for a firm to fully exploit its financial ownership advantage and to acquire the full benefits of undertaking FDI in tax havens, it is advantageous to have its own unique financial strategy – its unique *financial blueprint* as coined by Oxelheim et al. (2001) to escape what Rugman (1980) in Jones and Temouri (2016) referred to as exogenous market imperfections – which can include high tax burdens in home countries – MNEs develop aggressive tax avoidance strategies across their global operations (Jones et al, 2016).

2.3 Institutionalisation Theory and its Application to Developing Countries

As it has being shown, there are important distinctions between the theoretical frameworks of Dunning (1977; 1988; 1995; 1998; 2000) eclectic OLI paradigm and Rugman (1981; 2009; 2010) FSA-CSA framework. However, it has also being shown that there are similarities between them, the most notable being that they are both outward looking, with Rugman (1981; 2009; 2010) specifically looking at how home-country level factors can influence MNE FDI decisions. Jones and Temouri (2016) developed an amended version of the FSA-CSA framework to demonstrate how high home country taxes have increased tax haven activities

amongst MNEs from these countries. Following in their footsteps, and given that this thesis focuses further on home country institutional factors, namely internal conflicts; corruption; democratic accountability; and property rights, it is at this point that we posit that both Dunning's eclectic paradigm and the CSAs within Rugman (1981; 2009) can be developed with greater linkage to institutional theory to better accommodate developing countries with weaker institutions (Kano and Verbeke, 2019).

We argue that such an approach will provide a greater understanding when examining the decisions of MNEs from these countries to engage in outward FDI. Whilst Driffield, Jones, Kim, and Temouri (2021) recently utilised the FSA-CSA framework in their paper on outward tax haven FDI from South Korea, their focus was on MNEs seeking access to new markets and resources, and not necessarily to escape adverse home country institutions. This further highlights our assertion that institutional theory needs a greater role when seeking to understand the motivations of MNEs from countries experiencing high levels of institutional risks to engage in tax haven FDI. In examining the impact of poor institutions on FDI, Yang and Mohammad (2023) incorporated FSAs to investigate the role of corruption in the decisions of developing country MNEs to conduct FDI. This chapter seeks to builds on this approach to examine the tax haven FDI amongst developing country MNEs.

Kano and Verbeke (2019) effectively noted that at the heart of institutionalisation theory, as posited by DiMaggio and Powell (1983) and Powell and DiMaggio (1991), MNEs are positioned in their economic, political, and social environment, to which they must adapt, and seeks to explain how MNEs utilise their FSAs to overcome these institutional risks at home (Kostova and Roth, 2002; Glaister, Driffield and Lin, 2020). Kostova and Roth (2002) further argued that MNEs must adapted to the institutional risks of the country in which they are

located. These institutional risks include poor economic and financial growth (Montero, 2008; Jensen 2003) and unfavourable government legislations and policies (Kano and Verbeke, 2019). Forsgren (2013) further asserted that MNEs act as interpreters of their immediate environment when seeking to internationalised, and given that the focus of institutionalisation theory is on MNEs institutional environments, then assumptions concerning the actions of MNEs are thus, strongly implied given that their actions are determined to protect against a myriad of institutional and country challenges.

The OLI paradigm, including its various adaptations by subsequent researchers over the years, quite simply, provided a theoretical framework by which home-country firms exploit their O and I advantages to further exploit the locational (L) advantages offered by host countries. Thus, one obvious area of weakness of the OLI paradigm is that it disregards home country factors such as high taxes and weak political and legal institutions that may be a determining factor in the decisions of home country MNEs to conduct outward FDI (Driffield et al., 2021), and in this instance, outward FDI into tax havens.

The assertions by DiMaggio and Powell (1983) and Powell and DiMaggio (1991) on institutional theory have been used in prior research to address these shortcomings of the OLI paradigm. Glaister et al (2020) and Pajunen (2008) further noted that where MNEs have autonomy in their FDI decisions, then these decisions are effectively a reflection of their assessment of the institutional environment of their home country. Studies concerning inward FDI into Africa and other developing countries have highlighted how home institutional characteristics such cultural and ideological embedded factors, and clear procedures and regulatory systems of interaction between members of society, and the establishment of the legal, economic and financial controls impacted overall FDI (see Glaister et al., 2020; Salomon

and Wu, 2012; North, 1990). Holmes et al (2013) asserted that the political, economic and regulatory institutions present the most important concerns for MNEs, examples of which include unfavourable government legislations and policies in their home (Kano and Verbeke, 2019).

The IB literature contains numerous instances of where institutional quality affects outward FDI in emerging countries[1]. Cuervo-Cazurra and Ramamurti (2015) noted that MNEs from developing countries face higher cost of capital risks that can be attributed to poor governance and higher macroeconomic volatility. Others highlight what Stoian and Mohr (2016) referred to institutional escape, whereby MNEs conduct outward FDI to protect against competitive disadvantages that occur as a result of adverse institutional environments at home (see Witt and Lewin, 2007; Luo and Tung, 2007; Cuervo-Cazurra and Genc, 2008, and Yamakawa et al., 2008).

Others have posited that this institutional escape can be further be attributed to political instability and uncertainty; economic risks (Stoian and Mohr, 2016; Stal and Cuervo-Cazurra, 2011); undeveloped and/or weak home country institutions (Wu and Chen, 2014); political elites exerting control over the judiciary system and MNEs facing the risk of expropriation due to little or no property rights (Montero, 2008; Cuervo-Cazurra and Ramamurti, 2015; Stoian and Mohr, 2016).

Notably, Cuervo-Cazurra and Ramamurti (2015) concluded that MNEs from developing countries actively seek to escape unfavourable home country institutional environments by conducting tax haven FDI in a bid to minimise their investment transparency and to benefit

[1] Emerging countries and developing countries are used interchangeable throughout this paper.

from incentives normally only available to foreign investors. This would support earlier assertions by Yamakawa, Peng and Deeds (2008) and Holmes et al (2013) that home country institutions play an important role in developing countries MNEs FDI decisions.

2.4 Institutional Arbitrage and Tax Haven FDI

Another growing strand in the IB literature that can be seen as a compliment to institutional escape as posited by previous researchers such as Cuervo-Cazurra and Ramamurti (2015); Stoian and Mohr (2016); and Stal and Cuervo-Cazurra (2011), is the strand commonly referred to as institutional arbitrage (see Sharafutdinova and Dawisha; 2017; Perkmann, Phillips and Greenwood, 2022) or jurisdictional arbitrage (Palan, Petersen and Phillips, 2023).

The concept of arbitrage has widely been used in finance and other forms of international business (see Oxhelheim et al., 2001), and indeed by Palan et al (2010) and Palan et al (2023) when they asserted that tax havens are especially effective because of their ability to allow MNEs the possibility to arbitrage different jurisdictional tax laws to reduce their overall tax burden. In reference to these concepts, and drawing on the research by Thornton, Ocasio and Lounsbury (2012) that examined institutional logic, and how organisations interpret their institutional environment (see Thornton (2004), Perkmann et al (2022, p7) noted that actors make efforts to exploit differences between different national and regulatory regimes, and thus defined institutional arbitrage as *'…the purposeful deployment of multiple institutional logics by an actor to achieve valued organisational outcomes'*.

In fact, many relatively recent studies can be found outlining the challenges of institutional risks and complexities faced by MNEs, and how MNEs and actors alike can deal with these challenges (see Battilana, Besharov and Mitzinneck, 2017; Fosturi, Giarratana and Roca, 2016;

Battilana and Dorado, 2010). More recently, Gümüsay, Smets and Morris (2020) in Perkmann et al (2022) highlighted how firms would intentionally combine otherwise incompatible logic, such as corporate and religious logic thereby creating situations whereby firms can now engage in previously impossible or unacceptable activities such as offering products and services to formerly inaccessible customers.

Further researcher into institutional arbitrage highlight an area where it can be utilised as a compliment to the Dunning (1977-81) OLI, and the institutional frameworks, through which the study of outward tax haven FDI by MNEs from countries experiencing poor institutional qualities at home can be analysed. In seeking to advance the IB literature further from individual logic and towards international business in general, Sharafutdinova and Dawisha (2017) noted that unaccountable and weak governments are compatible with very mobile forms of capital investment. Moreover, they further asserted, capital flight can be a feature of the wider economic and political environment whereby MNEs maximise profit potentials by exploiting weak home-country institutions, whilst simultaneously utilising strong institutions elsewhere – in this instances, tax havens - to safeguard these profits.

Boisot and Meyer (2008) also noted that MNEs throughout the world actively seek to lower their taxes and find countries with softer, more business-friendly regulations, whilst simultaneously seeking to escape countries with poor property rights and rule of law (Gaur and Lu, 2007). Thus, they further exploit their ownership (O) and internalisation (I) advantages by looking worldwide for opportunities for protections from unfavourable institutions. Moreover, Sharafutdinova and Dawisha (2017) further argued that in high tax countries, MNEs seek escape by relocating their headquarters to low tax jurisdictions (locational (L) advantages).

This was indirectly corroborated by Clark et al (2015) and Palan et al (2023) who argued that investors often utilise offshore jurisdictions for other forms of institutional arbitrage, including access to reliable legal jurisdictions, or for guarding against perceived institutional weaknesses at home, including political instability and weak legal systems (see Buckley et al., 2017; Vlcek, 2014; Sharman, 2012).

Chapter 3

Data Sources and Construction of Panel

This chapter outlines the main data sources for data replicated through Chapters 4 – 6. The data required for this thesis was obtained from five (5) main sources: 1) Orbis, provided by Bureau van Dijk; 2) the International Country Risk Guide (ICRG) of the PRS Risk Group; 3) Centre for Systematic Peace which publishes data on major episodes of political violence (MEPV) and conflict regions; 4) the Index of Economic Freedom, provided by the Heritage Foundation; and 5) The World Bank.

3.1 Orbis

Orbis is an online firm level dataset which provides annual information for MNEs worldwide. This data includes the financial information, number of subsidiaries, and firm age for MNEs from developing countries included in the sample. The data collected covered the period 2008 – 2018 resulting in an unbalanced panel dataset consisting of 171,298 observations, which included a total of 47,661 MNEs owning at least one subsidiary located in a tax haven. Notably, MNEs whose home country is included in any of the tax haven measures were excluded from the dataset. Countries whose MNEs had no tax haven presence were also excluded.

It is important to note here that while some studies have attempted to differentiate between an '*emerging'* and a '*developing'* country (see Sgard, 2008), there is no consensus on an official definition of either term (Yang and Mohammad, 2023). Some studies have used emerging markets as an umbrella term for all developing and transition economies (see Uhlenbruck et al., 2006, Cuervo-Cazurra, 2008). Highlighting the similarities of the World Bank classification of an emerging and developing country, Golgeci et al. (2021) and Hoskisson et al. (2013) classified emerging and developing markets as having low and middle-income economies,

young populations, uncertain market conditions, and a changing institutional environment (Yang and Mohammad, 2023; p3). Accordingly, the IMF (2022) makes no differentiation between these terms and classifies any MNE registered in a country classed as an emerging or developing country as an emerging multinational enterprise (EMNE). This thesis adopts the IMF (2022) classification of what constitutes an emerging or developing economy, hence the terms developing country, and developing country MNE, are used to refer to any country or MNE respectively, registered in any of the sample countries in Table 1[2].

This paper adopted the OECD (2013) and UNCTAD (2013) conventional definition of an MNE as *'…any firm that owns at least 10% in at least one subsidiary located abroad'*. Two key advantages afforded by Orbis is that it provides the location and country of foreign subsidiary of every MNE worldwide, which makes it relatively straightforward to construct the dependent variable, TaxHavenFDI. Secondly, Orbis reports levels of MNE ownership in foreign subsidiaries making it possible to tract and ensure MNEs in questions were majority-owned by shareholder(s) of the same country during the sample period. **Table 1** below gives a breakdown of MNEs by country of origin for each country covered in Chapters 4 – 6:

[2] To ensure reliability of results, and to further ensure that results were not driven by what previous researchers would class as an emerging of developed country, numerous models were ran using various GDP growth and GDP per capita variables.

Table 1: MNE Country of Origin

Country of Origin	Number of MNEs	Percentage of total MNE sample	Number of Country MNEs with at least 1 Subsidiary in a Tax Haven	Percentage of Country MNEs with at least 1 Subsidiary in a Tax Haven (%)	Country	Number of MNEs	Percentage of total MNE sample	Number of Country MNEs with at least 1 Subsidiary in a Tax Haven	Percentage of Country MNEs with at least 1 Subsidiary in a Tax Haven (%)	Country	Number of MNEs	Percentage of total MNE sample	Number of Country MNEs with at least 1 Subsidiary in a Tax Haven	Percentage of Country MNEs with at least 1 Subsidiary in a Tax Haven (%)
Albania	107	0.06	28	26.17	Fiji	31	0.02	7	22.58	Mongolia	2	0.00	2	100.00
Algeria	22	0.01	11	50.00	Gabon	45	0.03	11	24.44	Montenegro	847	0.49	76	8.97
Angola	64	0.04	35	54.69	Gambia	22	0.01	11	50.00	Morocco	99	0.06	59	59.60
Argentina	2465	1.44	639	25.92	Georgia	76	0.04	10	13.16	Namibia	71	0.04	43	60.56
Bangladesh	251	0.15	89	35.46	Hungary	10902	6.37	481	4.41	Nepal	10	0.01	10	100.00
Belarus	1469	0.86	11	0.75	India	6942	4.05	4803	69.19	Niger	11	0.01	11	100.00
Benin	18	0.01	11	61.11	Indonesia	1276	0.75	1072	84.01	Nigeria	305	0.18	182	59.67
Bosnia And Herz.	1981	1.16	73	3.69	Iran	315	0.18	171	54.29	Oman	359	0.21	297	82.73
Brazil	4563	2.66	1523	33.38	Iraq	12	0.01	1	8.33	Pakistan	358	0.21	270	75.42
Bulgaria	3582	2.09	593	16.55	Israel	6216	3.63	1704	27.41	Pap. Nw. G.	34	0.02	12	35.29
Central African Rep.	11	0.01	11	100.00	Jamaica	20	0.01	16	80.00	Peru	783	0.46	168	21.46
Chile	2095	1.22	569	27.16	Kazakhstan	307	0.18	60	19.54	Poland	7788	4.55	969	12.44
China	15819	9.24	11595	73.30	Kenya	218	0.13	76	34.86	Qatar	437	0.26	304	69.57
Colombia	602	0.35	296	49.17	Korea, S.	4126	2.41	949	23.00	Romania	3760	2.20	187	4.97
Congo (DRC)	4	0.00	4	100.00	Kosovo	80	0.05	17	21.25	Slovenia	8538	4.99	940	11.01
Congo	1	0.00	1	100.00	Kuwait	1407	0.82	998	70.93	Somalia	11	0.01	11	100.00
Costa Rica	41	0.02	41	100.00	Latvia	5460	3.19	229	4.19	South Africa	4436	2.59	2307	52.01
Croatia	5760	3.36	660	11.46	Libya	44	0.03	33	75.00	Sri Lanka	860	0.50	559	65.00
Czech Rep.	20672	12.07	344	1.66	Lithuania	5958	3.48	139	2.33	Sudan	61	0.04	34	55.74
Djibouti	4	0.00	4	100.00	Madagascar	41	0.02	16	39.02	Syria	19	0.01	11	57.89
Ecuador	180	0.11	48	26.67	Mali	24	0.01	11	45.83	Taiwan	11544	6.74	8378	72.57
Egypt	461	0.27	209	45.34	Malta	856	0.50	231	26.99	Thailand	203	0.12	177	87.19
Estonia	7681	4.48	156	2.03	Mexico	2099	1.23	526	25.06	Togo	26	0.02	11	42.31
Ethiopia	21	0.01	1	4.76	Moldova	1098	0.64	11	1.00	Trinidad & T.	68	0.04	57	83.82

Table 1 continued…

Country of Origin	Number of MNEs	Percentage of total MNE sample	Number of Country MNEs with at least 1 Subsidiary in a Tax Haven	Percentage of Country MNEs with at least 1 Subsidiary in a Tax Haven (%)
Tunisia	44	0.03	2	4.55
Turkey	2399	1.40	604	25.18
Ukraine	1882	1.10	45	2.39
Russia	4527	2.64	1412	31.19
Saudi Arabia	1445	0.84	984	68.10
Serbia	3754	2.19	432	11.51
Venezuela	134	0.08	77	57.46
Vietnam	292	0.17	180	61.64
Yemen	11	0.01	11	100.00
Zambia	125	0.07	34	27.20
Zimbabwe	295	0.17	106	35.93
Totals				
83	**171,298**	**100**	**47,661**	**100**

3.2 ICRG

Data on internal conflict, ethnic tensions, and religious tensions were collected from the ICRG risk guide. The internal conflict rating of the ICRG is essentially an assessment of the existence of any political violence within a country and its potential, or actual impact on the ability of the government to effectively govern and assesses the degree of religious tension that may arise when a single religious group exerts dominance over governance and/or society at the exclusion of other religions from the political and/or social process. See Chapter 4, subsection 4.6, and Chapter 5, subsection 5.7.

An added benefit of the ICRG is that it also provides data on corruption which is used in Chapter 5. Whilst the ICRG measure of corruption considers most forms of financial corruption that are met directly by MNEs such as bribery and special payments, it is mostly concerned with corruption withing the political system. This is ideal given that this is the focus of Chapter 5.

3.3 MEPV

The data on violence, used in Chapter 4, was obtained from the Centre for Systematic Peace (CSP) Major Episodes of Political Violence (MEPV), 1946 – 2018. The CSP MEPV provides a regularly updated and comprehensive listing of all types of major episodes of armed conflicts worldwide (CSP, 2019). Prior to 2008, parts of the MEPV list were listed as “unknown” or “estimates”, meaning that prior research was based on incomplete or estimated results. However, since 2008 these parts of the list underwent a significant review and were updated to confirm, or disconfirm, existing data. Thus, unlike previous research that would have relied on estimates, unknown, and unconfirmed data, this thesis benefited by utilising confirmed, and updated data. See Chapter 4, section 4.6.

3.4 Property Rights and Rule of Law

Data on property rights was obtained from the *Index of Economic Freedom* provided by The Heritage Foundation. Property rights is crucial in a market economy given that MNEs must feel secure in the knowledge that their property, assets and other resources will not be expropriated on a whim by the government, without the completion of an independent judicial process. The scores assigned by The Heritage Foundation to countries reflect the certainty of that country's government to enforce laws designed to protect private property. Specifically, it measures the extent to which the laws of a country protect private property and the extend of the willingness of the government in power to enforce these laws, and the ability of individuals and businesses to enforce contracts.

Property rights are often argued to be important in market economies and MNEs will need assurances that their private property will not be expropriated by authorities without the completion of due independent judicial processes. Countries are graded on a score from 0 – 100, with 0 being most risky where all property is owned by the state, private property is outlawed and individuals/MNEs have no rights of redress in the court system. A score of 100 represents no risk and signifies that private property is guaranteed by the government and the existence of an efficient court system that offers rights of redress (The Heritage Foundation, 2021). See Chapter 6, section 6.4. To maintain consistency and ease of comparison across other variables during analysis, these scores were recoded 0 – 100 in ascending order of risks where 0 signifies no risk and 100 maximum risks.

3.5 Political Stability

Data on political stability was collected from the World Band Indicators (WGI), provided by the World Bank. It measures the perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism (Kaufmann and Kraay, 2023). Given that all three empirical chapters focuses on at least one form of '*poor'* institutional quality MNEs would seek to escape, it is prudent to determine the impact of political stability in conjunction with other institutional factors and their overall impact on the propensity of tax haven FDI.

3.6 Gross Domestic Product (GDP) Growth and GDP per capita

Previous research has shown that a country's market size and level of economic development, as measured by GDP per capita and GDP growth respectively, are important factors that can influence MNEs FDI decisions (Montero, 2008). GDP growth was used as a measure of long-term economic performance, and it has been known to affect both FDI and the stability of less democratically accountable countries (Bak and Moon, 2016). It has also been used in previous studies as a measure of the income generating potential of a country and the ability of that country to meet its financial and other obligations (see Montero, 2008; Jensen 2003, p598; Globerman and Shapiro, 2002).

3.8 Derivation of Dependent Variable

The dependent variable used throughout the three empirical chapters, *TaxHavenFDI* is a binary variable – which equals *1* if an MNE has at least a 10% ownership of at least one subsidiary located in a tax haven, and *0* if it does not. One of the main limitations however, of using a binary variable as the dependent variable is that it does not take into account total assets invested in tax havens. That is a limitation that is not easily remedied, however. While Orbis do indeed provide such details for some subsidiaries, many of these subsidiaries do not publish

information on total assets, possible due to the secrecy offered by the tax haven countries (Jones and Temouri, 2016). Indeed, Palan et al. (2010, p8) defines a tax haven as:

> '*…places or countries (not all of them sovereign states) that have sufficient autonomy to write their own tax, finance, and other laws and regulations. They all take advantage of this autonomy to create legislation designed to assist non-resident persons or corporations to avoid the regulatory obligations imposed on them in the places where those non-resident people or corporations undertake the substance of their economic transactions.'*

Put simply, tax havens are usually countries offering non-resident companies zero or near zero rates of tax and provide high levels of secrecy (Jones and Temouri, 2016; Palan et al., 2010). No *official* tax haven list exists, but rather the existence of many, arguable, subjective *lists*. Thus, for the purpose of this thesis, clearly defined parameters of what constitutes a tax haven country, and indeed a tax haven subsidiary, is needed. Throughout the international business literature, distinctions have been made between "*Dots*" tax havens and the "*Big 8*" or extended tax havens. Hines and Rice (1994) classified *dots* as small island economies with a population of under 500,000, have low or zero top rates of tax and high levels of secrecy that is oftentimes protected by law (Palan et al., 2010) and offer very little opportunities for legitimate internationalisation or real economic growth.

Desai et al. (2006) classified the *Big 8* (Hong Kong; Ireland; Lebanon; Liberia; the Netherlands, Panama; Singapore; and Switzerland) as tax haven countries with significantly larger economies that simultaneously offer legitimate opportunities for real economic growth and further opportunities for MNEs to expand internationally. Thus, these countries obfuscate whether subsidiaries located in these countries were created to add real economic value or

simply for tax avoiding purposes (Jones and Temouri, 2016, p242). Jones and Temouri (2016) expanded and constructed they own 'dots' tax haven list based on the original 'dots' definition. Jones and Temouri (2018) subsequently created an extended tax haven list that was much broader in scope compared to the Big 8. This extended tax haven list largely disregarded population size and included many other countries (including countries previously included on the Big 8 list) that offers both tax haven benefits and opportunities for real economic growth.

Table 2 below outlines the three (3) tax haven measures utilized in this thesis. These tax haven lists are separated in 'dots' and 'extended' tax havens. Hines and Rice (1994) and Jones and Temouri (2016) represent "dots" tax havens and focus on countries such as Bermuda, the British Virgin Islands and the Cayman Islands that offer little or no justification for internationalisation (Palan et al., 2010). Jones and Temouri (2018) represents the extended tax haven list that are broader in scope and includes both 'dots' tax haven countries and larger well-known tax havens such as Hong Kong, Switzerland and the Netherlands (Jones and Temouri, 2018)[3].

It is important to note at this point that the identification of subsidiaries is done on the basis of when the data was downloaded from Orbis. Given that Orbis identifies the entire history of subsidiary ownership for every MNE, this poses no potential issues given the rarity of MNEs to shut existing tax haven subsidiaries or open new ones during the period of investigation. Rather, on the contrary, this means that the dependent variable remains contemporaneous for every MNE throughout the sample period. Even in instances where an MNE might be

[3]An alternative approach would have been to utilise official "Blacklists" such as the EU's list of "non-cooperative" jurisdictions. However, these lists are subjected to little or no academic scrutiny and is also influenced to political pressures, potentially rendering them systematically biased (Jones and Temouri, 2016).

conducting FDI in multiple tax havens, the dependent variable still holds providing an MNE consistently maintains at least one subsidiary in at least one tax haven country throughout the sample period. Thus, it can be argued confidently that the methodology employed adequately justifies the dependent variable used for this thesis.

Table 2: Tax Haven Classifications

"Dot" Tax Haven Classifications		Extended Tax Haven Classifications	
Hines & Rice (1994)	Jones & Temouri (2016)	Jones & Temouri (2018)	
Andorra	Andorra	Andorra	Mauritius
Anguilla	Antigua	Anguilla	Monaco
Antigua	Bahamas	Antigua	Montserrat
Bahamas	Bahrain	Aruba	Nauru
Bahrain	Barbados	Bahamas	Netherlands Antilles
Barbados	Belize	Bahrain	Panama
Belize	Bermuda	Barbados	St Kitts and Nevis
Bermuda	Cayman Islands	Barbuda	Saint Lucia
BVI	Cote d'Ivoire	Belize	Saint Vincent
Cayman Islands	Cyprus	Bermuda	Samoa
Cook Islands	Dominica	Botswana	San Marino
Cyprus	Gibraltar	BVI	Seychelles
Gibraltar	Grenada	Brunei Dar.	Singapore
Grenada	Jordan	Cayman Islands	Turks and Caicos
Guernsey	Kiribati	Cook Islands	United Arab Emirates
Isle of Man	Liechtenstein	Curacao	Uruguay
Jersey	Luxembourg	Cyprus	Vanuatu
Liechtenstein	Macao	Dominica	
Luxembourg	Malta	Ghana	
Macao	Mauritania	Gibraltar	
Malta	Nauru	Grenada	
Monaco	Netherland Antilles	Guatemala	
Netherlands Antilles	St. Kitts & Nevis	Guernsey	
St. Kitts and Nevis	St. Lucia	Hong Kong	
Saint Lucia	St. Vincent	Isle of Man	
Saint Vincent	Vanuatu	Jersey	
Seychelles		Lebanon	
Turks and Caicos		Liberia	
		Liechtenstein	
		Luxembourg	
		Macao	
		Macedonia	
		Malaysia	
		Marshall Islands	

(Source: Desai et al., 2006; Hines & Rice, 1994; Jones & Temouri, 2016; 2018)

3.9 Variables of Interest

Orbis contains financial data which was used to construct further firm-specific variables. Given the scarcity of data available for subsidiaries located in tax havens possible due to secrecy (Palan et al. 2010), only available financial data of the parent MNE was taken into account across all three empirical chapters. This presented no significant issues given that only the location and number of foreign subsidiaries were enough to test hypotheses. It is well documented in the IB literature that MNEs with greater FSAs and intangible assets, then the more likely that MNE is to engage in tax haven activities (See Palan et al., 2010; Desai et al., 2006; Jones and Temouri, 2016; Dischinger and Riedel, 2011). Operating revenue turnover was used as a measure of MNE size (see Jones and Temouri (2016; Palan et al., 2010).

Other variables included number of subsidiaries (used as a measure of MNEs internationalisation given the IB literature has shown that the more international a MNE, the more likely it is to engage in tax haven FDI (Graham and Tucker, 2006); firm age (positive correlations were evidenced between a firm's age and its propensity to engage in tax haven FDI (Jones and Temouri, 2016, p244); and top rate of tax[4] (well established in the international business literature that higher rates of tax in an MNE home country significantly increases its likelihood of that MNE to conduct tax haven FDI (see Jones and Temouri, 2016; Desai et al., 2006; Dischinger and Riedel, 2011; Palan et al., 2010).

Top rate of corporation tax at the country level was obtained from the Oxford Centre for Business Taxation. Eurostat (2008) two-digit NACE industry codes was used to categorise the different industries in which these MNEs operate. These eight (8) categories defined by

[4] When the country's top rate of tax was substituted with the actual tax burden faced by MNEs, the results remained consistent.

Eurostat (2008), although quite broad, were adopted, given that their current categorisation was enough to test hypotheses. These categories include agriculture; mining and quarrying; high technology manufacturing; medium – high technology manufacturing; medium – low technology manufacturing; low technology manufacturing; total knowledge intensive services; and less knowledge intensive services.

Profitability was excluded as it is oftentimes heavily manipulated (Beer, De Mooij and Liu 2020). In fact, they noted that previous studies have attempted to address this issue by either excluding observations with negative profits values and then calculating the natural logarithm of the remaining positive values, whilst others have calculated a profitability ratio such as return on assets or return on sales. Moreover, given some of the accounting tricks usually employed by firms such as 'losses' being carried over from previous years, and amortisation of assets to manipulate profits (Sikka and Willmott, 2010; Sikka and Hampton, 2005), Beer et al (2020, p669) noted that the exclusion of firms with negative profit values could induce bias and while profitability ratios can possibly reduce this bias, it can also capture actual responses to the tax rate in the denominator, thus muddling tax-minimization responses with real ones.

Moreover, Johannesen et al. (2020) found that MNEs operating at a loss were sometimes amongst those employing the most aggressive tax avoidance strategies. Dharmapala (2014) further noted that asymmetries in tax laws between countries that allows for losses to be offset against future profits further implies that loss-making MNEs may well have different tax avoidance strategies given that they are subjected to different tax treatments. Given these issues, this paper, and as other studies have done in the past, omitted profitability altogether (see Jones and Temouri, 2016).

Eurostat (2008) two-digit NACE industry codes were used to categorise the different industries in which sample MNEs operate. These eight (8) categories defined by Eurostat (2008), although quite broad, were adopted, given that their current broad nature was enough to test hypotheses. The categories include agriculture; mining and quarrying; high technology manufacturing; medium – high technology manufacturing; medium – low technology manufacturing; low technology manufacturing; total knowledge intensive services; and less knowledge intensive services (See Appendix 4.2 for full list of industry classifications).

3.10 Robustness Checks across Empirical Chapters

Robustness checks[5] was conducted to verify and add credibility to our findings. All three (3) empirical chapters used the same sample of 125 developing countries. However, similar studies found in the IB literature with linkages between FDI and developing countries have either concentrated on individual countries, particularly South East Asia, as a case in point (see Driffield et al., 2021; Ha and Guyen, 2017; Mahenthrian and Kasipillai, 2012); or on a particular region such as Africa (see Oguttu, 2016, 2017); or Middle East and North African (MENA) countries (see Al-Khouri and Khalik, 2013); and India, including BRICS countries (Brazil, Russia, India, China and South Africa) (see Iqbal, Turay, Hasan, and Yusuf, 2018; Yang and Mohammad, 2023).

Driffield et al. (2013) concentrated on risky developing countries as a whole, however their sample only consisted of a total of 12 countries. Hence, this adds the argument proposed in this chapter that the IB literature regarding developing countries in general is underdeveloped. However, despite the advantage of greater reliability afforded by larger sample sizes, Ellis (2010) noted that large sample sizes can increase the bias linked to errors stemming from

[5] Reported here to avoid repetition across all three empirical chapters. For brevity, results are not reported.

sampling. Thus, to control for this and to ensure that the overall results across all three empirical chapters were not driven by a particular region, a number of region variables for regions most frequently identified in the IB literature was constructed to further test initial results. These included region variables for Africa, Asia, BRICS countries, Eastern Europe, and Latin America. Across all three empirical chapters, with the exception of Eastern Europe, the results remained robust across all subsample list of countries.

Moreover, given all three empirical chapters did not focus on a particular region as previous studies would have done, but included MNEs from least developed countries all over the world. Thus, the sample included a number of countries with large a number of MNEs and relatively low levels of per capita income. Thus, in addition to removing all MNEs from countries classed as tax havens, the results were further filtered to only include countries with GDP per capita of <US$15,000. Numerous robustness specifications were conducted with various GDP per capita threshold. First, initial regressions with the actual GDP per capita was conducted, and significant results were returned. Secondly, other GDP per capita variables were constructed as a sensitivity analysis – (US$15000 or less; 15000.01 – 45000; and greater than 45000), and subsequent analysis showed the results were significant only across the <US$15000 threshold[6].

The inclusion of different variables each controlling for different country factors across all three empirical chapters serve a number of further robustness checks. First, initial empirical models adopting a bivariate approach of factors controlling for adverse institutional quality and their propensity on tax haven FDI all returned statistically significant results. To subsequently determine if these main bivariate variables retained their significance on tax haven FDI, a

[6] For brevity, the results presented across all three empirical chapters are filtered at the US$15000 GDP per capita threshold. Complete results can be provided upon request.

number of multivariate regressions were conducted, which included basic controls for political stability and economic performance, and the results remained consistent.

Chapter 4

Internal Conflict and Outward Tax Haven FDI

4.1 Abstract

Developing countries are arguably, more reliant on revenues from multinational enterprises (MNEs) compared to developed countries. This stands to reason that they are more impacted by lost revenues as a consequence of MNEs becoming more aggressive in their tax avoidance behaviours. This chapter examines the relationship between internal conflict, tensions, and violence – and the propensity of MNEs to engage in outward tax haven foreign direct investment (FDI) from developing countries. An unbalanced panel dataset covering 83 developing countries was analysis using dynamic probit and Poisson models. We find that the likelihood of MNEs to engage in tax haven FDI is contingent upon the level of risks present, and that MNEs were more likely to invest in tax haven countries that offer greater opportunities for tax avoidance, rather than in countries that offered genuine opportunities for economic growth. Further contributions to the international business (IB) literature were achieved by identifying heterogenic practices in tax haven behaviour amongst MNEs operating in different sectors. This chapter concludes with suggestions for policymakers in risky countries in their decisions pertaining to the use of MNEs as a tax revenue base.

4.2 Introduction

A key strand of the IB literature focuses on MNEs conducting FDI in tax havens to avoid payment of taxes. The combination of transfer pricing strategies and tax havens make it possible for MNEs to shift profits out of countries with high corporate tax rates, to countries with low corporate tax rates (Eden, 2009). Recent studies estimate that a total of 36 trillion US dollars is believed to be currently invested virtually tax-free through tax havens (Rawlings, 2022; Baker, 2023; Wier and Zucman, 2022). Hence, given the poor state of public finances, coupled with the tax arrangements of many well-known MNEs, corporate tax avoidance has been at the forefront of international politics (Clausing, Saez and Zucman, 2021), with widespread geopolitical support for a global reformation on how MNEs are taxed on their worldwide income (Watson and McBride, 2021).

Given these vast sums of revenues involved, and the call for international tax reformation amongst OECD countries, tax haven FDI have long since being the focus of many studies. However, much of the extant literature on tax haven FDI focuses on outward FDI from developed, usually OECD countries, into tax havens (see Eden (2009) and Palan, Murphy and Chavagneux (2010) studies that examined the roles of tax havens in facilitating international tax avoidance; Jones and Temouri (2016; 2018) studied the determinants of, and role of professional accountancy firms, in tax haven FDI; Sikka and Hampton (2005) also looked into the role of accountancy firms in tax avoidance strategies of developing country MNEs; and Sikka and Willmott (2010) looked into the role of transfer pricing to avoid corporate taxation.

Though it has received increasing attention recently in the IB literature, in comparison however, research on outward tax haven FDI from developing countries is much fewer despite UNCTAD (2015) reports that developing countries face a significantly reduced revenue base

as a result of aggressive tax avoidance strategies and tax haven FDI even amongst their own MNEs.

Moreover, FDI has steadily been emerging as the principal source of foreign capital for developing countries and initial perceptions from previous studies are that developing countries find it much more difficult to attract FDI compared to developing countries (Witte, Burger, Ianchovichinas, and Pennings, 2017; Driffield, Jones and Crotty, 2013; Butler and Joaquin, 1998). The last two decades has seen the development of additional strands of the international business (IB) literature evidencing a growing interest amongst scholars concerning the FDI activities of MNEs in conflict countries. Particularly noteworthy ones include MNEs strategic FDI in conflict countries (see Getz and Oetzel, 2010); Driffield et al., 2013); determining factors that influence MNEs decision to invest in conflict locations (Kolk and Lenfant, 2013; Bais and Huijser, 2005; Getz and Oetzel, 2009); the decisions of MNEs from countries experiencing less than ideal non-market events such as cultural, ethnic and violent conflicts (see Oh, Shin and Oetzel, 2021; Kibria, Oladi, and Akhundjanov, 2020; Mathews, 2020; Oetzel and Oh, 2019; Witte et al., 2017; Steinberg and Saideman, 2008; and Hamilton III and Knouse, 2001); and FDI across different sectors in the presence of political instability (see Burger, Ianchovichina and Rijkers, 2016).

Amongst the few noteworthy studies found that concentrated on outward FDI from developing countries, most were focused mainly on Asian countries, particularly China and Vietnam (see Ha and Quyen, 2017; Ramasamy, Yeung and Laforet, 2012). Regarding the issue of tax avoidance through tax havens specifically, Ha and Quyen (2017) concentrated on the tax avoidance practices of MNEs from developing countries, albeit, concentrating on state-owned firms from Vietnam. Johannesen, Tørsløv, and Wier, (2020) took a more holistic view and

investigated whether developing countries were more exposed to tax avoidance compared to their developed countries counterparts, and more recently Driffield et al (2021) investigated the motivations of South Korean MNEs to engage in tax haven FDI.

These studies highlight an important research gap in the contemporary IB literature that this chapter seeks to address. Whilst the majority consensus in the IB literature is that developing countries experiencing internal risks such as conflict deter inward FDI (Witte et al., 2017; Driffield et al. 2013; Kibria et al., 2020), less is known about how these risks affect the propensity of MNEs from these countries to engage in outward tax haven FDI. This is important given the greater need developing countries place on revenues from MNEs as main part of their revenue base (Witte et al., 2017; Kolk and Lenfant, 2013). Driffield et al (2021) and UNCTAD (2015) further highlighted how tax haven FDI leads to significant revenue leakages which further reduces the budgets of developing country governments, which in turn have a detrimental impact on the growth prospects of the country and the ability of the government to meet its financial obligations (see Ahmed et al., 2020).

This chapter makes a number of important contributions to the IB literature. Firstly, it aims to bridge the aforementioned strands of the IB literature by investigating the relationship between the impact of internal risks – specifically conflict, racial tensions, and violence, and the likelihood of MNEs to engage in tax haven FDI. Given the lack of research in this area, this chapter argues that a clearer understanding of how MNEs adjust their tax haven behaviour in the presence of varying degrees of internal risks within their home countries is needed. Secondly, recent studies have begun to investigate the impact of internal risks such as political instability and institutional quality on FDI across different sectors (See Bergougui and Murshed, 2022; Witte et al., 2017; Burger et al., 2016). This chapter builds on these studies by

investigating and comparing the tax haven behaviour of MNEs operating across similar and different industries. Thirdly, by incorporating different measures of tax havens, the analysis of the results showed that conflict, racial tensions, and violence to be strongly linked to MNE decisions to conduct FDI across tax haven countries, albeit more so towards those countries that offer greater opportunities for tax avoidance purposes rather than for economic growth.

As a theoretical framework, this chapter utilised DiMaggio and Powell (1983) and Powell & DiMaggio (1991) institutionalisation theory of FDI discussed in Chapter 2. A set of firm-level determinants and country-level risks factors were examined and used to test hypotheses. Unlike previously mentioned studies that concentrated on Asian countries, this chapter tested its hypotheses on 83 developing countries, using an unbalanced panel dataset that included 47,497 MNEs covering the period 2008 – 2018. Importantly, the dataset provides the location of every subsidiary, thus making it possible to estimate the propensity of firms to conduct FDI in tax havens by calculating the number of subsidiaries located across different tax haven measures.

The panel data used made it possible to estimate a number of probit and Poisson count-data econometric specifications to examine the propensity and incidence rate of tax haven FDI amongst developing countries MNEs. The findings make a number of key empirical contributions to the IB literature. Firstly, analysis from probit models shows strong positive correlations between internal risks – conflict, tensions, and violence – and MNE propensity to engage in tax FDI. Using Poisson regressions as a count-data methodology to determine the incidence rate of MNE tax haven activity, the results further show evidence that as internal risks increase, so does the number of tax haven subsidiaries owned by an MNE suggesting there is corelation between internal risks and tax haven FDI.

The rest of this chapter is outlined as follows: a relevant, but brief introduction to the theoretical framework outlined in Chapter 2, which is then followed by the empirical background from which the hypotheses of this chapter arise. The subsequent sections detail the empirical findings and provides a contemporary discussion of these findings particularly in relation to implications for policymakers and its impact on the revenue base of developing countries. Having argued that this is an area that needs further research given the lack of coverage of outward tax haven FDI of the IB literature, this chapter then concludes by identifying possible areas for future research.

4.3 Theoretical Background

This section provides a brief summary of institutionalisation theory, as posited by DiMaggio and Powell (1983) and Powell and DiMaggio (1991) and outlined in Chapter 2.3. As previously outlined, institutionalisation theory positions MNEs in their economic, political, and social environment, to which they must adapt (Kano and Verbeke (2019). This chapter concentrates on MNEs responses to their political environment, specifically in the presence of internal conflict, ethnic and racial tensions, and violence from within their home country. To assess the intended tax haven host-country institutional environment, in line with Kostova and Roth (2002) and Kano and Verbeke (2019), this chapter argues that MNEs will develop effective tax avoidance strategies by arbitraging the use their interconnections of subsidiaries located within tax havens to respond to the instances of conflict, tensions and violence from within the countries in which they are located.

4.4 Empirical Background and Hypotheses

Past studies have indeed examined the relationship between institutional factors and flow of FDI in a developing country context. Nair-Reichert and Weinhold (2001) examined the impacts

of economic institutions on FDI flow; Farole and Winkler (2012) investigated country level institutions such as labour market regulations and trade policy vis-à-vis FDI; and Busse and Groizard (2008) similarly examined the relationship between regulatory regimes and FDI; whilst Jude and Levieuge (2015) investigated the probability of FDI growth on institutional qualities which included political risks.

However, Knight (1921) paper was perhaps seminal to modern research covering the theory and classification of risks to explain business decisions to invest in conflict areas. He posited that risky environments are environments in which MNEs can make informed investment decisions on the probability of the risk occurring, or overcoming the challenges already present in risky areas. Subsequent economics and IB literature have attempted to investigate the decisions to MNEs to conduct FDI into conflict countries (see Agarwal and Ramaswami, 1992; Deng, Yan and Sun, 2018; Rivoli and Salorio, 1996; Pennings and Sleuwaegen, 2004). At present, the main focus of the current IB literature regarding FDI in conflict areas concentrates on either outward FDI from developed countries flowing into developing countries classed as conflict countries (see Driffield et al., 2013; Czinkota et al., 2010; Witte et al., 2017); or on a specific component of internal conflict, particularly political violence (see Witte et al., 2017; Darendeli & Hill, 2016; Schneider & Frey, 1985; Brunetti & Weder, 1998; Burger et al., 2016; Henisz, 2000; Kobrin, 1979).

However, a review of the IB literature shows that the bulk of the extant literature concentrates on political violence when investigating internal conflict, usually at the expense of other components of internal conflict. These further subcomponents are civil war and threat of a coup; terrorism, often tied to political violence; and civil disorder (ICRG, 2018).

Witte et al (2017, p866) made the novel approach of differentiating between political risks and political violence arguing that the close relationship between the two leads to ambiguity in regard to government policy, and thus MNE FDI decisions. Li and Vashchilko (2010) in Witte et al (2017) further argued that during episodes of political violence, governments are more likely to introduce new regulations, which can include trade embargos, contract breaches, limitations on profit repatriation, and various other policies that are restrictive to trade. Corroborated by Bodea and Elbadawi (2008), Witte et al (2017, p866) further noted that unlike political risk, the inter-fighting between government forces and rebel groups during episodes of political violence can lead to destruction of physical and human capital that MNEs must guard against.

Moreover, Gause (2011) posited the 2010 Arab Spring uprising highlighted the difference in predictability between political violence and political risks. He postulated that the nature of political violence often consists of singular instances, or for short periods, making it much more challenging for MNEs to predict unlike political risks where the political constraints are generally persistent over time and thus easier to predict.

Despite the inherent risks posed to MNEs due to internal country risks, the overall empirical studies that examined the relationship between FDI and conflict is still largely ambiguous as to whether these risks attract, deter, or have no effect on FDI (see Driffield et al., 2013; Dai et al. 2013; Asiedu, 2006; Biglaiser and DeRouen, 2007). However, some researchers conclude that the presence of conflict alone does not deter FDI, but that FDI is determined by the type of conflict (Driffield et al., 2013; Dai et al., 2013). Witte et al (2017) further concluded that different types of internal conflict differ not only in the nature of the risk they pose, but also have differing effects on business decisions to conduct FDI.

The impact of other forms of internal issues such as violence and its impact on FDI have also widely been studied, and as with political risks, these have also been studied from the perspective of FDI inflow into developing countries from developed countries. Pinto and Zhu (2018); Kibria et al (2020); and Maher (2015) focused on the effects on civil violence on FDI inflow, while Steinberg and Saideman (2008) and Sjoholm (2007) focused on the impact of ethnic violence on FDI inflow, both into developing countries. They all found violence to be negatively associated with FDI. However, in their research into ethnic violence and FDI, Steinberg and Saideman (2008) found that higher state government involvement in the economy had a reducing effect on overall episodes of ethnic violence, whilst Matthews (2020) showed ethnic violence to have no effect on overall FDI inflows to resource extraction industries.

Gammoudi and Cherif (2015) and Jude and Levieuge (2015) examined the relationship between religious tension and FDI inflows into countries and found religious tension to be a deterrent to FDI. However, Kolstad and Villanger (2004) also found religious tension to have a reducing effect on inward FDI, but no impact on domestic investments. Similarly, research into internal ethnic tension showed high levels of tensions to have a reducing effect on overall FDI inflow (see Rafat and Farahani; 2019; Aizenman and Spiegel, 2006; Stoian and Filippaios, 2008).

These studies highlight the need for further contributions to the IB literature concerning outward tax haven FDI from developing countries experiencing internal risks. Chari and Acikgoz (2016); Johannesen et al (2020), and Driffield et al (2021) were among the most relevant research found that specifically examined the motivations of MNEs from developing

countries to invest in tax havens. However, Chari and Acikgoz (2016) followed the classic motivations posited by previous researchers such as Dunning (1998) and Buckley et al (2017) by concentrating solely on country level factors which included market seeking; resource seeking, low-cost/efficiency seeking; and knowledge seeking. Driffield et al (2021) had a similar approach, however they went further by highlighting that in order to increase efficiency and reduce their dependence on home country economic institutions, MNEs adapted by becoming increasingly engaged in tax haven FDI.

Johansesen et al (2020) focused on increased rates of tax in the MNEs home country on their propensity to tax havens FDI. The overall findings of these papers found adverse institutional qualities to have an adverse effect on total FDI flows. Furthermore, Forgren (2013) noted that MNEs must be dynamic in their approach to changing institutional risks given the unlikelihood that they will be able to accurately predict the extent of the risks faced in the presence of adverse home country institutional environments. Thus, this chapter argues that the institutional risks MNEs face in their home countries – in this instance internal conflict, racial tensions, and violence – can be mitigated against through a dynamic approach in their tax haven FDI activities, which brings up the first hypothesis of this paper:

***H_1**: The degree of conflict, tensions, and violence in an MNEs home country increases the likelihood of a firm engaging in tax haven FDI.*

4.5 Internal Risks and Industry sectors

In concluding their research on FDI in conflict areas, Driffield et al (2013) concluded that further research into FDI in conflict countries should include an analysis of firms operating across different sectors. Subsequent studies have either made similar conclusions and/or

showed how some industries such as mining and quarrying, have attracted increased FDI despite being located within a conflict zone (see Markellos, Psychoyios and Schneider, 2016; Jeanneret and Souissi, 2016; Witte et al, 2017).

Kolk and Lenfant (2013) and Osgood and Simonelli (2020) study into MNEs investing in extractive industries in conflict countries, concluded that due to the increased, inherent risks of conducting FDI in these countries, exacerbated by higher, upfront infrastructure costs, and high exit and corruption cost, acts a barrier to entry for other MNEs. Thus, MNEs choose to invest, or remain in conflict countries as these factors act as a deterrent to competitors. Kolk and Lenfant (2013, p45) also noted that the assets of these MNEs were *'...were protected by their offshore nature'* possibly implying the use of tax havens. Moreover, Osgood and Simonelli (2020) concluded that MNEs are often reluctant to turn away from markets and sectors that are a '*good fit'* even in the presence of increasing political and other risks.

Dai et al (2013) and later Oh and Oetzel (2017) identified further heterogeneity in MNEs decisions to conduct FDI in risky countries. Like Kolk and Lenfant (2013) and Osgood and Simonelli (2020), despite the attraction of certain industries, they both found that conflicts increased operating costs, but conversely, these costs deterred FDI rather than attract it; thus, causing existing MNEs to leave, not remain. Witte et al (2017, p865) further noted that this heterogeneity is reflected not only in the differences in the type of risk faced, but also MNEs sensitivity to these risks are influenced by specific industry characteristics in which the MNE operates. Skovoroda, Goldfinch, DeRouen and Buck (2019) further found that while conflict had a negative effect on total FDI in the service and manufacturing industries, conflict had no effect on total FDI in extractive industries. Moreover, Jude and Levieuge (2015) identified how high risks diverts production away from manufactured, and towards non-manufactured products.

It has been noted that MNEs from developed countries often own subsidiaries in developing countries experiencing internal conflicts (Witte et al., 2017) and there are further studies in the IB literature that examined MNEs attempt to meet the challenges faced when conducting FDI in risky countries. Oetzel and Getz (2012) investigated stakeholder influenced on MNE tactics to strategically mitigate these risks and Bader and Schuster (2015) focused on how MNEs use their network of subsidiaries to counter the negative effects of internal risks.

In the absence of literature specific to MNEs across various industries from developing countries, and given the heterogeneity observed from previous studies, this chapter modifies and builds on Bader and Schuster (2015) use of subsidiary networks to mitigate risks by arguing that MNEs from developing countries operating across different sectors use their network of tax haven subsidiaries to protect against home country risks of internal conflict, tensions and violence, which brings us to the second and third hypothesis of this chapter:

H_2: *There is a heterogeneous impact of conflict at the sectoral level on the propensity of firms to engage in tax haven FDI.*

H_3: *MNEs operating in the mining and quarrying sectors are more likely than non-mining and quarrying firms to engage in tax haven FDI.*

4.6 Data, Variables and Empirical Model

This section provides additional details on the variables specific to this chapter not previously elaborated on in Chapter 3. Please refer to Chapter 3 for more details on the data source,

construction of dependent variables, other variables used in this empirical chapter, and list of sample countries.

To ensure consistency across both country and time, the ICRG (2018) assigned points based on a series of predetermined questions for each risk subcomponent of internal conflict. The subcomponents are civil war and/or the threat of a coup; terrorism and/or political violence; and civil disorder. Each risk component is assigned scores from 0 – 6 and in every case, scores are awarded in descending order (the lower the score the higher the risk levels) (ICRG, 2018). However, to ensure uniformity across all variables used in this chapter, these scores were re-coded in ascending order where lower scores equate to lower risk.

The ICRG further differentiates between religious and ethnic tension. It assesses the degree of religious tension that may arise when a single religious group exerts dominance over governance and/or society at the exclusion of other religions from the political and/or social process. Possible risks in these circumstances can lead to the imposition of inappropriate policies, civil dissent, and civil war caused by inexperience actors within the leadership ranks of the governing religious group. Ethnic tension relates to the tension within a country that can be attributed to national; racial; or language divisions due to the intolerance and unwillingness amongst apposing groups to compromise (ICRG, 2018). ICRG assigns risk scores of 0 – 6 for both religious and ethnic tension and in both instances, lower scores reflect the presence of high risks, and high scores reflecting low risks. Again, for ease of comparison across variables, and to capture overall tensions that may be present in countries, both religious and ethnic tension were combined[7] and recoded 0 – 12 with higher scores given to countries with higher

[7] Various models were used to test religious and ethnic tension both individually and as a combined variable. The results are reported in the Empirical Results and Discussion section of this chapter.

ethnic and religious intolerances and unwillingness to compromise, whilst lower scores were given to countries where tensions are minimal even though such differences may still exist risks.

The data on violence was obtained from Major Episodes of Political Violence (MEPV) 1946 – 2018 guide provided by the Centre for Systematic Peace (CSP). The CSP MEPV provides a regularly updated and comprehensive listing of all types of major episodes of armed conflicts worldwide (CSP, 2019). A key benefit to this paper afforded by the CSP MEPV is that in 2008, the war list – a key list needed to form the violence variable of this paper – underwent a significant review. Previously, parts of the list that were listed as "unknown" or "estimates", the CSP MEPV updated this list to confirm or disconfirm their listing. Unlike previous research that would have relied on estimates, this chapter benefited by utilising this updated list. It is important to mention here that some MEPVs are quite complex and given that in some cases detailed information on every episode may not be available, it is therefore difficult to assign some MEPVs to a single category.

The designation of intra-country conflicts as either '*ethnic'* or '*civil'* is often regarded as problematic given that there can be a combination of both societal and political attributes, especially regarding conflicts of greater magnitudes, and over a longer period of time. Moreover, the classification of a conflict as either '*violence'* or '*war'* is often seen as arbitrary. Thus, in differentiating between the two, the CSP (2019) notes that the term '*war'* conveys a strong institutional component and having the existence of clearer defined objectives compared to '*violence'* and relies on information regarding the degree of militant organisation, the strategic and tactical characteristics of the militant organisation, and their expressed willingness to resort to violence before assigning these conflicts to either of these categories.

Thus, to address issues of validity regarding these distinctions, the CSP allows researchers the ability to adapt the data to suit their research needs. This is a key feature this chapter relied on to clearly differentiate between violence and internal conflict, given that the ICRG assessment of internal conflict already takes into account elements of the CSP MEPV assessment of violence.

The CSP MEPV (2018) also provides aggregates of each subcomponent for each category of all four intra-country episodes of conflict – (civil violence; civil war; ethnic violence; and ethnic war); intra-country aggregates of all civil conflicts (civil violence and civil war); intra-country aggregates of all ethnic conflicts (ethnic violence and ethnic war); and combined totals of all intra-country episodes of conflict (all civil and ethnic episodes). These distinctions do not pose any major issues given that this paper is concerned about overall intra-country episodes of violence. However, given that civil war was already captured in the ICRG (2018) assessment of internal conflict, and again appeared in the CSP MEPV (2018) overall calculations of intra-country episodes of violence, it was necessary to recalculate overall intra-country episodes of violence omitting the already captured civil war variable[8]. Hence, the new calculation for overall violence used in this chapter combined the aggregate measures of civil violence; ethnic violence; and ethnic war. This new, combined variable[9] was then re-coded 0 – 10, with lower scores representing lower magnitude of impact, and higher scores representing higher magnitude of impact of the recorded incident[10].

[8] Civil war was also captured by the ICRG (2018) assessment of ethnic tensions, hence its omission here adds further delineation between ethnic tension and ethnic violence.
[9] Again, each of the aggregate subcomponents of violence was tested separately, the results remained consistent, and for brevity, the results reported are the results for the combined variable.
[10] Note the scores assigned are not a reflection of the total number of recorded incidents of violence. It represents the magnitude of impact of any recorded incident of overall violence.

Chapter 3, subsection 3.5 explains how the dependent variable used in this chapter was derived, and Table 2 lists the tax haven measures used in this chapter. Tables 3 - 5 show descriptive statistics for each of the variables used in the subsequent analysis. Included are the total number of observations, mean, standard deviations and the minimum and maximum values. Total number of subsidiaries for MNEs across the dataset ranged from 1 – 47,173. Unsurprising, this presented many statistical analysis problems, namely non-convergence for some empirical models. To control for these extremely wide variances, and to prevent loss of data that occurs when outliers are dropped, total number of subsidiaries was winsorised at the 95th percentile.

As seen in Table 3, the number of firm/year observations across the 'dots' tax havens, measured by Hines and Rice (1994) and Jones and Temouri (2016) shows a presence of 8 and 9% respectively. This was substantially higher for the extended tax havens – measured by Jones and Temouri (2018) – which represented at 21%. Concerning tax haven subsidiary ownership, ownership increased as the measures became broader. MNEs owned on average 871 – 930 firms across the ''dots'' tax havens with standard deviations from 633 – 670 across the Hines and Rice (1994) and Jones and Temouri (2016) measures respectively. Again, the total observation was substantially higher across the extended tax haven measure with firms owning in total, on average 4,942 subsidiaries with a standard deviation of 2.350.

Table 3: Descriptive Statistics: Dependent Variables

Variable	Obs	Mean	Std. Dev.	Min	Max
Hines & Rice Dots 1994 Dummy	57,698	0.08	0.27	0	1
Jones & Temouri 2016 Dummy	57,698	0.09	0.29	0	1
Jones & Temouri 2018 Dummy	57,698	0.21	0.41	0	1
Hines & Rice Dots 1994 Count	57,698	871	633	0	2040
Jones & Temouri 2016 Count	57,698	930	670	0	2371
Jones & Temouri 2018 Count	57,698	4942	2350	0	8687

Note: Count is the number of subsidiaries located in the dependent variable tax haven classifications grouped by parent ID

Table 4 below provides the descriptive statistics for the three measures of internal risks that are the focus of this chapter. They each had the same number of observations. Out of a possible 0 – 12 points, internal conflict was seen to have a minimum score of 0.5 and a maximum of 8.5, with an average score of 2.4 and a standard deviation of just over 1.3. Tensions had a minimum and maximum score 0 and 10 respectively, from a possible maximum score of 12. The average score for tension was 3 with a standard deviation of 1.89. For our last measure of risk – internal violence, from a possible maximum score of 10, the lowest score was 0 while the maximum is 7. The average score however was less than 1 with a standard deviation of 1.41.

Table 4: Descriptive Statistics: Risk Variables

Variable	Obs	Mean	Std. Dev.	Min	Max
Internal Conflict	57,698	2.54	1.34	0.5	8.5
Tensions	57,698	3.19	1.89	0	10
Violence	57,698	0.54	1.41	0	7

Note:
1. Tensions are a combination of religious tension and ethnic tension, each originally scored from 0 – 6.
2. Violence is a combination of civil violence and ethnic violence also originally scored 0 – 6.
3. Internal conflict scored from 0 – 12.
4. All risk variables scored in increasing order of intensity/number of recorded incidents.

From a cursory glance at Table 5, the following can be observed. When winsorised, the average number of subsidiaries ranged from 1 – 85 with an average of just over 5 subsidiaries per MNE and a standard deviation of just over 15. The average age per MNE is 19 years with a standard deviation of just over 15.51 years suggesting there is a moderate degree of variation in MNE age. Top rate of tax averages at 20.73% across countries with a variance of 6.25%. The minimum top rate of tax was observed at 0% and the maximum rate was 55%. Property rights had an average score of 37.8 with a variance of 21.7.

Table 5: Descriptive Statistics: Independent Variables

Variable	Obs	Mean	Std. Dev.	Min	Max
Controls:					
Ln Operating Revenue Turnover	57,698	-4.64	3.10	-22.15	5.94
Ln Intangible Fixed Assets	57,698	0.00	0.03	-2.37	1.86
Number of Subsidiaries	57,698	5.68	15.09	1	85
MNE Parent Age	57,698	19.32	15.51	1	100
Top Rate of Tax	57,698	20.73	6.25	0	55
Rule of Law	57,698	0.44	0.66	-2.61	1.43
Political Stability	57,698	0.24	0.75	-3.31	1.22
GDP Growth	57,698	2.64	2.00	0	10
GDP per Capita	57,698	0.59	0.49	0	1
Industry Dummies:					
Agriculture	57,698	0.01	0.11	0	1
Mining & Quarrying	57,698	0.01	0.10	0	1
High Technology Manufacturing	57,698	0.06	0.23	0	1
Medium Tech Manufacturing	57,698	0.10	0.29	0	1
Medium-Low Tech Manufacturing	57,698	0.08	0.27	0	1
Low Tech Manufacturing	57,698	0.09	0.29	0	1
Total Knowledge Intensive Services	57,698	0.31	0.46	0	1
Less Knowledge Intensive Services	57,698	0.35	0.48	0	1

Notes:
1. Natural logarithm of Operating Revenue Turnover is in US$M. All other monetary values reported in thousands of US$.
2. When top rate of tax is substituted for tax burden, the results remained consistent.
3. Higher Property Rights scores representative of increased property rights.
4. Number of subsidiaries reported here are the winsorised values at the 95th percentile.
5. GDP per capita reported are for countries with a GDP per capita of up to, and including US$15,000 per annum.
6. The decision to include operating revenue turnover and intangible fixed assets despite their negative values was done for two (2) reasons. First, many firms engaging in tax haven FDI have been shown to engage in manipulative accounting practices to reflect a financial loss, which can include aggressively reducing their operating revenues (see Sikka and Hampton, 2005; Sikka and Willmott, 2010). Hence, to exclude firms with negative values is to perhaps remove some firms actually engaging in tax haven activities. Secondly, there were extremely large variances amongst firms for operating revenue turnover and intangible fixed assets. The natural logarithm function compresses larger values more so than smaller ones. Hence, otherwise positive, but very small values can result in negative logarithm values. In this context, firms with extremely low operating revenue turnover and intangible fix assets values were seen to have negative logarithmic transformations.

MNEs operating in the less knowledge intensive and total knowledge intensive services made up the largest group of the sample set with 35% and 31% respectively. MNEs operating in low technology manufacturing industries made up 9% of the sample while high technology manufacturing MNEs represented 6%. Mining and quarrying and agriculture were the least represented industries, each constituting 1% of the total sample.. **Table 14** in the Appendix

4.1 shows the correlation matrix between each of the variables used in this paper and shows no multicollinearity issues are present.

4.7 Empirical Model

The probit and Poisson models estimated and used in this chapter was developed from similar past studies and based on firm-level FDI literature seeking to construct individual specifications from extant IB literature (see Witte et al., 2017; Driffield et al, 2013; Oetzel and Oh, 2017; Bhaumit et al., 2010; Driffield and Munday, 2000; Girma, 2002; Wiersema and Bowen, 2008 and Getz and Oetzel, 2010). Following Driffield et al. (2013), to capture heterogeneity amongst MNEs, the models estimated in this research incorporated a vector of numerous control variables which included firm size; intangible assets; number of tax haven subsidiaries; firm age and, country level factors such as top rate of tax.

Previous research by Jones and Temouri (2016); Graham and Tucker (2006) and Eden (2009) were very conclusive in their assertions that these factors strongly impacted on an MNE's ability to engage in FDI. These factors were combined with a vector for industry dummy variables; and other control variables that captured MNE home-country risk characteristics of internal conflict, tensions, and violence. All of these institutional risk factors have been shown to influence MNE FDI decisions, and the ability of a country experiencing various forms on internal risks to attract FDI (Witte et al., 2017; Oetzel and Oh, 2018; Getz and Oetzel, 2010). The model estimated is as follows:

(Eq.: 1)

$$TaxHavenFDI = \beta_0 + \sum_{k=1}^{6} \beta_k FSA + \sum_{s=1}^{5} \emptyset_s Sector + \gamma_0 Risk + Tax + \mathcal{E}$$

where the dependent variable T*axHavenFDI* is a dummy variable capturing MNEs and equals 1 if the MNE has a subsidiary located in any of the tax havens measures identified earlier, and 0 if it does not. The vector FSA captures MNE characteristics (operating revenue turnover as a measure of MNE size, intangible fixed assets, firm age, and number of subsidiaries as a measure of the degree of internationalisation of the MNE and tax haven experience, and various variables to capture other home country economic and institutional factors. These firm-specifics characteristics have all been deemed important in previous studies (see Jones and Temouri, 2016; Jones and Temouri, 2018). The vector $Sector$ includes industry specific binary variables at the two-digit NACE level to capture the industry in which the MNE operates. $\gamma_0 Risk$ captures country variables and measures the MNE's home country impacts of internal conflict, tensions and violence – each of which were tested across separate models. Tax captures the top rate of corporation tax in the MNE's home country and $\mathcal{E}$ is the error term.

4.8 Empirical Results and Discussion

Table 6 shows the estimated nine (9) probit specifications of Eq. 1 and the results reported are the marginal effects of each independent variable on the dependent variable, i.e., the likelihood of MNEs to conduct FDI in tax haven countries. Specifications 1 – 3; 4 – 6; and 7 – 9 investigated internal conflict, tensions and violence respectively. Given that the models estimated distinguishes between MNEs binary decision of whether or not to conduct FDI via subsidiaries located in tax havens, and the number of subsidiaries that the MNE might hold across all three (3) tax haven measures – this being a count variable – the models estimated included both pooled probit and Poisson regressions respectively. The results of the marginal effects for the Poisson regressions are reported in Table 7 below. The models estimated utilised fixed effects to allow for changes over time, and effects of causal inferences were improved by lagging explanatory variables. Standard errors were clustered at the firm level to ensure greater reliable inferences across MNEs.

The analyses of the results in show overall support for all three (3) hypotheses of this chapter. Hypotheses 1 formed the main investigative concern of this chapter and effectively investigated overall country risks – that is, whether or not each aggregate measure of internal risk – conflict; tensions; and violence – have a positive impact on the propensity of MNEs owing a subsidiary located in a tax haven. Put simply, this hypothesis evaluated the likelihood of MNEs to engage in tax haven activities in the presence of these factors within their home countries.

In Table 6 below, models 1 – 3 show internal conflict, or more specifically internal political risks[11], to have a positive and significant impact on tax haven FDI, with the results all significant at $p<0.01$ across all three tax haven measures. The coefficients were highest across model 3 which, when expressed as a measure of elasticity, shows that a ten percent rise in conflict would see a corresponding rise of 18.7 percent in tax haven activity across the Jones and Temouri (2018) tax haven measure. These results would signify that as the impact of conflict increases within home countries, national MNEs were strongly likely to be conducting tax haven FDI by having an ownership stake in at least one subsidiary located in a tax haven country.

[11] Fitzpatrick (1983) reviewed the existing IB literature at the time and attempted to define political risks, and at present, although topics on political risks and other aspects of internal conflict are widely represented throughout the IB literature, there is still no consensus on a precise definition for political risk. Truitt (1974, p12) in Fitzpatrick (1983, p249) defined political risks as *'... all "non business" risks such as creeping expropriation*'. In its survey of MNEs, the Commission on Foreign Investments of the International Bank defined political risks as *'...the loss of control over ownership or loss of benefits of enterprise by government action*' (International Bank, 1962). Subsequent definitions included the inclusion of government interference leading to unwanted consequences for MNEs (Kobrin, 1979, p69; Dunning, 1971; Aliber, 1975).

Wood and Gibney (2010, p369) in Witte et al (2017, p867) define political terror as *'...violations of physical or personal integrity rights carried out by a state*'. Citing wars which results in at least 1000 battle-related fatalities annually, and civil war which results in less than 1000 fatalities annually as specific examples of a political conflicts, Pettersson and Wallensteen (2015, p1) in Witte et al (2017, p867) defined political conflict as *'...a contested incompatibility that concerns government and/or territory where the use of armed force occurs between two parties, of which at least one is the government of a state'*.

These definitions posed no issue given that the focus of this chapter is to examine the effects of the overall subcomponents of the ICRG (2018) internal conflict on MNEs decision to invest in tax havens, hence the term 'political risks' when referring to internal conflict refers to all subcomponents of the ICRG (2018) internal conflict occurring within the boundaries of an MNE's home country.

Table 6: Relationship Between Internal Risks and Tax Haven FDI (Marginal Effects)

	Conflict			Tensions			Violence		
	"Dots" Tax Haven Classification		Extended Tax Haven Classification	"Dots" Tax Haven Classification		Extended Tax Haven Classification	"Dots" Tax Haven Classification		Extended Tax Haven Classification
VARIABLES	(1) Hines & Rice 1994	(2) Jones & Temouri 2016	(3) Jones & Temouri 2018	(4) Hines & Rice 1994	(5) Jones & Temouri 2016	(6) Jones & Temouri 2018	(7) Hines & Rice 1994	(8) Jones & Temouri 2016	(9) Jones & Temouri 2018
Country Risk Factors:									
Conflict	0.0111***	0.0140***	0.0187***						
	(0.00234)	(0.00242)	(0.00315)						
Tensions				-0.00400***	-0.00340**	0.0114***			
				(0.00124)	(0.00133)	(0.00220)			
Violence							-0.00519***	-0.00661***	-0.00277
							(0.00170)	(0.00174)	(0.00250)
Controls:									
Operating Revenue Turnover	0.00462***	0.00509***	0.0172***	0.00454***	0.00514***	0.0185***	0.00447***	0.00494***	0.0174***
	(0.000876)	(0.000901)	(0.00135)	(0.000861)	(0.000888)	(0.00135)	(0.000877)	(0.000896)	(0.00136)
Ln Intangible Fixed Assets	-0.0341	-0.0391	-0.0261	-0.0261	-0.0312	-0.0344	-0.0307	-0.0345	-0.0201
	(0.0248)	(0.0262)	(0.0673)	(0.0254)	(0.0269)	(0.0687)	(0.0247)	(0.0263)	(0.0667)
Number of Subsidiaries	0.00307***	0.00337***	0.00915***	0.00307***	0.00339***	0.00910***	0.00305***	0.00336***	0.00913***
	(0.000147)	(0.000164)	(0.000807)	(0.000147)	(0.000163)	(0.000808)	(0.000145)	(0.000161)	(0.000808)
MNE Parent Age	0.000190	0.000289**	0.000227	0.000224*	0.000321**	0.000207	0.000228*	0.000327**	0.000258
	(0.000129)	(0.000128)	(0.000183)	(0.000128)	(0.000127)	(0.000185)	(0.000129)	(0.000128)	(0.000184)
Tax Burden	-0.00151***	-0.00105**	0.00479***	-0.00120***	-0.000715*	0.00504***	-0.000665	-1.42e-05	0.00549***
	(0.000397)	(0.000425)	(0.000640)	(0.000387)	(0.000411)	(0.000629)	(0.000408)	(0.000434)	(0.000687)
Rule of Law	-0.00536	-0.00951*	-0.107***	-0.00313	-0.00826	-0.117***	-0.00319	-0.00579	-0.104***
	(0.00519)	(0.00546)	(0.00769)	(0.00514)	(0.00533)	(0.00763)	(0.00515)	(0.00537)	(0.00808)
Political Stability	-0.00920*	0.000234	0.0199***	-0.0322***	-0.0257***	0.0185**	-0.0312***	-0.0288***	-0.0109
	(0.00515)	(0.00550)	(0.00746)	(0.00439)	(0.00472)	(0.00744)	(0.00487)	(0.00515)	(0.00748)
GDP Growth	-0.00355***	-0.00442***	-0.0201***	-0.00490***	-0.00602***	-0.0204***	-0.00467***	-0.00588***	-0.0216***
	(0.000780)	(0.000829)	(0.00120)	(0.000812)	(0.000869)	(0.00126)	(0.000797)	(0.000852)	(0.00123)
GDP per Capita	0.0109*	0.0186***	-0.0233***	0.0115*	0.0185***	-0.0283***	0.0107*	0.0185***	-0.0219**
	(0.00627)	(0.00639)	(0.00888)	(0.00635)	(0.00647)	(0.00872)	(0.00613)	(0.00629)	(0.00876)
Industry Dummies:									

Mining & Quarrying	0.0910***	0.0994***	0.0851**	0.0960***	0.104***	0.0816**	0.0910***	0.0992***	0.0889***
	(0.0241)	(0.0258)	(0.0338)	(0.0249)	(0.0266)	(0.0329)	(0.0236)	(0.0253)	(0.0335)
High Technology Manufacturing	0.0359***	0.0288***	0.0812***	0.0354***	0.0285***	0.0885***	0.0363***	0.0298***	0.0837***
	(0.00995)	(0.0106)	(0.0229)	(0.00970)	(0.0104)	(0.0222)	(0.00949)	(0.0101)	(0.0223)
Medium Tech Manufacturing	0.0321***	0.0238**	0.00783	0.0319***	0.0238**	0.0143	0.0331***	0.0254***	0.0123
	(0.00861)	(0.00949)	(0.0201)	(0.00839)	(0.00924)	(0.0192)	(0.00810)	(0.00896)	(0.0196)
Medium-Low Tech Manufacturing	0.0317***	0.0238**	0.0271	0.0316***	0.0240**	0.0320	0.0330***	0.0261***	0.0318
	(0.00924)	(0.00995)	(0.0207)	(0.00903)	(0.00972)	(0.0199)	(0.00879)	(0.00950)	(0.0202)
Low Tech Manufacturing	0.0277***	0.0233**	0.0321	0.0280***	0.0236**	0.0349*	0.0285***	0.0246***	0.0362*
	(0.00862)	(0.00954)	(0.0204)	(0.00841)	(0.00929)	(0.0196)	(0.00809)	(0.00898)	(0.0200)
Total Knowledge Intensive Services	0.0792***	0.0793***	0.0889***	0.0798***	0.0802***	0.0952***	0.0810***	0.0825***	0.0947***
	(0.00927)	(0.0102)	(0.0206)	(0.00908)	(0.0100)	(0.0197)	(0.00885)	(0.00979)	(0.0200)
Less Knowledge Intensive Services	0.0433***	0.0400***	0.0421**	0.0435***	0.0401***	0.0464**	0.0440***	0.0414***	0.0458**
	(0.00842)	(0.00938)	(0.0199)	(0.00820)	(0.00914)	(0.0191)	(0.00790)	(0.00885)	(0.0194)
Region Dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	57,698	57,698	57,698	57,698	57,698	57,698	57,698	57,698	57,698
Percent Correct	94.75	94.42	88.17	94.79	94.41	88.52	94.76	94.38	88.10
Pseudo R^2	0.317	0.325	0.413	0.316	0.322	0.414	0.316	0.324	0.411

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

Notes:

1. Industry variables are classified using Eurostat classifications (See Appendix A2).
2. Agriculture is used as the reference category.
3. Monetary values are in thousands of US dollars (except operating revenue turnover which is expressed in millions of US dollars to control for wide variances)
4. Clustered standard errors at firm level.

Across models 4 – 6, the results following an evaluation of tensions were mixed, and somewhat unexpected. Across models 4 and 5, overall tensions were found to be highly, but negatively significant across the narrower tax haven countries that offer the most opportunities for tax avoidance benefits and the least opportunities for real economic growth. These results were significant at $p<0.01$and $p<0.05$ across the Hines and Rice (1994) and Jones and Temouri (2016) tax haven measures respectively.

The results on the impact of tensions on tax haven FDI presented some intriguing findings. Across estimations 4 – 5, the results showed the coefficients to be negative, yet were strongly and statistically significant across the tax havens measures that offer little opportunities for economic growth. These findings would suggest a reluctance for MNEs to invest in jurisdictions solely for tax minimization purposes when faced with ethnic and religious tensions at home. In such instances, MNEs perhaps prioritize stability and continued security over purely tax advantages and thus avoid investing in tax havens that offer no economic opportunities.

These assumptions were supported by the results of estimation 6. Across the extended Jones and Temouri (2018) tax haven measure, tensions were seen to have a strong, and positive impact on tax haven FDI ($p<0.01$), signifying that in the presence of increasing tensions in the MNEs' home countries, MNEs are significantly more likely to own a subsidiary located across tax haven countries that offer both tax avoidance opportunities and further opportunities for real economic growth. Positive and significant coefficients for MNEs conducting FDI across tax havens that offer opportunities for real economic growth indicate that MNEs are more likely to exploit not just the tax saving benefit offered, but also the economic potential of such jurisdictions, in the midst of growing tensions in their home countries. Thus, the appeal of

stability and continued economic security and growth opportunities perhaps outweigh MNE concerns about tensions at home, prompting firms to establish subsidiaries in tax havens with more appealing business environments.

It must be noted, however, further, and separate analysis of religious and ethnic tensions revealed that the results are strongly driven by religious tensions[12]. Whilst religious tensions were significant at $p<0.01$ across all models estimated, ethnic tension was insignificant across all models estimated.

The results for violence were surprising. Overall violence was also seen to have a highly significant, but negative impact on tax haven FDI across the narrower of the "dots", yet insignificant across the extended Jones and Temouri (2018) tax haven measure[13]. These results were significant at $p<0.01$ across both Hines and Rice (1994) and Jones and Temouri (2016) tax haven measures. Negative coefficients across all three (3) tax haven measures suggest that firms are less likely to invest in tax havens as violence increases in their home countries. This aligns with the overall pattern observed earlier, indicating that firms prioritize safety and continued security when making investment decisions, hence they avoid FDI in tax havens that offer mainly tax savings benefits. However, the absence of any significant findings across the tax haven measure that offer real opportunities for economic growth is surprising and warrants further research. Given these surprise findings, further analyse of the aggregate measures of violence was conducted and presented in **Table 7** below:

[12] The reported results are the combined results for ethnic and religious tensions. When tested separately, ethnic tensions were largely insignificant across most models, whilst religious tensions were highly significant across all models, signifying that overall reported significant results are largely driven by religious tensions. Separate results are not reported however can be made available upon request.

[13] The results reported in Table 6 are the combined results for violence. See Appendix 4.3 for disaggregated results.

Table 7: Marginal effects on aggregate measures of violence and Tax Haven FDI

	"Dots" Tax Haven Classification		Extended Tax Haven Classification	"Dots" Tax Haven Classification		Extended Tax Haven Classification	"Dots" Tax Haven Classification		Extended Tax Haven Classification
VARIABLES	(10) Hines & Rice 1994	(11) Jones & Temouri 2016	(12) Jones & Temouri 2018	(13) Hines & Rice 1994	(14) Jones & Temouri 2016	(15) Jones & Temouri 2018	(16) Hines & Rice 1994	(17) Jones & Temouri 2016	(18) Jones & Temouri 2018
Violence Factors:									
Civil Violence	-0.0139***	-0.0169***	-0.0101*						
	(0.00347)	(0.00365)	(0.00522)						
Ethnic Violence				0.00387	0.00255	-0.0961***			
				(0.00577)	(0.00614)	(0.0115)			
Ethnic War							-0.00344	-0.00435**	0.0111***
							(0.00212)	(0.00219)	(0.00334)
Region Dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	57,698	57,698	57,698	57,698	57,698	57,698	57,698	57,698	57,698
Percent Correct	94.78	94.39	88.13	94.78	94.41	88.41	94.76	94.38	88.11
Pseudo R^2	0.317	0.325	0.412	0.314	0.321	0.420	0.315	0.322	0.412

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Notes: For brevity and ease of explanation, these results are a partial presentation of **Table 17** located in Appendix 4.3.

The results in Table 7 presents further interesting results and partly supports our earlier assertions on the overall pattern observed from the results. The results for ethnic war (estimations 16 – 18) strongly show that violence reduces the propensity of MNEs to engage in tax havens that offer purely tax minimisation opportunities, whilst showing a preference for them to conduct FDI across tax havens that offer real economic growth opportunities. Civil violence was seen to strongly dissuade tax haven FDI across all three tax haven measures. This opens up avenues for further research and to contribute to existing literature by Sharafutdinova and Dawisha (2017) and Palan et al. (2023) on institutional escape, and determine if violence, and indeed ethnic violence (as seen across estimation 15) whilst dissuading tax haven FDI, encourages outward FDI in general.

Poisson regressions, which can act as count confirmations of regressions, further back up these findings (see Table 8 below) and again by the marginal plots analyses (see Figures 1 – 6). These results were unexpected and go against current empirical findings (see Gondim et al., 2017; Witte et al., 2017) and specifically Pinto and Zhu (2022) who recently found internal violence to have a positive effect on outward foreign direct investment. Thus, further research would definitely go some way in seeking to provide a fuller explanation of these results.

Poisson regressions, which can act as count confirmations of regressions, further support our interpretation of these findings (see **Table 8 below**) and again by the marginal plots analyses (**see Figures 1 – 6)**. Specifications 19 – 24 provided expected results and would suggest that internal conflict had a positive effect on tax haven FDI across all tax haven measures (models 19 -21), whilst tensions would dissuade FDI investments across tax havens that offer mainly tax avoidance benefits, however, encourages it across tax havens that also offer opportunities for real economic growth (estimations 22 – 24). However, further research would definitely go some way in seeking to provide a fuller explanation of the results violence.

Table 8: Poisson Regression - The Relationship Between Internal Risks and Tax Haven FDI

	Conflict			**Tensions**			**Violence**		
	"Dots" Tax Haven Classification		Extended Tax Haven Classification	"Dots" Tax Haven Classification		Extended Tax Haven Classification	"Dots" Tax Haven Classification		Extended Tax Haven Classification
VARIABLES	(19) Hines & Rice 1994	(20) Jones & Temouri 2016	(21) Jones & Temouri 2018	(22) Hines & Rice 1994	(23) Jones & Temouri 2016	(24) Jones & Temouri 2018	(25) Hines & Rice 1994	(26) Jones & Temouri 2016	(27) Jones & Temouri 2018
Country Risk Factors:									
Conflict	0.0103***	0.0132***	0.0183***						
	(0.00252)	(0.00267)	(0.00336)						
Tensions				-0.00491***	-0.00425***	0.00786***			
				(0.00137)	(0.00147)	(0.00232)			
Violence							-0.00546***	-0.00712***	-0.00865***
							(0.00171)	(0.00175)	(0.00247)
Controls:									
Operating Revenue Turnover	0.00600***	0.00674***	0.0253***	0.00573***	0.00654***	0.0261***	0.00550***	0.00613***	0.0245***
	(0.000985)	(0.00102)	(0.00168)	(0.000974)	(0.00101)	(0.00169)	(0.00101)	(0.00104)	(0.00171)
Ln Intangible Fixed Assets	-0.0449**	-0.0535**	-0.137**	-0.0352	-0.0440*	-0.146**	-0.0409*	-0.0479**	-0.127*
	(0.0219)	(0.0238)	(0.0653)	(0.0219)	(0.0239)	(0.0654)	(0.0217)	(0.0236)	(0.0649)
Number of Subsidiaries	0.00195***	0.00203***	0.00253***	0.00196***	0.00205***	0.00257***	0.00196***	0.00204***	0.00255***
	(7.52e-05)	(7.80e-05)	(0.000146)	(7.50e-05)	(7.76e-05)	(0.000147)	(7.44e-05)	(7.67e-05)	(0.000144)
MNE Parent Age	0.000349**	0.000482***	0.000697***	0.000381***	0.000508***	0.000659***	0.000384***	0.000514***	0.000702***
	(0.000136)	(0.000137)	(0.000206)	(0.000134)	(0.000135)	(0.000208)	(0.000134)	(0.000135)	(0.000206)
Tax Burden	-0.00167***	-0.00139***	0.00483***	-0.00135***	-0.00103**	0.00520***	-0.000735	-0.000200	0.00656***
	(0.000420)	(0.000453)	(0.000798)	(0.000408)	(0.000437)	(0.000793)	(0.000448)	(0.000477)	(0.000899)
Rule of Law	-0.0127**	-0.0151**	-0.133***	-0.00831	-0.0114*	-0.140***	-0.00895	-0.00885	-0.116***
	(0.00575)	(0.00609)	(0.00999)	(0.00584)	(0.00613)	(0.0107)	(0.00586)	(0.00615)	(0.0109)
Political Stability	-0.0158***	-0.00822	-0.00649	-0.0398***	-0.0351***	-0.0135	-0.0375***	-0.0378***	-0.0509***
	(0.00520)	(0.00565)	(0.00808)	(0.00472)	(0.00506)	(0.00851)	(0.00492)	(0.00521)	(0.00852)
GDP Growth	-0.00487***	-0.00606***	-0.0291***	-0.00666***	-0.00809***	-0.0297***	-0.00611***	-0.00769***	-0.0308***
	(0.000998)	(0.00108)	(0.00183)	(0.00104)	(0.00113)	(0.00193)	(0.00101)	(0.00110)	(0.00184)
GDP per Capita	0.00394	0.0123	-0.0641***	0.00549	0.0135	-0.0663***	0.00552	0.0147*	-0.0554***
	(0.00812)	(0.00834)	(0.0149)	(0.00816)	(0.00839)	(0.0150)	(0.00803)	(0.00830)	(0.0149)
Industry Dummies:									

Mining & Quarrying	0.0841***	0.0901***	0.0766***	0.0863***	0.0924***	0.0750***	0.0841***	0.0905***	0.0808***
	(0.0194)	(0.0212)	(0.0257)	(0.0205)	(0.0223)	(0.0244)	(0.0193)	(0.0212)	(0.0251)
High Technology Manufacturing	0.0398***	0.0321***	0.0722***	0.0390***	0.0314***	0.0791***	0.0394***	0.0323***	0.0751***
	(0.00965)	(0.0107)	(0.0221)	(0.00966)	(0.0108)	(0.0211)	(0.00947)	(0.0106)	(0.0212)
Medium Tech Manufacturing	0.0361***	0.0269***	0.00820	0.0356***	0.0268***	0.0152	0.0370***	0.0287***	0.0138
	(0.00838)	(0.00971)	(0.0194)	(0.00839)	(0.00972)	(0.0182)	(0.00820)	(0.00957)	(0.0185)
Medium-Low Tech Manufacturing	0.0340***	0.0251**	0.0195	0.0333***	0.0246**	0.0252	0.0350***	0.0269***	0.0256
	(0.00901)	(0.0101)	(0.0203)	(0.00895)	(0.0100)	(0.0191)	(0.00885)	(0.00992)	(0.0194)
Low Tech Manufacturing	0.0298***	0.0246***	0.0258	0.0298***	0.0246***	0.0298	0.0310***	0.0268***	0.0305
	(0.00817)	(0.00955)	(0.0198)	(0.00817)	(0.00956)	(0.0185)	(0.00797)	(0.00938)	(0.0188)
Total Knowledge Intensive Services	0.0834***	0.0835***	0.0949***	0.0838***	0.0840***	0.101***	0.0842***	0.0856***	0.102***
	(0.00887)	(0.0103)	(0.0203)	(0.00891)	(0.0103)	(0.0191)	(0.00873)	(0.0101)	(0.0194)
Less Knowledge Intensive Services	0.0451***	0.0411***	0.0318	0.0452***	0.0411***	0.0363**	0.0455***	0.0422***	0.0367**
	(0.00793)	(0.00936)	(0.0194)	(0.00794)	(0.00939)	(0.0181)	(0.00772)	(0.00919)	(0.0185)
Observations	57,698	57,698	57,698	57,698	57,698	57,698	57,667	57,667	57,667

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Notes:

1. The results presented are the marginal effects of the probit results.

Table 8 shows the results of the Poisson estimators for each of the 9 probit models estimated in Tables 6. The results remained consistent and provide strong count support for the results of the probit regressions and subsequent analysis. Overall, these results add further robustness to the probit results and show internal conflict to have a positive and significant impact on tax haven FDI. Moreover, consistent with the findings of previous studies such as Jones and Temouri (2016; 2018) across the firm control variables such as operating revenue turnover and number of subsidiaries owned were all seen to be highly and positively correlated to tax haven FDI at $p<0.01$ across all 9 estimations. Greater tax burdens faced by MNEs in their home countries were all positively and significantly correlated to tax haven FDI, but only across the tax havens providing both tax avoidance opportunities and opportunities for economic growth.

Institutional and home country factors returned largely expected results. In support of previous researchers such as Montero (2008); Gondim et al. (2017); and Globerman and Shapiro (2001), lower levels of political instability, rule of law and GDP growth were all found to significantly impact tax haven FDI. Countries with low levels of GDP per capita (US$15,000 or less) were also seen to positively impact the likelihood of its MNEs to engage in tax haven FDI, but only across the tax haven measures that offer greater opportunities for tax avoidance and asset protection. These findings could be of value to policymakers from these countries seeking to raise revenues from national MNEs to help achieve its social and financial objectives.

Hypothesis 2 and 3 investigated industry responses to internal risks. Hypothesis 2 states that the impact of country risks, that is, internal conflict; tensions and violence – have a significant and heterogenous effect on tax haven FDI across industries. Hypothesis 3 states that MNEs operating in the mining and quarrying sectors are more likely to be engaging in tax haven FDI.

Both hypotheses were strongly supported[14]. Moreover, the results presented further interesting findings. Across all industries, each of the three risk measures were shown to strongly and significantly impact tax haven FDI, albeit, especially across the narrower Hines and Rice (1994) and Jones and Temouri (2016) "dots" tax haven measures. These results were significant at $p<0.01$. This could mean that, in the presence of internal risks, MNEs were strongly and significantly more likely to conduct tax haven FDI across tax havens that provide opportunities for asset protection more so than in those providing further opportunities to engage in real economic activities. The high technology manufacturing and total knowledge intensive services sector was the only sector seen to be significantly conducting tax haven FDI across all three tax haven measures at the $p<0.01$, meaning that MNEs across this sector were likely to be interested in both tax avoidance opportunities and further opportunities for economic growth.

The margins plot analysis in **Figures 2 – 3** below demonstrate the heterogeneity between industries conducting tax haven FDI across the "dots" tax haven measures[15,16]. As can be seen across both figures, when the impact of internal conflict is at its lowest (0.5), MNEs across both sectors were seen to already be engaging in tax haven FDI, with MNEs operating across the mining and quarrying sector more likely to do so albeit, with no significant differences seen across sectors in regard to their tax haven usage at this level of conflict. However, as the impact of conflict continues to rise and reaches approximately 2.5 across both the Hines and Rice

[14] The results reported are for a selected sample only. Various models tested different inter and intra sectors against each risk measure and the results remained constant. The inter-sector results reported are for mining and quarrying against agriculture, and total knowledge intensive services sector against medium-high technology manufacturing service sectors. The comparable intra-sector results reported are for high technology against low technology manufacturing services.

[15] The results presented here exclude analysis across the extended tax haven measure (Jones and Temouri, 2018) given that sectoral findings were largely insignificant across this tax haven measure.

[16] The results presented here are the analytical results between Agriculture, Forestry and Fishing and Mining and Quarrying industries. Further analysis across different industries is presented in **Appendix 4.3**. Full results can be provided upon requests.

(1994) and Jones and Temouri (2016) tax haven measures, MNEs across both sectors begin to show increasing and significant heterogeneity in their tax haven activity. Again, MNEs operating in the mining and quarrying sector were seen to be more aggressive in their tax haven activity compared to those operating in the agriculture, forestry, and fishing sector.

Figure 2: Interaction between Tax Haven FDI and Internal conflict for MNEs operating in the Mining & Quarrying and Agriculture sectors (Hines & Rice, 1994)

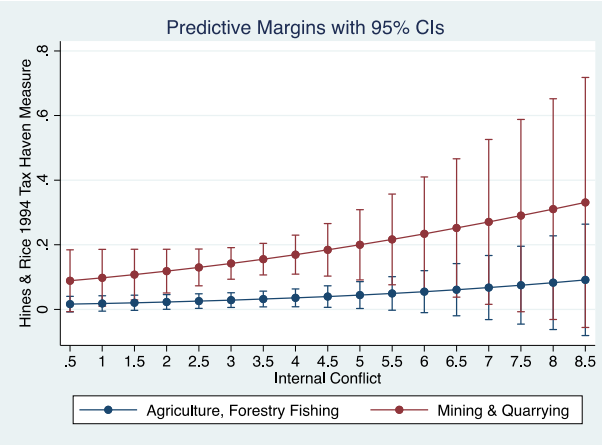
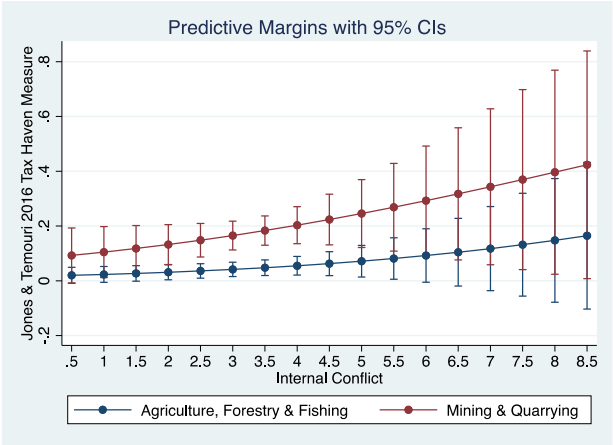


Figure 3: Interaction between Tax Haven FDI and Internal conflict for MNEs operating in the Mining & Quarrying and Agriculture sectors (Jones & Temouri, 2016)



The level of heterogeneity between both sectors became much more pronounced as the impact of conflict increases further, before it ultimately began to diminish as the impact of conflict increased beyond a score of 4.5 across both Figures 1 and 2. However, as internal conflict rises and reaches an impact level of 5 across both tax haven measures, whilst MNEs operating across both sectors continued to become increasingly more aggressive in their tax haven usage, heterogeneity was no longer present, evidenced by no statistically significant differences being observed in the tax haven activity across MNEs operating across both sectors.

Figures 4 – 5 show that these findings remained largely consistent in the presence of tensions. In the presence of tensions[17], MNEs operating across both sectors were also seen to be engaging

[17] Results reported are combined tension results which are largely driven by religious tensions. Separate results for ethnic and religious tensions can be provided upon request.

in tax haven FDI once tensions reached a score of between 0-0.5 and 0.5-1 across the Hines and Rice (1994) and Jones and Temouri (2016) tax haven measures respectively. Again, MNEs operating in the mining and quarrying sector can be clearly seen to be more aggressive in their tax haven activities, providing further support for hypothesis 3.

Figure 4: Interaction between Tax Haven FDI and Tensions for MNEs operating in the Mining & Quarrying and Agriculture sectors (Hines & Rice, 1994)

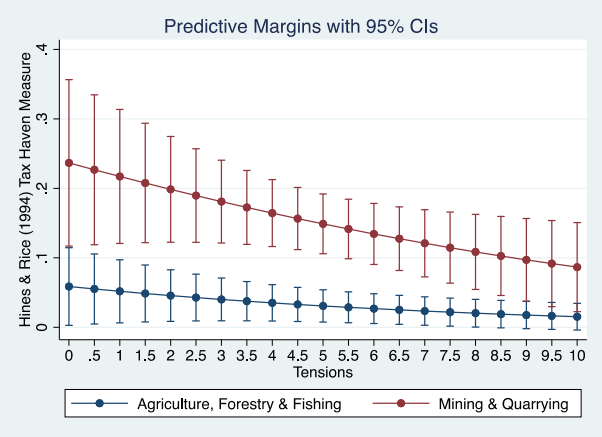
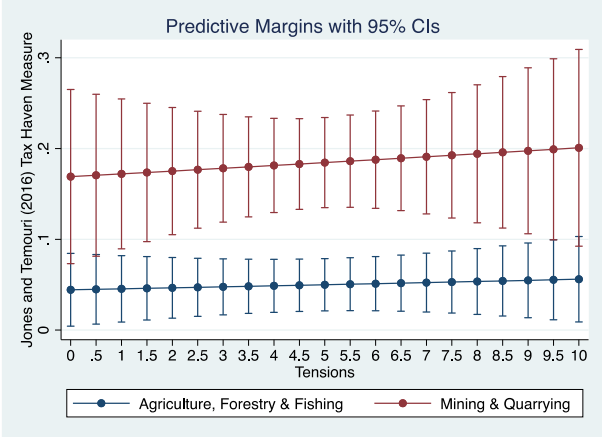


Figure 5: Interaction between Tax Haven FDI and Tensions for MNEs operating in the Mining & Quarrying and Agriculture sectors (Jones & Temouri, 2016)



These results also held in the presence of violence[18]. See **Figures 5 – 6** below. The heterogeneity in MNEs tax haven activity in the presence of violence was from the outset. Across both tax haven measures, the results were near identical, however MNEs across both sectors began to show no significant differences in their tax haven usage when violence reached a level between 2 – 2.5. Once more, further support for hypothesis 3 can be seen with MNEs in the mining and quarrying sector more aggressive in their tax haven behaviour.

[18] Again, for brevity, the results presented are the combined results for violence.

Figure 6: Interaction between Tax Haven FDI and Tensions for MNEs operating in the Mining & Quarrying and Agriculture sectors (Hines & Rice, 1994)

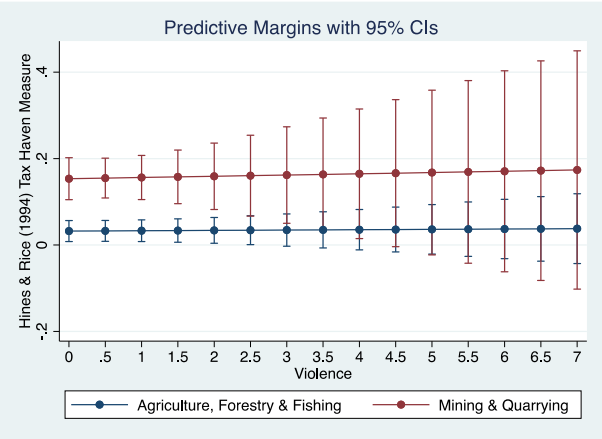
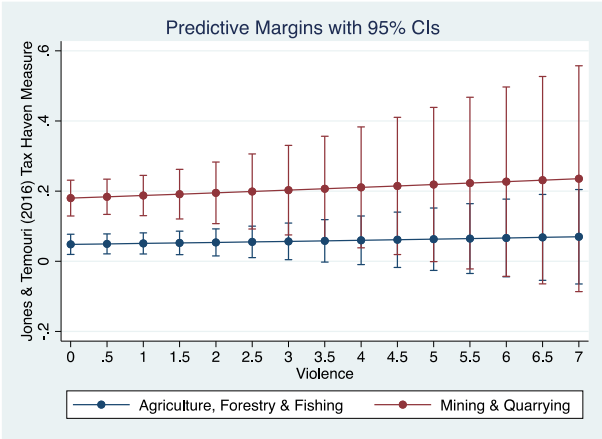


Figure 7: Interaction between Tax Haven FDI and Tensions for MNEs operating in the Mining & Quarrying and Agriculture sectors (Jones & Temouri, 2016)



Across each of the three measures of risk, overall, the results were consistent. Whilst MNEs across different sectors initially showed increasing levels of heterogeneity in their tax haven activities, as these risks continue to rise – be it conflict, tensions, or violence – these heterogenic cross-sectoral differences began to diminish. However, as these risks rise further and begin to pose what MNEs might consider a greater risk, MNEs across all sectors become just as aggressive in the tax haven usage. Indeed, as seen across **Figures 1 – 6**, MNEs across different industries begin by already having a tax haven presence and as risks continue to increase, only then were MNEs seen to become much more aggressive in their tax haven activities revealing the heterogeneity in their tax haven behaviour. This would suggest that tax haven FDI is already commonplace amongst MNEs, and MNEs respond by becoming more aggressive in their tax haven use as internal risks rise.

The results of the sectoral analysis presented further interesting findings. Using agriculture, forestry and fishing as the reference category, the industries listed are reflected as a binary differentiation between MNEs that operate in the industry in question, and those that do not. Overall, the results show a higher propensity for MNEs, regardless of the industry they operate

in, to predominantly invest across the "dots" tax havens. Statistically significant at $p<0.01$ across every "dots" tax haven measure, across every risk factor, the marginal effects for mining and quarrying ranged from 0.085 – 0.091, 0.081 – 0.104, and 0.089 – 0.099 across conflict, tensions, and violence respectively. Expressed an elasticity, this means that a 10% increase in investment in this sector would see a corresponding increase in FDI across the "dots" tax havens of 8.5 – 9.1%, 8.1 – 10.4% and 8.9 – 9.9% in the presence of conflict, tension and violence respectively.

Perhaps more interestingly, these results remained consistent across every industry sector. However, the high technology manufacturing and total knowledge intensive services sector were the only industry seen to be positively and highly statistically significant at $p<0.01$ across all 9 estimations. These findings differ slightly from previous research such as Bader and Schuster (2015) who found that high risks divert FDI away from manufacturing and towards non-manufacturing industries; and from Jones and Temouri (2016) who found that high technology MNEs were much more likely to be engaging in tax haven activities compared to MNEs from different sectors. Thus, the findings of this chapter add to the IB literature concerning tax haven FDI amongst developing countries MNEs operating across different sectors. The results of this paper conclusively show that MNEs from developing countries, regardless of the industry they operate in, were highly likely to be engaging in tax haven FDI.

4.9 Conclusion

The findings of this chapter contribute to and furthers the international business literature on outward tax haven FDI from risky countries in a number of ways. Firstly, it highlights the propensity of MNEs from developing countries to engage in tax haven FDI in the presence of different types of internal risk – specifically internal conflict, tensions, and violence – and

highlights the strong propensity for these MNEs, regardless of the industry in which they operate, to invest predominantly across tax havens that offer fewer opportunities for real economic growth.

Secondly, this chapter contributes to, and advances the discussion on the IB literature concerning FDI in specific industry sectors and risky environments (see Driffield et al., 2013; Witte et al, 2013). Jones and Temouri (2016) provided a breakdown of MNEs from developing countries and their propensity to engage in tax haven activities based on the industry in which they operate, and whilst Kolk & Lenfant (2013) concentrated specifically on extractive industries in conflict countries. Again, both concentrated on FDI from an outward perspective from developed countries into tax havens and conflict countries respectively. This chapter contributes by advancing the discussion around institutional theory by focusing on outward FDI from developing countries experiencing risks. Driffield et al (2021) also utilised a comprehensive measure of tax havens to show how MNEs from developing countries engage in tax haven FDI in response to institutional risks, however their focus was on the standard outward FDI theories of these MNEs being efficiency, resource and market seeking. This chapter differs and builds on our knowledge of outward tax haven FDI from developing countries by its investigation of an entirely different set of institutional risks and went further by proving an in dept analysis of MNE tax haven behaviour at the sectoral level.

The results of this paper provide two further key benefits. To researchers, it provides another point in which to expand the IB literature away from the extractive and high technology sectors and into less researched industries, thus, providing a more holistic view of outward FDI from developing countries, and into tax havens specifically. Notwithstanding, given the secrecy afforded by tax havens, whilst future research would still encounter the current issue of

differentiating between legitimate, and illegitimate MNE expansion into tax havens, this paper provides a starting point by identifying which tax haven measures are more likely to be used by developing country MNEs.

The second benefit is that of better policy implications for policymakers from developing countries seeking to use MNEs as a major part of their revenue base. Witte et al. (2017) found that FDI into in developing countries is affected, and varies, according to the type of risk and the sector incoming MNEs operate in. This chapter, however, has shown MNEs from developing countries, regardless of the industry they operate in, to be highly sensitive to home country institutional risk, and they adapt to these risks by engaging in outward tax haven FDI, and with a greater propensity to invest across the "dots" tax havens that offer greater opportunities for tax avoidance and less opportunities for real economic growth. Moreover, given the heterogeneity seen across industries in regard to MNEs tax haven FDI behaviours, policymakers seeking to improve revenue intake from MNEs may need to consider different strategies for MNEs operating across different sectors and be cognisant of the levels of risk within their respective countries when seeking to raise revenue from its MNEs. Faced with rising levels of risk, MNEs can possible view new policies adopted as an unfavourable, thus further exacerbating the already poor institutional environments (Forsgren, 2013; Kano and Verbeke, 2019; Busse and Groizard, 2008) due to rising levels of conflict, tensions, and violence. Hence, MNEs will likely seek mitigate against further unfavourable institutional changes by becoming even more aggressive in their tax haven FDI.

Chapter 5

Corruption and Tax Haven FDI amongst State-owned Firms

5.1 Abstract

Current consensus in the IB literature is that developing countries rely heavily on revenues gained from the taxing of multinational companies (MNEs); and that corruption severely undermines the efforts of the government of these countries to raise revenues to achieve it social and economic objectives. Moreover, governments of these countries have been known to invest in MNEs known to be engaging in tax haven foreign direct investment (FDI). However, the relationship between state owned MNEs (SO MNEs) and their propensity to engage in tax haven FDI in the presence of corruption is currently underdeveloped in the IB literature. This paper explores the propensity of SO MNEs from developing countries to engage in tax haven FDI in the presence of corruption. It found that the likelihood of SO MNEs engaging in tax haven FDI increases as corruption is increased, and that SO MNEs were more likely to invest across the more secretive tax havens that offers the least opportunities for economic growth. These results build on our current understanding of SO MNEs that engages in tax haven FDI when faced with corruption. Analysis was conducted using dynamic probit and Poisson models for a dataset consisting of 83 developing countries covering a total of 47,661MNEs. Our results offer several managerial and policy implications for policymakers seeking to raise revenue by investing in MNEs.

Keywords: Tax havens; State ownership; Tax avoidance; Foreign direct invest (FDI), Corruption

5.2 Introduction

Globalisation has allowed MNEs to avoid taxes which has led to serious negative impacts on the tax regimes of countries around the world (Christensen, 2011). Given the poor state of public finances throughout the world following the last financial crisis, and the resulting subsequent austerity programmes, public anger have increased regarding the use of tax havens as a tool in the tax avoidance strategies of MNEs. The issues surrounding the use of tax havens has since been high on the political agenda, and public hostility has been further fuelled by the continuous flow of new tax stories in the mainstream media regarding the tax arrangements of many of the world's best-known privately owned MNEs such Amazon, Apple, Facebook, Google, and Starbucks (Turner, 2019; Neate, 2019). Eden (1998) outlined how MNEs avoid taxes by shifting corporate profits out of high tax countries where their real economic activity occurs, and into countries with low or zero rates of tax, often through a process known as transfer pricing. Ocampo (2019) noted that estimates of greater than 40 percent of all worldwide profits made by MNEs are artificially transferred to and through tax havens, thereby reducing taxable income for the home countries of these MNEs. Given the adverse effects of tax avoidance to the public purse, the issue of tax avoidance amongst SO MNEs have received increased attention recently (Cuervo-Cazurra, Inkpen, Musacchio and Ramaswamy, 2014; Ha and Quyen, 2017).

UNCTAD (2017) reported that total world FDI inflow in 2016 was estimated at US$1.75 trillion of which only 37 percent flowed into developing countries, much of which was lost through corruption and other adverse institutional qualities (IMF, 2018). Hence, the relationship between FDI and corruption has received close attention in recent studies with conclusions that developing

countries need to do more to combat corruption if they are to achieve their financial and economic objectives (Kasasbeh, Mdanat and Khasawneh, 2018). Earlier studies have concluded that governments, including those from developing countries, must accept responsibility for undermining the fight against corporate tax avoidance (Palan et al, 2010; Christensen, 2011). This was later backed up by the release of the Panama Papers that found state-owned MNEs to also engaged in tax haven FDI, further undermining the tax base of their own country (Obermaier and Obermayer, 2017). Given that the income generated by MNEs engaging in FDI has been argued to be the main source of income for developing countries, and the common consensus being that developing countries find it much more difficult to attract FDI (Sohail, 2020; Kumari and Sharma, 2017), then decisions of state-owned MNEs from developing countries to engage in tax haven FDI is of considerable interest (Zhang, Li and Jian, 2013; Chen, Lin, Ding and Zhu, 2018).

Indeed, the IB literature is well documented with empirical studies that examined the relationship between state ownership and tax avoidance, however these studies were heavily focused on China and other Asian countries (see Zhang et al., 2013; Ha and Quyen, 2017; Chen et al., 2018; Iswari, Sudaryono and Widarjo, 2019) and did not take corruption in account. Driffield et al. (2021) also investigated tax haven usage amongst South Korean MNEs, however their focus excluded corruption and did not specifically examine SO MNEs. Hence, corruption, and the role and level of state ownership amongst MNEs from developing countries, remain understudied. Other studies have examined the relationship between state ownership and FDI in general in the context of developing countries (see Cannizzaro and Weiner, 2018; Cuervo-Cazurra, Inkpen, Musacchio and Ramaswamy, 2014; Meyer, Ding, Li and Zhang, 2014; Knutsen, Rygh and Hveem, 2011), however these studies omitted the role tax havens play in global FDI. In their investigations into

tax avoidance and tax base erosion in developing countries, McNair, Dottey and Cobham (2010); Kabala and Ndulo (2018) and Oguttu (2016; 2017) all concentrated on African countries or the region in general, however no references were made to corruption or to the role of state ownership in the facilitation of the erosion of the tax base of the country or the region in general. There are numerous examples of recent studies examining the relationship between corruption as an institutional variable and FDI in developing countries (see Arif, Khan and Waqar, 2020; Sohail, 2020; Kasasbeh et al., 2018; Gutierrez, 2015; Wei, 2000). Hebous and Lipatov (2014) examined the role of corruption and MNEs propensity to engage in tax haven FDI, however their research was conducted from a global, rather than a developing country perspective, and did not take state-ownership into account. Thus, an examination combining the role of corruption, level of state ownership and tax haven FDI remains largely unknown.

This paper seeks to address these gaps in the existent literature. Firstly, the effects of corruption of FDI remains equivocal. Whilst some studies have concluded that corruption negatively impacts FDI (see Zaouali, 2014; Mathur and Singh, 2013; Alemu, 2012; Wei, 2000), others have reported no effect (Hines, 1995; Wheeler and Mody, 1992). Moreover, given the gaps identified in the literature, it remains to be known what effect corruption has specifically on the propensity for SO MNEs to engage in tax haven FDI. Secondly, whilst studies including Ha and Guyen (2017) and Iswari et al (2019) empirically found that reducing levels of state ownership was positively corelated to tax haven FDI amongst Vietnamese and Indonesian registered SO MNEs, it remains to be seen if this holds true in the presence of corruption for SO MNEs across developing countries.

Institutionalisation theory of FDI outlined in Chapter 2 formed the main theoretical framework of this chapter. Given that this paper focused on examining firm and country-level factors that lead state-owned MNEs to engage in tax haven FDI, Rugman (1981) theoretical framework outlining firm specific advantages (FSAs) and country specific (dis)advantages how these influence SO MNEs decision to conduct FDI also formed part of the theoretical framework of this paper. A set of firm-level determinants and country factors were used and examine to test hypotheses on an unbalanced panel dataset that included 242,028 observations and comprised of a 125 developing countries covering the period 2008 – 2018. The dataset included 28,890 state-owned MNEs, of which 22,354 had a subsidiary located in a tax haven. Analysis was conducted by using pooled probit and Poisson count-data econometric estimations and the findings made a number of key and unexpected empirical contributions to the IB literature.

The rest of this chapter are structured as follows. Section 2 discusses the underpinning theoretical framework, followed in Section 3 by a description of the data, main variables and empirical model. This is followed in Section 4 by the empirical findings and a discussion of the findings. Section 5 offers a conclusion and implications of our study.

5.3 Theoretical Framework

Institutionalisation theory forms the main theoretical framework underpinning this chapter and is laid out in full in Chapter 2, subsection 2.3. For brevity and the avoidance of repetition, this section provides only a brief summary of institutionalisation theory specifically to the context of SO MNEs engaging in tax haven FDI. Under institutionalisation theory, as posited by DiMaggio and Powell (1983) and Powell and DiMaggio (1991), developing country SO MNEs must react to

adverse institutional characteristics located within their home countries (Kano and Verbeke (2019), which, for the purposes of this chapter – the adverse institutional characteristic being corruption within the political system. Kano and Verbeke (2019) and Kostova and Roth (2002) both asserted that institutional risks affect the ability of MNEs to implement effective business strategies and escape unfavourable institutions in the countries where they are located. Thus, since MNEs are essentially interconnected subsidiaries, each subsidiary must adapt to the adverse institutions of the countries in which they are located (Kostova and Roth, 2002). Thus, assumptions concerning how SO MNEs would arbitrage the use of their subsidiaries located within tax haven countries to escape adverse institutional environments at home would be strongly implied (Forsgren, 2013).

These assumptions, and further assumptions regarding institutional escape at home by MNEs have received growing attention in recent IB literature (see Sharafutdinova and Dawisha, 2017; Palan et al., 2023). For example, Sharafutdinova and Dawisha (2017), in their research into corruption and institutional escape, found larger MNEs with close governmental ties can maximise economic gains by escaping institutional protections such as labour laws and property rights, whilst simultaneously expatriating profits to foreign jurisdictions to avoid local accountability. Ledyaeva, Karhunen and Whalley (2013) found that in the presence of increasingly exploitative actions by government officials, especially amongst countries with authoritarian rule, MNEs are more inclined to not only use offshore accounts to protect their assets and identity from corrupt officials, but also to launder illicitly gotten gains.

This directly corroborates the findings of previous studies which found that more favourable foreign jurisdictions and institutions can be used by MNEs to hedge against poor home country institutions such as political instability and lower levels of the rule of law (Buckley et al., 2017; Vlcek, 2014; Sharman, 2012). In addition to being used as a form in institutional arbitrage, Clark et al (2015), and more recently Palan et al (2023) noted how foreign locations can also be used as a form of financial arbitrage such as raising funds and lowering company formation costs.

5.4 Empirical Background and Hypotheses

It is insufficient for MNEs to only possess FSAs if they are to conduct FDI in tax havens (Jones and Temouri, 2016). Alcarez et al. (2017) found that country-specific advantages are also important especially at the institutional level. Their research supported Cavusgil et al. (2013), and previously research by Montero (2008) who investigated and found that the determinants of FDI in tax havens is largely dependent on institutional frameworks in both home and host countries. Alcarez et al. (2017) and Montero (2008) found that degree of state-ownership; property rights and risks of expropriation, and levels of corruption all had an impact on FDI.

Parker (1998); Rugman and Collinson (2009) and Globerman and Shapiro, (2001) noted that FDI in developing countries is greater if there are legal institutions that offer redress to MNEs who might fell they have been wronged, especially in the presence of corruption. This was earlier supported by Gastanaga, Nugent and Pashamova (1998) who found that countries with a reputation for corruption deter FDI and argued that there are further hidden costs associated with polities rife with corruption as it is impossible for investors to know what their true costs will be. Thus,

according to DiMaggio and Powell (1983) institutionalisation theory, to minimise associated risks, MNEs would have adapt to the presence of corruption.

5.5 Corruption and FDI

In their research into corruption faced by MNEs operating in developing countries, Yang and Mohammad (2023) noted that corruption is an institutional hazard which MNEs must guard against. Corruption is often defined as the abuse of power for personal gain and is often encountered by MNEs when conducting FDI in developing countries compared to when operating in developed countries (see Cuervo-Cazurra, 2008, p13; Rose- Ackerman, 2013). It often involves public officials, elected or not, extracting bribes and other forms of payment in return for a government provisioned resource such as necessary permits and licenses (Yang and Mohammad, 2023; Mathur and Singh, 2013).

There is a general consensus that MNEs from developed countries avoid FDI in developing countries with corrupt and weak institutions (see Sartor and Beamish, 2020; Cuervo-Cazurra, 2008; Witt and Lewin, 2017; Kaufmann, 1997). Having been established and grown in home countries with robust institutions, some have argued that an FDI strategy of MNEs from developed countries is to avoid FDI in corrupt institutional environments given that they lack the necessary capabilities to effectively compete in such environments (Fon, Filippaios, Stoian and Lee, 2021; Kwok and Tadesse, 2006; Pinto and Zhu, 2016).

However, it can be argued that such arguments are limited in their applicability to MNE from developing countries. Due to been established and bred in volatile political and adverse institutional environments, not only may corruption present less impediments to developing country MNEs, but it is also be viewed as an opportunity that can be leveraged to their benefit (Cooke, Wang, and Wood; 2022; Yang and Mohammad, 2023; Godinez and Liu, 2018; Fon et al., 2021).

There are two clear opposing views on the effects of corruption in relation to FDI in the extant IB literature – which are that corruption can have either a positive, or negative effect on FDI (see Wei, 2000; Shleifer and Vishny, 1993; Cuervo-Cazurra, 2008; Yang and Mohammad, 2023). Cuervo-Cazurra (2008, p13) referred to the positive and negative impacts of corruption as *'...grease in the wheels of commerce'*, and *'...as sand in the wheels of commerce'*, respectively. Although corruption is often looked upon with a dim view on ethical grounds (Cuervo-Cazurra, 2006), there are studies in the empirical literature where corruption is conceptualised in positive terms in regard to its ability to facilitate FDI in developing countries.

Huntingon (1968) in Cuervo-Cazurra (2008) and Lui (1985) noted that corrupt can enable transactions and expedite business processes that involves the state that would either not happen, or happen much slower or with greater difficulty, without payment of bribes and other special forms of payment to government officials. This has led to Leff (1989) to conclude that in such instances, corruption can introduce market efficiencies in countries with excessive regulations and weak institutions. Moreover, Cuervo- Cazurra (2006; 2008) noted that when supply and demand is controlled for, firms with the lowest cost can offer the highest bribes to government officials

thus introducing competition in monopolistic environments. However, the empirical evidence for the positive impacts of corruption on FDI is scarce and interestingly, most have presented their findings not as having found a significant positive relationship, but as *'...not having found a negative relationship between corruption and FDI'* (see Cuervo-Cazurra (2008, p14; Wheeler and Moody, 1992; Hines, 1995).

The IB literature contains many instances where the negative impacts of corruption act as sand in the wheels of commercial in developing countries. Corruption leads to uncertainty and generates additional costs for MNEs which leads to a reduction in FDI (Cuervo-Cazurra (2006; 2008; Mathur and Singh, 2013). Wei (2000) and Shleifer and Vishny (1993) regarded this increased cost and payment of bribes as effectively an additional tax on MNEs which further creates uncertainties given that bribery payments do not guarantee that promises paid for will be delivered. Moreover, in the event of nonfulfillment of promises by government officials, given the illegality of bribery, MNEs will not have access to the court system as they would have had, had there been contracts in place (Cuervo-Cazurra, 2008; Kaufmann, 1997; Yang and Mohammad, 2023). Many empirical findings exist in the IB literature corroborating these assertions that these factors can all have a negative impact on overall FDI (see Cooke, Wang and Wood, 2022; Rodriguez, Uhlenbruck and Eden, 2005; Wei, 2000; Voyer and Beamish, 2004; Cuervo- Cazurra, 2006; Lambsdorff, 2003).

Further conceptualisation of negative forms of corruption in the IB literature differentiates between pervasiveness corruption, which is the extent of how widespread corruption is (Cuervo- Cazurra, 2008; Yang and Mohammad, 2023) and is usually encountered by MNEs when dealing with government officials, and arbitrary corruption, the extent to which corruption leads to MNE

uncertainty concerning demands for, and various forms of bribery payments, and fulfilment of promised services (see Yang and Mohammad, 2023; Rodriguez et al., 2015; Cuervo-Cazurra, 2006; 2008; Lee and Oh, 2007). In the existence of pervasive corruption, the cost of corruption is known ex-ante and thus predictable, thus MNEs are better prepared knowing that ongoing payments to government officials will be required for services such as the renewal of licenses, expediting customs clearances, and having contracts enforced favourable on their behalf (Malesky, 2009; Yang and Mohammad, 2023).

Instances of high arbitrary corruption however, creates further uncertainties and additional costs when the likelihood and terms of corruption are unclear (Rodriguez et al., 2005; Dang, 2013). Such forms of corruption include delays to MNEs when corrupt practices paid for are reneged upon by government officials due to demands for additional payments (Malesky, 2009; Fon et al., 2021), or additional costs to the MNE due to a lack of communication between government officials resulting in multiple, independent demand for bribes (Yang and Mohammad, 2023; Doh et al., 2003; Cuervo-Cazurra, 2008). Whilst empirical studies have shown arbitrary corruption presents more of a problem to MNEs to guard against (Uhlenbruck et al., 2006; Wei, 2000), others have shown both pervasive and arbitrary corruption adds to the institutional risk and costs developing country MNEs face when engaging in FDI in countries with corrupt political institutions (Sartor & Beamish, 2020; Rodriguez et al., 2005; Mathur and Singh, 2013).

Although mostly concentrated on China, there is a growing strand in the IB literature that specifically examines the relationship between state ownership and corruption (see Yi, Chen, Meng, Li and Shaheer, 2022; Qi, Kenderdine, Tang and Liu, 2022; Li, Zhang, Fan and Li, 2021)

and state-ownership and tax haven FDI (see Luo, Zhao, Wang and Xi, 2011). Although Qi et al. (2022) found positive corelations between the negative impacts of corruption and SO MNEs outward FDI, they failed to specify the host country locations in receipt of these outward FDI flows, hence it remains to be seen whether or not some of the countries in receipt of these FDI flows were countries classed as tax havens. Moreover, Luo, Qi and Hubbard (2017), echoing Cahen (2015) and Alcarez et al., 2017, noted that Chinese SO MNEs operate within a distinct principal-agent frame with stronger links to the government and political processes compared to other developing countries, thus Chinese SO MNEs responses to institutional corruption cannot be accurately understood from conventional outward FDI frameworks. Xu and Yano (2017) noted that the support afforded to Chinese SO MNEs by the government have aided corruption amongst SO MNEs across various sectors both domestically and internationally, with the most prominent example of corruption being capital flight and capital misappropriation linked to the executives of these firms engaging in outward FDI for personal gain. They further noted that such corruption occurred across every industry but was most prominent in the extractive industries.

After previous studies have shown SO MNEs to be predisposed to the payment of bribes and facilitating corruption in government (see Shaheer, Yi, Li and Chen, 2019; Martin, Cullen, Johnson and Parboteeah, 2007), the State-Owned Enterprises and Corruption Report by the OECD (2019) specifically called for further research into bribery and corruption by SO MNEs to achieve a deeper understanding of how they affect bribery and corruption (Yi et al., 2022). In their empirical investigation into the relationship between state-ownership and payments of bribes, Yi et al. (2022) found a number of interesting results. First, they found that state-ownership protects firms from bribery demands from government officials by minimising administrative obstacles such as

bureaucratic requirements needed to procure necessary licenses, permits and settlement of business taxes. Secondly, they found that although state-ownership reduced the tendency of a firm to pay bribes, it increases the relative amount of bribery payments. Third, they found that state-ownership weakened the capital mobility of firms and led to increased levels of bribe payments. However, amongst firms with greater mobility and ability to relocate, the intensity of the bribery payment was reduced. Henisz (2000) had earlier found corruption to have a positive effect of the probability of SO MNEs to engage in outward FDDI. This presents an ideal opportunity to make a novel contribution to the IB literature by extending this research to outward tax haven FDI amongst state-owned firms in the presence of corruption. Given the opportunity for capital mobility, protection, and concealment of assets afforded by tax havens (Palan et al., 2010; Eden, 2009; Driffield et al., 2010), we propose that when faced with increasing levels of corruption, SO MNEs will be able to protect against the increasing financial burdens due to demands for increasing intensities of bribery payments. This brings us to the first hypothesis of this chapter:

1. ***H_1:*** *There is a positive relationship between corruption and tax haven FDI.*

5.6 State Ownership Tax Haven FDI

A review of the extant literature regarding the internationalisation of SO MNEs from developing countries reveals that most have concentrated on China and other South Asian countries (see Cui and Jiang, (2012; Cahen, 2015; Ha and Guyen, 2017; Chen et al., 2018; Meyer, K. E., Ding, Li and Zhang, 2014; Cuervo-Cazurra et al., 2014; Qi et al., 2022; Cheng and Lei, 2015; Cannizzaro and Weiner, 2018) and most of these have concentrated on the various conditions under which SO

MNEs FDI decisions (see Alcarez et al., 2017; Iswari et al., 2019; Chen et al., 2018). Despite the growing interest regarding FDI from developing countries, and the global expansion of SO MNEs, few studies were found that concentrated on outward determinants of SO MNEs outward FDI from developing countries in general (see Ma and Teng, 2018; Deng, Yan and Essen, 2018; Du and Zhang, 2018), and even fewer still concentrated directly on the links between SO MNEs and tax avoidance (see Iswari et al., 2019; Ha and Guyen, 2017; Zhang et al., 2013). Of the few that did, most were again concentrated on SO MNEs from China and Vietnam (see Cahen; 2015; Ha and Quyen; 2017; Chen et al., 2018) and on from Brazil (Alcarez et al., 2017), signifying that further research on this topic is needed fill the gap in the IB literature in so far as tax haven FDI amongst SO MNEs in developing countries as a whole is concerned.

Cuervo-Cazurra et al. (2014) noted that there are essentially two conventional explanations for the existence of state-owned firms, and governments often employ a mix of both to justify their ownership stake in MNEs. The first being economic reasons that focuses on possible solutions for home-country market imperfections, and political ideological approaches to the ownership of productive assets. When private MNEs are unable or inefficient in allocating resources to enable the government to achieve its social and welfare objectives, the state can intervene to address such inefficiencies through a variety of instruments including new regulations, taxation, and direct ownership, the latter of which results in the formation of SO MNEs (Lindsay, 1976; Cuervo-Cazurra et al., 2014; Levy, 1987).

In economic communist ideology as a political ideological approach, state ownership of a private MNE is seen as a justifiable government reaction to the injustice of an accumulation of wealth by

private owners at the expense of workers, thus making citizens the legal owners of nationalised companies and their assets, and the state de-facto owners (Marx 1906 and Marx and Engels in Cuervo-Cazurra, 2014, p921). A more subtle view of this political ideology is that the overall development of the country can be expedited through the creation of state-owned firms rather than being left solely to private firms (Kowalski, Büge, Sztajerowska and Egeland, 2013; Cuervo-Cazurra, 2014).

Ha and Guyen (2017), noted that SO MNEs are important to the national economy, yet the relationship between state ownership and tax avoidance is not clearly defined empirically. On examining the relationship between the level of state-ownership and tax avoidance, many past studies have identified that increased levels of state-ownership had a positive effect on tax avoidance (see Salihu, Obid and Annuar; 2014; (Mahenthrian and Kasipillai, 2012). Many previous studies have proffered differing argument to explain these findings. Zhang et al. (2013) and Ha and Quyen (2017) noted that the primary focus of governments is on achieving its social objectives and not necessarily on maximising corporate value.

Some have noted that preferential treatment is given to state-owned firms compared to privately owned firms, and that the executives of state-owned firms exploit this preferential treatment to engage in tax avoidance (see Cuervo-Cazurra et al., 2014; Ha and Guyen, 2017; Adhikari, Derashid and Zhang, 2006). However, the political connection of the firm to the government reduces the likelihood of tax audits and limits the penalties should the firm be caught engaging in tax avoidance, thus, the executives of SO MNEs have a greater incentive to engage in tax avoidance (Alcarez et al., 2017; Zhang et al., 2013).

However, numerous empirical evidence can also be found to the contrary showing a negative relationship between degree of state ownership and tax avoidance (see Wu et al., 2013; Zhang et al., 2013; Chan et al., 2013). Reasons put forward for these findings include the tax revenues collected by the state from state-owned MNEs are seen as justification for the decision of the state to invest in these firms, and that executives of SO MNEs are usually appointed on condition that their appointment bring in increased tax benefits, and their promotion is strongly linked to the tax revenues that they provide to the government (Ha and Guyen, 2017; Zhang et al., 2013).

Given that most of the empirical findings on the internationalisation and tax avoidance practices of SO MNEs have focused mainly on China and larger developing countries, have led to arguments that direct extrapolations cannot be made between these countries and smaller developing countries, nor to developing/emerging countries as a whole. Wang et al. (2012) in Alcarez et al. (2017) noted that ownership structures and home institutional environments can have different effects on MNE decisions, hence, MNEs from different countries, with different characteristics could display different FDI behaviours.

Firstly, unlike smaller developing countries, most Chinese MNEs are state-owned, implying that these countries cannot be treated equally in terms of the IB literature in so far as outward tax haven FDI is concerned (Cahen, 2015; Alcarez et al., 2017). Secondly, Chinese firms have a comprehensive system of support from the home government and are actively encouraged to become an MNE. This situation is the opposite for MNEs from other developing countries with very few governments offering similar support, with only Brazil offering comparable, well-

established systems of support for its MNEs (Alcarez et al., 2017). Thus, in line with earlier assertions that the application of the responses of Chinese SO MNEs to institutional corruption cannot be directly extrapolated to smaller developing countries (Luo, Qi and Hubbard, 2017; Alcarez et al., 2017; Cahen, 2015), this chapter argues SO MNEs from developing countries in general warrants further development in the current IB literature.

Schneider and Frey (1985) and Schnieder and Soskice (2009) both noted that corruption and inequality are extremely high in developing countries compared to developed countries economies, and a main priority of governments from these countries is to address this level of inequality. Thus, increased government ownership stakes in MNEs have been seen as a way to raise capital to address levels of inequality (Ha and Guyen, 2017). Again, Cuervo-Cazurra et al. (2014) and Zhang et al. (2013) also noted that the main objective of governments of developing countries is on achieving its social and non-market objectives. Given these conclusions, then it is plausible to further conclude that developing country governments will be more incentivised to use their ownership stake in SO MNEs to raise revenues to address issues of inequality.

Thus, a focus of the state, and indeed the citizenry, will be on SO MNEs with greater levels of state ownership ensuring the income and tax revenues collected from these firms will justify the greater public ownership stake, thus given this increased scrutiny, these firms will be less likely to conduct tax haven FDI. On the contrary, given the increased attention placed on MNEs with greater levels of state ownership, then SO MNEs most likely be to be found engaging in tax avoidance practices, possible aided by their political connections to avoid audits, and light penalties if caught

engaging in tax haven FDI (Alcarez et al., 2017; Zhang et al., 2013) will be firms with the lowest levels of state ownership. This brings us to our second hypothesis:

H_2: *There is a positive relationship between state-ownership and tax haven FDI.*

5.7 Data, Variables and Empirical Model

Chapter 3 provides comprehensive details of the data sources used in this chapter. This section provides additional information for corruption only.

The ICRG uses *corruption* as a measure of the level of corruption within the political system and assigns scores ranging from 0 – 6 depending on the level of risks posed. The ICRG (2018, p4) asserts that corruption dissuades FDI for several reasons given its ability to introduce inherent instabilities into political processes; distorts both the financial and economic system of a country; and reduces government efficiency through positions being assigned based on nepotism and patronage rather than ability. They further noted that financial corruption takes various guises such as demands for bribery and other forms of special payments especially for import and export licenses; various forms of state protection; tax assessments, and forcibly withholding or withdrawing investments. In addition to these forms of corruption, the ICRG however places a heavier emphasis on actual, or potential forms of corruption such as nepotism, excessive patronage, job reservations and questionably close links between politics and businesses all of which can be insidious in nature and creates greater risks for FDI (ICRG, 2018, p5; Svensson, 2005, p22).

Table 9: Breakdown of state-owned (SO) and non-state-owned MNEs by Country of Origin

Country	Number of MNEs	Number of MNEs with tax haven subs	Number of MNEs with State-Ownership (SO)	Number of SO-MNEs with tax haven subs	Country	Number of MNEs	Number of MNEs with tax haven subs	Number of MNEs with State-Ownership (SO)	Number of SO-MNEs with tax haven subs	Country	Number of MNEs	Number of MNEs with tax haven subs	Number of MNEs with State-Ownership (SO)	Number of SO-MNEs with tax haven subs
Albania	107	28	7	0	Fiji	31	7	2	2	Moldova	1098	11	29	0
Algeria	22	11	7	4	Gabon	45	11	0	0	Mongolia	2	2	2	2
Angola	64	35	12	6	Gambia	22	11	11	11	Montenegro	847	76	42	18
Argentina	2465	639	74	54	Georgia	76	10	6	3	Morocco	99	59	55	32
Bangladesh	251	89	79	32	Hungary	10902	481	95	56	Namibia	71	43	2	2
Belarus	1469	11	36	0	India	6942	4803	2915	2262	Nepal	10	10	9	9
Benin	18	11	0	0	Indonesia	1276	1072	392	331	Niger	11	11	0	0
Bosnia And Herz.	1981	73	67	19	Iran	315	171	64	41	Nigeria	305	182	50	35
Brazil	4563	1523	576	334	Iraq	12	1	4	0	Oman	359	297	69	60
Bulgaria	3582	593	42	16	Israel	6216	1704	567	400	Pakistan	358	270	136	117
Central African Rep.	11	11	0	0	Jamaica	20	16	0	0	Papua Nw G	34	12	11	8
Chile	2095	569	207	119	Jordan	311	164	125	81	Peru	783	168	37	16
China	15819	11595	6364	5326	Kazakhstan	307	60	30	16	Poland	7788	969	820	227
Colombia	602	296	62	58	Kenya	218	76	62	23	Qatar	437	304	113	87
Congo (DRC)	4	4	2	2	Korea, S.	4126	949	151	110	Romania	3760	187	61	25
Congo	1	1	0	0	Kosovo	80	17	0	0	Russian	4527	1412	384	249
Costa Rica	41	41	17	17	Kuwait	1407	998	234	203	Saudi Arabia	1445	984	200	159
Croatia	5760	660	296	98	Latvia	5460	229	20	0	Serbia	3754	432	207	37
Czech Rep.	20672	344	68	15	Libya	44	33	6	6	Slovenia	8538	940	363	208
Djibouti	4	4	0	0	Lithuania	5958	139	24	6	Somalia	11	11	0	0
Ecuador	180	48	0	0	Madagascar	41	16	7	0	South Africa	4436	2307	1185	935
Egypt	461	209	156	98	Mali	24	11	0	0	Sri Lanka	860	559	199	192
Estonia	7681	156	57	12	Malta	856	231	20	14	Sudan	61	34	4	4
Ethiopia	21	1	13	1	Mexico	2099	526	338	156	Syria	19	11	4	4

Table 9 continued…

	Number of MNEs	Number of MNEs with tax haven subs	Number of MNEs with State-Ownership (SO	Number of SO-MNEs with tax haven subs
Taiwan	11544	8378	3756	3283
Thailand	203	177	115	108
Togo	26	11	6	6
Trinidad & Toba	68	57	13	13
Tunisia	44	2	7	0
Turkey	2399	604	431	250
Ukraine	1882	45	39	0
Venezuela	134	77	0	0
Vietnam	292	180	47	33
Yemen	11	11	0	0
Zambia	125	34	2	0
Zimbabwe	295	106	65	19
Totals				
83	**171,298**	**47,661**	**21,278**	**16,070**

Table 9 above lists the countries included in the sample and shows a breakdown of tax haven subsidiaries owned by state-owned MNEs on a country-by-country basis. Overall, the sample used for this chapter included observations for a total of 171,298 MNEs, 47,661 of which had at least one subsidiary located in a tax haven. Of the total number of MNEs, 21,278 had a degree of state-ownership greater than zero, with 16,070 of these state-owned firms having at least one subsidiary located in at least one country classed as a tax haven. Given that the focus of this chapter is to investigate the effects of corruption on state-owned firms to engage in tax haven FDI, the focus

was on the narrower tax havens that offer primarily opportunities to avoid taxes (Hines and Rice, 1994; Jones and Temouri, 2016). Hence the classifications of tax havens used in this chapter were the "dots" tax havens in Table 2.

In addition to institutional quality at home, previous empirical studies have shown macroeconomic factors and level of development of a country to be important factors that can influence the FDI decisions of MNEs (see Montero; 2008; Jensen, 2003, p598; Globerman and Shapiro, 2002). Thus, and in line with these studies, and Lindsay (1976), Cuervo-Cazurra et al. (2014) and Levy (1987), GDP per capita was used as a measure of home country economic development. Having previously identified how institutional quality affects FDI, political stability and property rights were used to measure the effects of institutional quality in MNEs home countries.

Montero (2008) and Biglaiser and DeRouen (2006) have further shown how government consumption and its ability to meet its foreign debt can affected FDI behaviour. Whilst high levels of government consumption can deter FDI, it can, if spent on education, infrastructure and public services, make the country much more attractive to FDI and be seen by its citizenry to be achieving it social objectives (Cuervo-Cazurra et al., 2014). Testing of this variable would require the disaggregation of total government expenditure by type (Montero, 2008). However, given that the concern of this chapter is on overall government consumption and its overall ability to achieve its social objectives, aggregate data was not necessary. Past studies have measured government consumption in terms of fiscal deficits and debt service ratios (see Montero, 2008; Biglaiser and DeRouen, 2006). Thus, the more resources spend on reducing the debt service ratio of a country, it is likely that less resources will be available for corrupt government officials to acquire for

personal gain (OECD, 2019). This chapter argues that executives of SO MNEs situated in countries experiencing corruption and where the servicing of the total foreign debt is low relative to its GDP, then these SO MNEs will be more likely to engage in tax haven. Hence, foreign debt service, expressed as a percentage of GDP, was used as a measure of a country's ability to meet its financial obligations.

Table 10 below show the descriptive statistics for each of the variables used in the subsequent analyses. Included are the total number of observations, mean, standard deviation, and minimum and maximum values. Appendix 5.1 shows the correlation matrix between each variable. No other multicollinearity issues were present. From a cursory glance, at the firm level, the average representation of firms with at least one subsidiary across the Hines and Rice (1994) tax haven measure stands at of 11.7%. This was higher at 13.2% across the broader Jones and Temouri (2016) tax haven measure. Regarding MNE tax haven subsidiary ownership, the total number of subsidiaries increased as the tax haven measures became broader. Total subsidiaries owned across Hines and Rice (1994) and Jones and Temouri (2016) were 3500 and 3813 respectively with standard deviations varying from 1866 across Hines and Rice (1994) and 2060 across Jones and Temouri (2016). 2

Table 10: Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
Dependent Variable Count:					
Hines & Rice Dots 1994 Dummy	13,071	0.117	0.322	0	1
Jones & Temouri 2016 Dummy	13,071	0.132	0.339	0	1
Dependent Variable Count:					
Hines & Rice Dots 1994 Count	13,071	3500	1866	0	1995
Jones & Temouri 2016 Count	13,071	3813	2060	0	2240
State-Ownership (S0) Variables:					

State-Ownership ≤ 5%	13,071	0.966	0.182	0	1
State-Ownership ≤ 25%	13,071	0.985	0.122	0	1
State-Ownership >25%	13,071	0.015	0.122	0	1
Institutional Variable:					
Corruption	13,071	3.311	0.609	0	6
Controls:					
Operating Revenue Turnover	13,071	0.826	6.760	-0.241	472.404
Ln Intangible Fix Assets	13,071	6.696	3.619	0.001	18.004
Number of Subsidiaries	13,071	8.368	19.429	1	85
MNE Parent Age	13,071	21.184	17.485	1	100
Tax Burden	13,071	77.061	8.566	44.1	100
Foreign Debt Service as a % of GDP	13,071	4.781	2.590	0	10
Property Rights	13,071	45.298	19.136	10	100
Political Stability	13,071	0.185	0.766	-3.315	1.224
GDP per Capita	13,071	0.506	0.500	0	1
State-owned (Binary)	13,071	0.127	0.333	0	1
Authoritarian Rule	13,071	1.278	1.446	0	6
Industry:					
Agriculture, Forestry & Fishing	13,071	0.013	0.112	0	1
Mining & Quarrying	13,071	0.014	0.117	0	1
High Technology Manufacturing	13,071	0.072	0.259	0	1
Medium Tech Manufacturing	13,071	0.105	0.306	0	1
Medium-Low Tech Manufacturing	13,071	0.083	0.276	0	1
Low Tech Manufacturing	13,071	0.093	0.291	0	1
Total Knowledge Intensive Services	13,071	0.301	0.459	0	1
Less Knowledge Intensive Services	13,071	0.319	0.466	0	1

Notes:

1. *The results here, and in the rest of this chapter is based only on MNEs with a degree of state-ownership. See Appendix 5.2 for analysis of both state-owned and non-state-owned MNEs.*
2. *Count is the number of subsidiaries located in the dependent variable tax haven classifications grouped by parent ID*
3. *Corruption was recoded in increasing levels of risk where 0 now represents lowest levels of corruption in the political system and 6 represents highest levels of corruption.*
4. *Operating Revenue Turnover expressed in US$M.*
5. *IATA (intangible fixed assets divided by total assets). Intangible fixed assets and total assets were recalculated and expressed in US$M before being used in IATA calculations.*
6. *To account for non-convergence issues during analysis caused by the wide variances between MNEs, number of subsidiaries was winsorised at the 95th percentile.*
7. *Only countries with GDP per capita of less than USD15000 were included in the models estimated [19].*
8. *Industries grouped according to the Eurostat Nace 2-digit classification codes (See Appendix 4.2 for full classification lists).*

[19] Numerous estimations performed across different GDP per capita thresholds, and result remained largely inconsistent across thresholds larger than USD15000.

Descriptive statistics across corruption show an average corruption score was 3.31 and with a variance of 0.61. Minimum and maximum score across for corruption was 0 and 6 respectively. Across the state-ownership variables, countries with a degree of state ownership of 5% and below represented 9.66% of the sample. MNEs with state-ownership no greater than 25% were the slightly largest of the three groups and represented 9.85% of the overall sample. Firms with state-ownership greater than 25% were the least represented with representation seen at just under 0.15%.

Across the control variables, the average number of subsidiaries ranged from 1 – 85 with an average of 8.4 subsidiaries per MNE with a standard deviation of 19.43. The average age of the parent MNE is just over 21 years with a standard deviation of just over 17 years suggesting there is a moderate degree of age variation in MNE age. The minimum tax burden is observed at 44.1 percent with a maximum of 100 percent, while average rate was just over 77 %. Foreign debt to GDP service ratios averaged 4.78% with a variance of 2.59%, while property rights had an average score of just over 45 with a standard deviation of 19.14.

Across the industries, MNEs operating in the total knowledge intensive and less knowledge intensive and services made up the largest group of the sample set with representations of 31 and 32% respectively. MNEs operating in low technology manufacturing and medium technology industries were the second largest group representing 9% and 8% respectively of the sample while high technology manufacturing MNEs and those in the medium-low technology represented 0.72 and 1.05% respectively. Mining and quarrying and agriculture represented 0.14% and 0.13 respectively of the total sample.

5.8 Empirical Model

Pooled probit and Poisson models were estimated for this research. The models estimated were adaptations of models estimated in numerous previous studies and were developed based on firm-level FDI literature seeking to construct individual specifications from existing IB literature (see Witte et al., 2017; Driffield et al, 2013; Oetzel and Oh, 2017; Bhaumit et al., 2010; Driffield and Munday, 2000; Girma, 2002; Wiersema and Bowen, 2008; Getz and Oetzel, 2010). Following Jones and Temouri (2016), the models estimated incorporated vector of control variables that captured differences in firm-specific advantages (FSAs) which included firm size; intangible assets; number of subsidiaries; and tax burden all of which have been shown to strongly impact MNEs ability to engage in FDI (see Jones and Temouri, 2016; Graham and Tucker; 2006; Eden, 2009). These firm-level factors were combined with a vector designed to capture industry dummy variables, corruption, and other controls for MNE home-country characteristics including macroeconomic factors and property rights, as these have been shown to influence MNE FDI decisions (see Witte et al., 2017; Oetzel and Oh, 2018; Getz and Oetzel, 2010; Driffield et al., 2013; Jones and Temouri, 2016). The models estimated were variations of the following:

Equation 2:

$$TaxHavenFDI = \beta_0 + \sum_{k=1}^{6} \beta_k FSA + Tax + \sum_{s=1}^{5} \emptyset_s Sector + \gamma_0 Corruption + \gamma_0 Inst + \mathcal{E}$$

where the dependent variable $TaxHavenFDI$ is a dummy variable and equals 1 if the MNE has a subsidiary located in a tax haven, and 0 if it does not. The vector FSA takes into account firm-specific advantages (operating revenue turnover, intangible asset, number of subsidiaries and firm age, while Tax captures MNE tax burden. The vector $Sector$ includes industry specific binary

variables at the two-digit NACE level. $\gamma_0 Corruption$ captures levels of corruption in MNEs home countries. $\gamma_0 Inst$ captures home country economic and institutional factors such as GDP per capita, foreign debt service ratios, political stability property rights and authoritarian rule. $\mathcal{E}$ is the error term.

5.9 Empirical Results and Discussion

As previously done in Chapter 5, the models estimated in this chapter further distinguished between MNEs binary decision to conduct tax haven FDI by investing through subsidiaries located in tax havens, and in line with Wooldridge (2016), the models estimated included both pooled probit and Poisson regressions.

Tables 11 and 12 below show the results of 12 estimations of Equation 2 and the results reported across estimations 1 – 6 are the probit marginal effects of each control variable on the dependent variable, which is the likelihood of state-owned MNEs to engage in tax haven FDI. Estimations 7 – 12 are the marginal effects results for the Poisson regressions. Following on from Chapter 5, the models estimated utilised fix effects to allow for changes over time, and explanatory variables were lagged to improve the effects of causal inferences. Standard errors were clustered at the firm level to ensure greater reliability of inferences between MNEs.

The results show overall support for all two (2) hypotheses and builds on the existing empirical IB literature on corruption and extending it to tax haven FDI amongst SO MNEs operating across various industry sectors. The results show corruption to have a highly significant and positive

impact on the propensity of state-owned (SO) MNEs to engage in tax haven FDI. These results were strongly significant at $p<0.01$ across every model estimated for every tax haven measure.

Table 11: Relationship between Corruption and Tax Haven FDI Amongst State-owned firms

VARIABLES	(1) Hines & Rice 1994	(2) Hines & Rice 1994	(3) Hines & Rice 1994	(4) Jones & Temouri 2016	(5) Jones & Temouri 2016	(6) Jones & Temouri 2016
Corruption	0.703***	0.958***	0.275***	0.739***	1.085***	0.339***
	(0.154)	(0.217)	(0.0966)	(0.151)	(0.223)	(0.0978)
State Ownership (SO)						
SO up to ≤5%	1.666***			1.523***		
	(0.561)			(0.557)		
Interaction: SO≤5%*Corruption	-0.450***			-0.423***		
	(0.151)			(0.150)		
SO up to ≤ 25%		2.282***			2.707***	
		(0.812)			(0.837)	
Interaction: SO≤25%*Corruption		-0.683***			-0.746***	
		(0.215)			(0.223)	
SO >25%			-2.212***			-2.691***
			(0.841)			(0.842)
			(0.227)			(0.221)
Controls:						
Operating Revenue Turnover	0.0120	0.0112	0.0112	0.00995	0.0105	0.0105
	(0.00796)	(0.00786)	(0.00786)	(0.00885)	(0.00875)	(0.00875)
Ln Intangible Fixed Assets	0.0231	0.0266*	0.0266*	0.0200	0.0216	0.0216
	(0.0149)	(0.0150)	(0.0150)	(0.0139)	(0.0140)	(0.0140)
Number of Subsidiaries	0.0324***	0.0322***	0.0322***	0.0333***	0.0331***	0.0331***
	(0.00140)	(0.00139)	(0.00139)	(0.00165)	(0.00164)	(0.00164)
MNE Parent Age	0.000144	-0.000187	-0.000187	0.00163	0.00156	0.00156
	(0.00199)	(0.00196)	(0.00196)	(0.00196)	(0.00195)	(0.00195)
Tax Burden	0.0220***	0.0207***	0.0207***	0.0227***	0.0222***	0.0222***
	(0.00530)	(0.00535)	(0.00535)	(0.00538)	(0.00542)	(0.00542)
Foreign Debt Service as a % of GDP	-0.120***	-0.130***	-0.130***	-0.172***	-0.173***	-0.173***
	(0.0260)	(0.0268)	(0.0268)	(0.0246)	(0.0252)	(0.0252)
Property Rights	0.00257	0.00194	0.00194	-0.00376*	-0.00399*	-0.00399*
	(0.00242)	(0.00244)	(0.00244)	(0.00226)	(0.00227)	(0.00227)
Political Stability	0.0120	0.00532	0.00532	0.158**	0.152**	0.152**
	(0.0719)	(0.0721)	(0.0721)	(0.0702)	(0.0704)	(0.0704)
GDP per capita	-0.817***	-0.853***	-0.853***	-0.721***	-0.749***	-0.749***
	(0.150)	(0.150)	(0.150)	(0.146)	(0.146)	(0.146)
State-ownership (SO) (Binary)	0.0666	0.0257	0.0257	0.0792	0.0663	0.0663
	(0.0911)	(0.0903)	(0.0903)	(0.0820)	(0.0811)	(0.0811)
Authoritarian Rule	0.0212	0.0150	0.0150	0.0282	0.0263	0.0263
	(0.0346)	(0.0346)	(0.0346)	(0.0321)	(0.0321)	(0.0321)
Interaction (SO* Authoritarian Rule)	0.00923	0.0158	0.0158	-0.00197	0.00118	0.00118
	(0.0244)	(0.0243)	(0.0243)	(0.0227)	(0.0226)	(0.0226)
Industry:						
Mining & Quarrying	0.797**	0.755**	0.755**	1.057***	1.050***	1.050***
	(0.384)	(0.380)	(0.380)	(0.375)	(0.373)	(0.373)
High Technology Manufacturing	0.217	0.203	0.203	0.443	0.438	0.438
	(0.361)	(0.355)	(0.355)	(0.351)	(0.348)	(0.348)
Medium Tech Manufacturing	0.305	0.283	0.283	0.421	0.413	0.413
	(0.361)	(0.355)	(0.355)	(0.350)	(0.348)	(0.348)
Medium-Low Tech Manufacturing	0.448	0.429	0.429	0.531	0.525	0.525

	(0.364)	(0.357)	(0.357)	(0.354)	(0.351)	(0.351)
Low Tech Manufacturing	0.334	0.323	0.323	0.507	0.504	0.504
	(0.364)	(0.359)	(0.359)	(0.352)	(0.350)	(0.350)
Total Knowledge Intensive Services	0.579	0.535	0.535	0.791**	0.776**	0.776**
	(0.362)	(0.357)	(0.357)	(0.352)	(0.349)	(0.349)
Less Knowledge Intensive Services	0.579	0.558	0.558	0.740**	0.734**	0.734**
	(0.360)	(0.354)	(0.354)	(0.350)	(0.347)	(0.347)
Year Dummies	Yes	Yes	Yes	Yes		
Observations	13,071	13,071	13,071	13,071	13,071	13,071
Percent Correct	82.59	82.53	82.53	81.06	80.87	80.87
Pseudo R^2	0.371	0.372	0.372	0.358	0.359	0.359

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

Notes:
1. Industries dummies categorised according to Eurostat classifications.
2. Agriculture, Forestry & Fishing was used as the reference industry in which other industry dummies were compared against.
3. Clustered standard errors at the MNE level.
4. The results presented here are for the analysis conducted using SO-MNEs only. See Appendix 5.2 and 5.3 for coefficients from analysis of both state-owned and non-state-owned MNEs, and from analysis using non-state-owned firms respectively.

These findings strongly support hypothesis one, which states that there is a positive relationship between corruption and tax haven FDI. Estimations 1 – 6 effectively tested this hypothesis and strong, statistically significant results were observed across all six (6) estimations. Considering the assertions of Kowalski et al. (2013) and Cuervo-Cazurra et al. (2014) that one of the reasons governments invest in their MNEs is to achieve, or expedite, economic development, then further research is needed to explain government decisions to invest in SO MNEs engaging in tax haven FDI, and what role corruption might play in those decisions. Investigations across the industry sectors reveals support for previous studies such as Xu and Yano (2017); Oh et al. (2021) and Witte et al. (2017) who found corruption to be common particularly across MNEs operating in the extractive industries.

Some support was further found for the earlier strand of IB literature that asserts greater number of subsidiaries, and higher home country taxes had a significant effect on the propensity of firms to engage in tax haven FDI. Interestingly, in contrast with previous researchers such as Jones and Temouri (2016) and Zucman (2014) investigation into tax haven determinants amongst OECD

MNEs, these results show that amongst developing country MNEs firm age, operating revenue and intangible assets to have an insignificant impact of tax haven FDI. The results across the macroeconomic and institutional factors, which effectively tested country specific economic and institutional factors, show countries with a GDP per capita of less than 15,000USD, and poorer foreign debt service ratios to be positively corelated to tax haven FDI.

Again, these results add to current IB literature by highlighting the positive and significant relationship between corruption and tax haven FDI amongst state-owned firms. Given these results, support can be seen for both Jones and Temouri (2016) assertion that the Rugman (1981) FSA-CSA framework is constantly evolving, and Kano and Verbeke (2019) postulations that in institutionalisation theory, MNEs are situated within the economic and political environment of their home countries, to which they adapt. Our findings show SO MNEs, situated in countries with weaker CSAs – corruption, poor economic quality and foreign debt service - adapt by engaging in institutional arbitrage by increasing their tax haven activity.

Moreover, and quite surprisingly, compared to their non-state-owned counterparts, further analysis reveals that state-owned MNEs are indeed largely responsible for the increase in tax haven activities when there is an increase in corruption (see Appendix 5.2 and 5.3). One possible explanation for such findings is that as institutional corruption rise, SO MNEs in particular become more aggressive in their tax haven activities, seeking the opportunities they provide greater opportunities for tax avoidance, concealment of assets, and high levels of secrecy (Palan et al., 2010; Jones and Temouri, 2016).

Hypothesis 2, which states that there is a positive relationship between state ownership and tax haven FDI, was strongly supported. Estimations 1 – 3 and 4 – 6 tested this hypothesis across Hines and Rice (1994) and Jones and Temouri (2016) tax havens respectively. The overall theme of the results were that MNEs with a state-ownership of 25% or less were highly and significantly likely to engage in tax haven activities, whilst firms with state-ownership greater than 25% were found to be highly and significantly less likely to engage in tax haven FDI. Separate tests of the interaction between state-ownership and corruption and its impact on tax haven FDI confirm these results.

The coefficients, when expressed as an elasticity, across the Hines and Rice (1994) tax haven measure, reveal than a 10 percent rise in corruption would see tax haven FDI amongst firms with state-ownership of 5% or less, and 25% or less, increase by 16.66 and 22.82% respectively. However, amongst firms with a degree of state-ownership greater than 25%, tax haven FDI was seen to significantly reduce by 22.12% when faced with a similar 10% increase in corruption. These results were consistent across the Jones and Temouri (2016) tax haven measure with MNEs 5% or less state-owned, and 25% or less state-owned increasing their tax haven activities by 15.23 and 27.07% respectively when faced with a 10% rise in corruption. Amongst firms with state-ownership greater than 25%, the unlikelihood of these firms to engage in tax haven FDI was seen to be 26.91%. The results across each of the 6 specifications were significant at the $p<0.01$ level, and these results were further supported by the results of the poisson regressions shown in **Table 12** below.

Table 12: Poisson results: Relationship between Corruption and Tax Haven FDI Amongst State-owned firms

VARIABLES	(7) Hines & Rice 1994	(8) Hines & Rice 1994	(9) Hines & Rice 1994	(10) Jones & Temouri 2016	(11) Jones & Temouri 2016	(12) Jones & Temouri 2016
Corruption	0.0729***	0.0681***	0.0681***	0.0925***	0.0887***	0.0887***
	(0.0211)	(0.0210)	(0.0210)	(0.0230)	(0.0230)	(0.0230)
State Ownership (SO)						
SO up to ≤5%	0.0164			0.00642		
	(0.0185)			(0.0189)		
SO up to ≤ 25%		-0.0299			0.0163	
		(0.0335)			(0.0350)	
SO >25%			0.0299			-0.0163
			(0.0335)			(0.0350)
Controls:						
Operating Revenue Turnover	0.00266	0.00249	0.00249	0.00238	0.00252	0.00252
	(0.00176)	(0.00174)	(0.00174)	(0.00212)	(0.00209)	(0.00209)
Ln Intangible Fixed Assets	0.00514	0.00589*	0.00589*	0.00479	0.00517	0.00517
	(0.00331)	(0.00333)	(0.00333)	(0.00334)	(0.00336)	(0.00336)
Number of Subsidiaries (winsorised)	0.00719***	0.00715***	0.00715***	0.00797***	0.00793***	0.00793***
	(0.000223)	(0.000221)	(0.000221)	(0.000291)	(0.000288)	(0.000288)
MNE Parent Age	3.20e-05	-4.15e-05	-4.15e-05	0.000391	0.000374	0.000374
	(0.000441)	(0.000434)	(0.000434)	(0.000471)	(0.000466)	(0.000466)
Tax Burden	0.00490***	0.00459***	0.00459***	0.00543***	0.00531***	0.00531***
	(0.00117)	(0.00118)	(0.00118)	(0.00128)	(0.00129)	(0.00129)
Foreign Debt Service as a % of GDP	-0.0266***	-0.0289***	-0.0289***	-0.0412***	-0.0414***	-0.0414***
	(0.00574)	(0.00590)	(0.00590)	(0.00581)	(0.00595)	(0.00595)
Property Rights	0.000571	0.000430	0.000430	-0.000901*	-0.000954*	-0.000954*
	(0.000539)	(0.000541)	(0.000541)	(0.000539)	(0.000541)	(0.000541)
Political Stability	0.00267	0.00118	0.00118	0.0379**	0.0363**	0.0363**
	(0.0160)	(0.0160)	(0.0160)	(0.0168)	(0.0168)	(0.0168)
GDP per capita	-0.181***	-0.189***	-0.189***	-0.173***	-0.179***	-0.179***
	(0.0331)	(0.0330)	(0.0330)	(0.0349)	(0.0348)	(0.0348)
State-ownership (SO) (Binary)	0.0196*	0.0139	0.0139	0.0179	0.0165	0.0165
	(0.0113)	(0.0111)	(0.0111)	(0.0112)	(0.0110)	(0.0110)
Authoritarian Rule	0.00651	0.00638	0.00638	0.00636	0.00653	0.00653
	(0.00651)	(0.00653)	(0.00653)	(0.00676)	(0.00674)	(0.00674)
Industry:						
Mining & Quarrying	0.178**	0.168**	0.168**	0.248***	0.246***	0.246***
	(0.0745)	(0.0745)	(0.0745)	(0.0743)	(0.0744)	(0.0744)
High Technology Manufacturing	0.0410	0.0387	0.0387	0.0893	0.0885	0.0885
	(0.0642)	(0.0639)	(0.0639)	(0.0627)	(0.0625)	(0.0625)
Medium Tech Manufacturing	0.0592	0.0553	0.0553	0.0844	0.0830	0.0830
	(0.0644)	(0.0641)	(0.0641)	(0.0626)	(0.0623)	(0.0623)
Medium-Low Tech Manufacturing	0.0907	0.0874	0.0874	0.110*	0.109*	0.109*
	(0.0655)	(0.0652)	(0.0652)	(0.0639)	(0.0636)	(0.0636)
Low Tech Manufacturing	0.0654	0.0637	0.0637	0.104	0.104	0.104
	(0.0653)	(0.0651)	(0.0651)	(0.0635)	(0.0632)	(0.0632)
Total Knowledge Intensive Services	0.122*	0.112*	0.112*	0.175***	0.172***	0.172***
	(0.0654)	(0.0652)	(0.0652)	(0.0638)	(0.0636)	(0.0636)
Less Knowledge Intensive Services	0.122*	0.118*	0.118*	0.162**	0.160**	0.160**
	(0.0649)	(0.0646)	(0.0646)	(0.0632)	(0.0629)	(0.0629)
Observations	13,071	13,071	13,071	13,071	13,071	13,071

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

These findings would support two sets of earlier arguments regarding SO MNEs and their propensity to engage in tax haven. Firstly, these results provides support for the strands of the IB literature that asserts SO MNEs prioritise using their state connections to avoid home country taxes, rather than be used as a vehicle through which the state can use to achieve its national and social objectives. The results show a positive impact on tax haven activity amongst firms with state-ownership of less than 5%, which would support the argument that preferential is treatment afforded to SO MNEs by virtue of their political connections such as reduced likelihood of tax audits, and fewer penalties if caught engaging in tax avoidance activities is exploited by, and incentivises executives of SO MNEs to engage in tax haven FDI (Adhikari et al., 2006; Alcarez et al., 2017; Zhang et al., 2013; Ha and Guyen, 2017). Moreover, given the positive influence of corruption on this finding, it would perhaps also support arguments made by previous studies that corrupt executives seek to exploit state preferential treatments afforded to the firm for their personal gain (Cuervo-Cazurra et al., 2014; Montero, 2008).

However, whilst the results in Table 11 show support for the strand of literature that purports higher levels of state ownership reduces the likelihood of tax haven FDI, the positive and significant coefficient for the interaction between state ownership greater than 25% and corruption would suggest that the relationship between state ownership and tax haven FDI perhaps depends on the level of corruption. In highly corrupt countries, MNEs with higher state ownership are more likely to engage in tax haven activities.

Secondly, the results from Table 11would assert that amongst MNEs with state-ownership of under 25% have a statistically significant greater likelihood to engage in tax haven FDI, whilst those with a level of state ownership greater than 25% were less likely to do so. However, the positive but statistically insignificant results of the Poisson regressions (estimations 7 – 12) suggest that the relationship between corruption, state ownership, and tax haven FDI may not conclusive.

Nonetheless, some of these results were somewhat unexpected, as it is plausible to postulate that governments, especially those of developing countries with arguably a greater need for the additional revenues generated from local MNEs (Montero, 2008; Alcarez et al., 2017) would choose to invest in MNEs to raise needed additional revenues to meet its financial and social obligations. Thus, implicitly or by extension, the government of these countries would choose to not invest in MNEs that engage in tax haven FDI, especially in tax havens that provide little or no benefits other than opportunities for secrecy and tax avoidance. These conflicting results across different levels of state-ownership would indicate SO MNEs behave differently with different levels of state-ownership. Indeed, future research to determine the justification for the decisions of governments from developing countries to invest in MNEs that engage in tax haven FDI would aid in furthering the IB literature.

5.10 Robustness

In addition to the checks explained in Chapter 3, subsection 3.7, the *Index of Economic Freedom* provided by The Heritage Foundation also provides data on corruption. When this data was substituted with those provided by the ICRG, the results remained consistent across all estimations.

5.11 Conclusion

This point of this chapter was to examine the impact of corruption on the propensity of state-owned multinational enterprises (SO MNEs) from developing countries to engage in tax haven FDI, and to expand on existing empirical research (e.g., Zhang et al., 2013; Yi et al., 2022; Shaheer et al., 2019; Qi et al., 2022). The results show corruption to have a positive effect on tax haven FDI activity amongst SO MNEs. Further analysis revealed that amongst the SO MNEs found to engage in tax haven FDI, it was the firms with least levels of state-ownership of between 5 – 10 percent that were most likely to be engaging in tax haven FDI when faced with increasing levels of corruption in their respective home countries. Moreover, SO MNEs were also found to be more aggressive in their tax haven activities compared to non-SO MNEs.

These results add empirical contributions to the IB literature, specifically in the context of outward FDI from developing country SO MNEs. Specifically, it builds on existing research that investigated the impacts of corruption on FDI (see Yang and Mohammad, 2023; Arif et al., 2020; Knutsen et al., 2011; Cuervo-Cazurra, 2008; 2006) and acts as a bridge to other strands of the IB literature that investigated the tax avoidance behaviour of state owned MNEs (see Qi et al., 2022; Iswari et al., 2019; Ha and Guyen, 2017; Zhang et al., 2013; Christensen, 2011).

Given the dependency developing countries place on MNEs for a significant portion of their tax base (UNCTAD, 2017; Palan et al., 2010), there are practical implications to policymakers seeking to invest in home country MNEs during times of increasing corruption within their respective countries. Moreover, fiscal policymakers are in a peculiar position where even in the presence of low corruption, SO MNEs are still found to be engaging in tax haven FDI more so than non-SO

MNEs. This raises questions of whether the investment the state has in these MNEs will be better invested elsewhere so as to better achieve their social and economic objectives.

As with most previous studies of its kind, the analysis of the results was limited by two main factors. First, the dependent variable simply tells us whether or not an MNE has a subsidiary located in a tax haven. It does not indicate the level of investment in that particular tax haven. Addressing this limitation would be extremely difficult given the secrecy offered by tax haven and explicit laws in the favour of MNEs where they are not obliged to disclose the financial positions of subsidiaries located in tax havens. Secondly, as one of the tax haven measures included countries that offered opportunities for genuine economic growth, then future research would be benefited by acquiring detailed information on the activities of subsidiaries located within these tax havens, thus making it easier to differentiate between subsidiaries established solely for tax avoidance purposes or for engaging in real economic activities. Moreover, although it could prove quite challenging to gather credible data on the corrupt practices of executives of SO MNEs (Yi et al., 2022), and given the secrecy nature of tax havens (Palan et al., 2010), an investigation into whether tax haven FDI amongst SO MNEs is driven by corruption on the part of the executives seeking to increase their personal gain, or corruption of the part of state executives perhaps exerting their authority on the executives of SO MNEs to engage in tax haven practices in ways in which they personally benefit at the expense of the state, would also go some way in aiding the decisions of policymakers.

Chapter 6

Authoritarian Rule and Tax Haven FDI

6.1 Abstract

This chapter investigates the impact of property rights and different government leadership systems on the propensity of home-country MNEs to conduct outward tax haven FDI. We did so by examining the relationship between property rights and democratic and autocratic leadership regimes on the likelihood of home-country MNEs to engage in tax haven activities. Empirical investigations were conducted using a large dataset covering 83 developing countries with varying degrees of democratic accountability and property rights protections. Probit and Poisson models were estimated for an unbalanced panel dataset for a total of 83 countries covering a total of 47,661 MNEs with a tax haven presence. The findings show increasing levels of authoritarianism and lower levels of property rights to be positively corelated to tax haven FDI. These results present interesting and empirical evidence to the policymakers of these countries seeking to use national MNEs as a significant part of their tax revenue base.

Keywords: Tax havens; tax avoidance; Foreign direct invest (FDI), developing (emerging) countries; democratic accountability, authoritarian governments

6.2 Introduction

This issue of tax avoidance, and in particular tax avoidance involving the use of tax havens has been a hotly contested political topic since the 2008 financial crisis. An increase in internationalisation has made it much easier for multinational companies to avoid taxes (Palan et al., 2010). Again, much of the attention regarding tax avoidance have concentrated on MNEs from developed countries, with tax avoidance practices of MNEs from developing countries being largely underrepresented in the IB literature. This presents a unique opportunity to contribute to the current international business (IB) literature by investigating the tax haven FDI behaviour of MNEs from developing countries in the context of home country political institutions, namely democratic accountability and recognition of property rights.

The international business (IB) literature contains instances of prior studies that examined home country institutions such as government and legal institutions in the context of property rights and the rule of law and how these impact MNE decisions (see Genschel, Lierse and Seelkopf, 2016; Stoian and Mohr, 2016; Glaeser, La Porta, Lopez-de-Silanes and Shleifer, 2004), and on how democratic or authoritarian government regimes influences MNE decisions (see Gehlbach and Keefer, 2011; Zaouali, 2014; Mathur and Singh, 2013; Olson, 1993). Some, albeit fewer studies further investigated the relationship between democratic and autocratic regimes, and tax haven FDI (see Kemme, Parikh and Steigner, 2021; Markle, 2016).

Despite these studies, their context to developing countries is underdeveloped. For example, Genschel et al. (2016) investigation of the ability of tax haven countries to attract FDI from countries classed as democratic or autocratic included sample countries consisting of both

Organisation for economic Cooperation and Development (OECD) and developing countries. Andersen, Johannesen, Dreyer, Lassen and Paltseva (2017) had a similar approach in their use of a wide sample of worldwide countries, however their focus was on MNEs operating in the petroleum industry, and their analysis was based on the total size of bank accounts within tax haven countries from autocratic countries which was used as a direct measure of political rents hidden away by the political elites from these countries. Kemme et al. (2021), again concentrating on worldwide countries and MNEs, their study highlighted other areas where the literature can be developed from the perspectives of developing countries. Firstly, their focus was not on governmental or legal institutions of home countries, but rather on the propensity of income inequality in autocratic countries to impact on tax haven FDI amongst the country's MNEs. Secondly, they acknowledged that their analysis using autocracy as a binary variable is highly subjective, and we further argue that by treating either democracy or autocracy as separate binary variables diminish the role that the transition process between democracy and autocracy, or vice versa, plays in relation to tax haven FDI amongst home country MNEs.

Jones and Temouri (2016) had noted the demand for tax havens will increase over time, and Gravelle (2015) noted tax havens are of interest to governments worldwide. Hence, this chapter seeks to address this gap by expanding Bak and Moon (2016) study to developing countries. They found that authoritarian governments rely on revenues generated by taxes on MNE income for both their stability and survivability and this paper argues that a rise in authoritarianism will see a corresponding rise in tax haven FDI. Unlike their democratic counterparts, autocratic governments are not usually held accountable to their citizenry for the (mis)use of public funds (Genschel et al., 2016), thus autocrats have little or no restrictions on the distribution of economic rents to deter

elite dissidents (Bueno de Mesquita and Smith, 2010; Ahmed, 2012; Morrison, 2009). This chapter further argues that to deter dissent among its business class that can possibly lead to their downfall (Kemme et al., 2021; Mathur and Singh, 2013), autocrats will directly or indirectly allow its MNEs to engage in tax haven FDI, thus leading to positive corelations between autocracy and tax haven FDI.

The main theoretical contribution on this chapter combines Rugman (1981) and Dunning (1977; 1988; 1995; 1998; 2000) eclectic paradigm with the institution-based view theory (DiMaggio and Powell, 1983; Powell and DiMaggio, 1991), to investigate how the type of leadership and the strength of property rights laws of developing countries facilitate outward tax haven FDI amongst its MNEs. A set of firm and country level factors were used to test hypotheses on an unbalanced panel dataset that included 242,028 observations and comprised of a 125 developing countries covering the period 2008 – 2018. Orbis provides financial and locational data on MNEs worldwide, whilst the ICRG and the Index of Economic Freedom provides information on democratic accountability and property rights respectively. Analysis was conducted using pooled probit and Poisson count-data econometric specifications. The findings made a number of key empirical contributions to the IB literature. It found that MNEs from more authoritarian countries were more likely to engage in tax haven FDI.

The rest of this chapter details the underpinning theoretical and empirical framework, which is followed by a description of additional relevant data, main variables and empirical model. This is followed by the empirical findings and a discussion of the findings, and a conclusion.

6.3 Authoritarian Rule and its Relationship to Tax Haven FDI and Hypotheses

It is well documented in the IB literature that the determinants of outward tax haven FDI from developing countries are largely dependent on institutional frameworks in MNEs home (see Bucovetsky, 2014; Chari and Acikgoz, 2016; Chu et al., 2015). Other studies have shown that property rights and risks of expropriation, and the presence of legal institutions that offer adequate redress to developing country MNEs further influenced their decisions to conduct outward FDI decisions (see Alcarez et al., 2017; Montero, 2008; Parker (1998); Rugman and Collinson (2009) and Globerman and Shapiro, 2001). In support of Yamakawa et al (2008) and Holmes et al. (2013), Cuervo-Cazurra and Ramamurti (2015) noted that MNEs from developing countries actively seek to escape unfavourable home country institutional environments by conducting tax haven FDI in a bid to minimise their investment transparency. Others have posited that this institutional escape can be attributed to political instability and uncertainty of governments (see Stoian and Mohr, 2016; Stal and Cuervo-Cazurra, 2011); undeveloped and/or weak home country institutions (Wu and Chen, 2014); political elites exerting control over the judiciary system (Montero, 2008; Cuervo-Cazurra and Ramamurti, 2015; Stoian and Mohr, 2016). Stoian and Mohr (2016) referred to MNEs responses to unfavourable home institutions as institutional escape and empirical findings have shown MNEs engage in outward tax haven FDI to escape competitive disadvantaged environments at home (see Kemme et al., 2021; Markle, 2016; see Witt and Lewin, 2007; Cuervo-Cazurra and Genc, 2008; Yamakawa et al., 2008).

The incentives of governments to adjust business environments are conditioned by domestic institutions at home (Genschel et al., 2016). There is consensus in the IB literature that democratic governments are institutionally constrained by the sensitivity of their MNE tax policies to the

implications of their ability to provide an adequate welfare system (Genschel et al., 2016; Kemme et al., 2021; Gehlbach and Keefer, 2011), however they are usually better at attracting FDI given the flexibility they allow in their tax policies, and strong legal institutions that protects property rights (La Porta, Lopez-de-Salines, Shleifer and Vishny, 1999; Glaeser et al., 2004; Mathur and Singh, 2013). On the contrary, autocratic governments have been seen to be less flexible in regard to adjusting their policies due to the low levels of inclusiveness within their political institutions (Kemme et al., 2021; La Porta et al., 1999). Moreover, they have been also shown to have less incentives to adjust their tax policies given that they are largely insensitive to the general welfare of their citizenry (La Porta et al., 2004; Glaeser et al., 2004), and they are less likely to attract inward FDI given the less emphasis that they place on property rights and ease of which they expropriate assets of dissidents and MNEs (Kemme et al., 2021; Genschel et al., 2016; La Porta et al., 1999; Montero, 2008).

Bueno de Mesquita and Smith (2010) and Ahmed (2012) noted that in addition to the expropriation of assets belonging to political dissidents, autocratic governments rely on revenues from MNEs to provide financial and material benefits to political dissidents to ensure their stability and survivability (Smith, 2004; Morrison, 2009), and given their inability to effectively attract inward FDI, a greater reliance is placed on income generated from home country MNEs (Kemme et al., 2021; Boix and Svolik, 2013; Gehlbach and Keefer, 2011). Moreover, Bak and Moon (2016) further noted that regardless of the source of income, its distribution is subjected to commitments on both the government and political dissidents, and the economic ties between autocratic leaders and elites are usually long-term in nature, thus an opportunistic and short-sighted exit can be very costly for either party. Given the greater discretion authoritarian governments have over FDI

related policies and to the allocation of economic rents compared to their democratic counterparts (Bak and Moon, 2016), and autocratic governments not being held accountable in the same manner as democratic governments for the use, or misuse of economic rents obtained from MNEs, authoritarian governments remain unencumbered when allocating economic rents to paying off political stakeholders (Jensen and Wantchekon, 2004).

Furthermore, Geddes et al (2014) suggested that dictators consider risks of post-exit punishment as a mitigating factor into their actions while in office. This was later corroborated by Bak and Moon (2016, p2000) and Goemans et al (2009) who noted that the leaders of authoritarian governments are more likely to leave office by irregular means and face much more severe penalties post tenure compared to democratic leaders. Bak and Moon (2016) noted that autocratic leaders are just as concerned about defection among its elites, as are elites afraid of being purged or assassinated. Thus, authoritarian leaders secure their political survival by employing two key strategies to ensure the patronage of elite members of society.

First, Wintrobe (1998) found that where authoritarian leaders have used repressive tactics and exert pressure to both prevent and survive challenges from elites, those elites often feigned allegiance. Thus, in an attempt to counteract feigned loyalty, Bueno de Mesquita et al (2003) noted that the first key strategy of authoritarian leaders is to provide material benefits to buy off key supporters and elite dissenters. However, Magaloni (2008) noted that in the absence of any binding commitments between either party, subsequent studies have casted doubt on whether material and financial benefits alone are sufficient to prevent defection and ease issues of mistrust between elites and authoritarian leaders. An argument can be made that the receiving of material and

financial benefits are insufficient since assets and preferential benefits given to political and business elites are dependent on their continued loyalty and support to the government, these assets can later be expropriated should the government in power arbitrarily deemed these elites disloyal (Bak and Moon, 2016; Morrison, 2009; Smith, 2004). Thus, vis-à-vis their liquid forms of capital, we argue that elite MNE owners will be attracted to the appeal of tax havens to protect against future risks of expropriation. This was supported by Kemme et al. (2021) who noted that MNEs from authoritarian countries engaging in tax haven FDI do so to maintain anonymity and avoid detection of their illegal activities, with Li (2006) further asserting that in such instances, MNEs that engage in tax haven FDI do so as a risk diversification, rather than a tax avoidance measure. This paper argues that either instance will lead to an increase in tax haven FDI.

The second strategy employed by authoritarian governments to overcome the commitment issue, and to prevent dissent and to ensure their stability and longevity, is to enter into what Bak and Moon (2016) referred to as 'power-sharing institutions' whereby the government agrees to commit a share economic rents and spillovers to the elites, who in turn become committed to the status quo authority of autocratic leaders (see Gehlbach and Keefer, 2011; Boix and Svolik, 2013). Brown et al (2004) and Lipsey and Sjöholm (2004) had earlier highlighted how FDI rents have been used for political purposes and autocratic stability. Our previous argument also holds in this instance as the assets and benefits acquired during any power-sharing arrangements can be arbitrarily reneged on by authoritarian states, thus MNEs will seek the protections afforded by tax havens.

The main implications of a review of the IB literature are that revenues from MNEs are relied upon by democratic governments to cater to the welfare of the citizenry and ultimately to remain in

power, whilst authoritarian governments rely on revenue from MNEs to deter elite defection and to ensure their own future stability and survivability (Genschel et al., 2016). Secondly, MNEs from increasingly autocratic countries can be expected to take measures to protect against future risks of expropriation of assets and benefits granted to them by the state to secure their patronage and loyalty, thus they will seek the anonymity and protection from expropriation offered by tax havens, which brings us to our first hypothesis:

H_1: *There is a positive relationship between autocracy and tax haven FDI.*

6.4 Data, Variables and Empirical Model

Chapter 3 outlines the data, data sources and construction of the dependent variable used in this chapter.

The ICRG provides political risk ratings to countries on a comparable basis by assigning risk points to a set of predetermined risk subcomponents (ICRG, 2018). The political risk subcomponent of concern in this chapter is democratic accountability, which is used as a measure of democratisation in the 83 countries covered in this chapter. Democratic accountability is an assessment of how responsive a government in power is to its people and scores are awarded on the responsivity of the government to its people – the less responsive it is, the more violently it will fall in more autocratic societies, and less so in democratic societies that are more responsive to its citizenry.

Thus, the ICRG classifies types of governance systems in countries on a scale ranging from alternating democracies (most democratic) to autarchies (totally autocratic)[20]. Although the government in power in autocratic countries can sometimes facilitate quasi-democratic processes, the main feature of the political system is whether or not the current government is subjected to an election that is open to full participation for political opponents. The ICRG assigns scores ranging from 0 – 6 with lower scores representative of higher risks. Lower scores were assigned to countries with autocratic leadership structures, and higher scores (lower risks) assigned to countries with alternating democracies (ICRG, 2018)[21].

Data on, and source of property rights and rule of law are detailed in Chapter 3, subsection 3.4. Further review of the IB literature further cements conclusions that strong property rights and rule of law are not a tenets of autocratic governments (see Genschel et al., 2016; Li, 2006; Glaeser et al., 2004; La Porta et al., 1999). Genschel et al. (2004) and La Porta et al. (2004) further noted that when some governments become powerful enough, policies are designed to achieve the advantages of those in power, and not necessarily those of its citizenry. Although North, Wallis and Weingast (2009) mentioned historical instances where countries such as Imperial Germany and Singapore achieved strong property rights, the realisation of said property rights by MNEs were low given that the rule of law remains at the discretion of the government (Alesina, 1988). Genschel et al. (2016) and La Porta et al. (1999) notes that the rule of law provides additional checks and balances on ruling governments, and prevents illegal expropriations, and reduces the probability of expropriations by legal manoeuvres such as tax increases. Whilst democratic governments score

[20] See Appendix 6.1 for a comprehensive list of the ICRG's governance types and their features.
[21] By default, the ICRG assigns risk scores in descending order of risks (lower scores equate to higher risks). However, for symmetry across all variables, democratic accountability was re-coded in ascending order of risks with lower scores representative of highly democratic governments, and higher scores representative of highly autocratic governments.

highly on measures of rule of law and property rights (La Porta et al., 2004; Przeworski, Alvarez, Antoni and Limongi, 2000), others have argued that authoritarian governments are defined by weak, or the absence of, government checks and balances, rule of law, and property rights (Genschel et al., 2016; Li, 2006; Olson, 1993).

There is a clear scarcity of empirical studies that seeks to examine the relationship between autocratic governments and institutional quality vis-à-vis tax haven FDI. Thus, a plausible overview of the current conceptual assertions is that judicial independence, upholding of property rights and rule of law are not highly ranked features of autocratic governments (Witt and Lewin, 2007; Wu and Chen, 2014; Hadenius, 1992; Brown et al., 2004; Lipsey and Sjöholm, 2004). Notwithstanding, others have further conceptualised that the absence, or low ranking of these features are not necessarily features of autocratic governments (Alesina, 1988), but rather these features *define* autocratic governments (Genschel et al., 2016; Li, 2006; Olson, 1993). Hence, it is further plausible that MNEs situated in countries with greater levels of autocracy react to the rule of the government, and not necessarily to the rule of law. Thus, this paper argues that tax haven FDI amongst MNEs from authoritarian countries react to the level of autocracy in their home countries, and not to the rule of law. Thus, this brings us to our second hypothesis:

***H_2**: There is a negative relationship between rule of law and tax haven FDI.*

6.5 Dependent Variable

Chapter 3, subsection 3.5 outlines the derivation of the dependent variable used in this chapter, and the tax haven measures used in subsequent analysis are the "dots" tax havens found in Table 2.

6.6 Empirical Model

The probit and Poisson models estimated in this research were adapted from similar models found in the IB literature (see Driffield et al, 2013; Driffield and Munday, 2000; Wiersema and Bowen, 2008). The models specified followed Jones and Temouri (2016) by utilising various vectors that captured differences in firm-specific characteristics that have been shown to be major determining factors in the ability of MNEs to conduct FDI. An additional vector was used to captured to capture industry characteristics, along with control variables at the country level. The specifications used were variations of the following model:

Equation 3:

$$TaxHavenFDI = \beta_0 + \sum_{k=1}^{6} \beta_k FSA + Tax + \gamma_0 Authoc + \gamma_0 Inst + \mathcal{E}$$

where $TaxHavenFDI$ is the binary dependent variable that captures capturing MNEs and equals 1 should the MNE have a subsidiary located in any of the tax haven measures, and 0 if it does not. The vector FSA captures firm characteristics of MNEs included in the sample. Tax captures MNEs overall tax burden. $\gamma_0 Authoc$ captures the the degree of authoritarianism in MNEs home countries. $\gamma_0 Inst_{it}$ measures home country institutional and economic factors such as property rights, rule of law and economic development. $\mathcal{E}$ is the error term.

6.7 Empirical Results and Discussion

Table 13 below shows the descriptive statistics for each variable used in the following analysis. Included are the total number of observations, mean, standard deviation, and minimum and maximum values. **Table 22** in Appendix 6.2 shows the correlation matrix between each variable and show no issues of multicollinearity. From an initial observation, MNEs with at least one subsidiary in the Hines and Rice (1994) and Jones and Temouri (2016) ‘‘dots’’ tax havens, represented 12 and 13% respectively. Average number of subsidiaries located across the tax haven measures, grouped by parent ID, averaged 873 across Hines and Rice (1994) and 928 across Jones and Temouri (2016) with standard deviations of 628 and 657 respectively.

The average authoritarian rule score across countries was 1.28 with a variance of 1.45. The average age of the parent MNE was 21.18 years with a standard deviation of just over 17 years suggesting there is a moderate degree of age variation in MNE age. The average tax burden was seen 77.06% with a variance of 8.57. Scores for political stability, property rights, and rule of law had an average score of 0.18, 45.30, and 0.40 respectively with a variance of 0.77, 19.14, and 0.67 respectively.

Table 13: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Dependent Variables:					
Hines & Rice Dots (1994) Dummy	83,829	0.12	0.32	0	1
Jones & Temouri (2016) Dummy	83,829	0.13	0.34	0	1
Hines & Rice (1994) Count	83,829	873	628	70	2040
Jones & Temouri (2016) Count	83829	928	657	70	9364
Leadership Control					
Authoritarian Rule	83,829	1.28	1.45	0	6
Institutional Controls:					
Political Stability	83,829	0.18	0.77	-3.31	1.22

Property Rights	83,829	45.30	19.14	10	100
Rule of Law	83,829	0.40	0.67	-2.61	1.43
Economic Development Controls:					
GDP Growth	83,829	2.49	2.02	0	10
GDP per capita	83,829	0.51	0.50	0	1
MNE Controls:					
Ln Operating Revenue Turnover	83,829	0.83	6.76	-0.24	472.40
Intangible Fix Assets	83,829	6.70	3.62	0.00	18.00
Number of Subsidiaries	83,829	8.37	19.43	1	85
MNE Parent Age	83,829	21.18	17.48	1	100
Tax Burden	83,829	77.06	8.57	44.1	100

Notes:

1. *Authoritarian Rule was re-coded in increasing order of autocracy (higher scores equates more autocratic government)*
2. *Operating Revenue Turnover naturally logged and expressed in US$M.*
3. *To account for non-convergence issues during analysis caused by the wide variances between MNEs, number of subsidiaries was winsorised at the 95th percentile.*
4. *Having winsorised number of subsidiaries, both tax haven counts were also winsorised at the 95th percentile.*

Tables 14 below shows the results of the various specifications of Equation 3. The results reported are the marginal effects of each control variable on the dependent variable – that is, the probability effect of each variable on the likelihood of MNEs to conduct tax havens FDI. The models used in this paper differentiates between MNEs binary decision of whether or not to conduct tax haven FDI, and the total number of subsidiaries that an MNEs might own, which, being a count variable, the models estimated included pooled probit and Poisson analysis to support the results of the probit models.. The estimated models also incorporated time fix effects to allow for changes over time, explanatory variables were lagged to improve the effects of inferences, and standard errors were clustered at the firm level to ensure greater reliability of inferences between MNEs.

Table 14: Relationship between Authoritarian Rule and Tax Haven FDI (Marginal Effects)

	Probit Estimations				Poisson Estimations			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
VARIABLES	Hines & Rice 1994	Hines & Rice 1994	Jones & Temouri 2016	Jones & Temouri 2016	Hines & Rice 1994	Hines & Rice 1994	Jones & Temouri 2016	Jones & Temouri 2016
Leadership:								
Authoritarian Rule	0.176***	0.146***	0.219***	0.186***	0.0293***	0.0231***	0.0393***	0.0320***
	(0.0157)	(0.0166)	(0.0149)	(0.0161)	(0.00223)	(0.00247)	(0.00240)	(0.00270)
Institutional Controls:								
Political Stability	-0.292***	-0.254***	-0.192***	-0.198***	-0.0487***	-0.0421***	-0.0427***	-0.0408***
	(0.0338)	(0.0400)	(0.0319)	(0.0375)	(0.00461)	(0.00548)	(0.00489)	(0.00581)
Property Rights	-0.00221		-0.00768***		-0.000608***		-0.00147***	
	(0.00153)		(0.00134)		(0.000204)		(0.000210)	
Rule of Law		-0.147		0.0917		-0.0215		0.00983
		(0.0902)		(0.0827)		(0.0131)		(0.0139)
Economic Controls:								
GDP Growth	-0.0313***	-0.0354***	-0.0454***	-0.0467***	-0.00626***	-0.00702***	-0.00993***	-0.0102***
	(0.00677)	(0.00700)	(0.00631)	(0.00641)	(0.00105)	(0.00110)	(0.00116)	(0.00119)
GDP per capita	-0.405***	-0.577***	-0.328***	-0.423***	-0.0574***	-0.0887***	-0.0574***	-0.0798***
	(0.0677)	(0.0996)	(0.0579)	(0.0847)	(0.00899)	(0.0143)	(0.00906)	(0.0144)
Controls:								
Operating Revenue Turnover	0.176***	0.146***	0.219***	0.186***	0.0293***	0.0231***	0.0393***	0.0320***
	(0.0157)	(0.0166)	(0.0149)	(0.0161)	(0.00223)	(0.00247)	(0.00240)	(0.00270)
IATA	0.0218***	0.0218***	0.0239***	0.0244***	3.87e-05	3.23e-05	6.16e-05	6.47e-05
	(0.00646)	(0.00647)	(0.00763)	(0.00773)	(8.00e-05)	(8.04e-05)	(8.80e-05)	(9.12e-05)
Number of Subsidiaries	-0.592***	-0.565**	-0.838***	-0.824***	-0.114***	-0.109***	-0.163***	-0.159***
	(0.226)	(0.229)	(0.232)	(0.234)	(0.0314)	(0.0316)	(0.0356)	(0.0357)
MNE Parent Age	0.0370***	0.0373***	0.0378***	0.0380***	0.00369***	0.00372***	0.00391***	0.00395***
	(0.00100)	(0.00101)	(0.00119)	(0.00119)	(7.45e-05)	(7.54e-05)	(7.27e-05)	(7.39e-05)
Tax Burden	0.00368***	0.00375***	0.00662***	0.00697***	0.000784***	0.000830***	0.00126***	0.00135***
	(0.00107)	(0.00106)	(0.000976)	(0.000965)	(0.000134)	(0.000130)	(0.000147)	(0.000144)
Year Dummies	Yes	Yes	Yes	Yes				
Observations	83,826	83,829	83,826	83,829	83,826	83,829	83,826	83,829
Percent Correct	92.27	92.29	90.55	90.55				
Pseudo R^2	0.396	0.396	0.366	0.364				

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

The results show overall support for both of our hypotheses. Moreover, support was found for the FSA-CSA-institutional theory strand of the IB literature that outlines how MNEs with stronger financial and more subsidiaries use these advantages to escape home country factors such as high rates of tax at home (see Jones and Temouri, 2016; Palan et al., 2010, Eden, 2009).

Hypothesis 1 formed the main investigative concern of this chapter and states that there is a significant relationship between authoritarian rule and tax haven FDI. Estimations 1 – 4 tested this hypothesis and the results were conclusive. Across all estimations, the results were positive and significant at $p<0.01$. The coefficients across all four (4) estimations, when expressed as an elasticity, means that as the level of autocracy increases by 10%, MNEs were 14.6 – 21.9% more likely to conduct tax haven FDI. These results were also strongly supported by the results of the poisson regressions across estimations 5 – 8.

These results[22] support Kemme et al. (2021) and Mathur and Singh (2013) who also found a positive relationship between autocracy and tax haven FDI. Moreover, given that autocratic governments simultaneously impose strict criteria on revenues exiting the country as these revenues are relied on to ensure their survivability and stability and to preventing dissent among its business elites (Kemme et al., 2021; Genschel et al., 2016; Bak and Moon, 2016), and Magaloni (2008) assertion that material and financial benefits are not enough to appease business elites if these can be arbitrarily expropriated by the government, thus, to protect against risks of expropriation, these findings supports our conceptual argument that autocratic governments

[22] As a further robustness check, the CSP also captures and publishes annual democracy and autocracy scores for every country included in sample set. To ensure these results were due to the impacts of autocracy and not democracy, all models were estimated substituting democratic accountability scores with polity IV scores. The results remained consistent, thus providing further support to the results reported.

passively or actively encourage tax haven FDI as a means of alleviating the fear of expropriation amongst business elites.

Moreover, given that autocratic governments are not held to account for the allocation of economic rents to dissidents (Ahmed, 2012; Morrison, 2009), and the ease at which autocrats can subsequently expropriate these economic rents (La Porta et al., 1999; Kemme et al., 2021), then conceptually, it stands to further reasons that MNEs would seek protections from expropriation for the economic rents provided on condition of their continued support, hence will insist on the ability to engage in tax haven FDI in addition to the material benefits. Furthermore, given these findings, it is possible that the stakeholders of MNEs located in authoritarian countries, oftentimes the elites (Schnieder and Soskice, 2009) might stipulate the freedom to invest wherever they decide as a condition of their patronage, although further research in this area will be needed to support this assertion and to achieve a clearer understanding of the relationship between authoritarian governments, elite MNE owner stakeholders, and tax haven FDI.

However, this raises additional questions for policymakers of these countries. If authoritarian governments, given their inability to attract FDI inflow (Ahmed, 2012; Morrison, 2009), thus rely on the revenues from national MNEs to remain in power (Zhang et al., 2021; Bak and Moon., 2016), then further research to explain these findings in more detail would aid policymakers in their decisions.

Support was found for hypothesis 2, which states that there is an insignificant relationship between rule of law and tax haven FDI. Again, estimations 1 – 4 tested this hypothesis and the effects of

the rule of law on MNEs propensity to engage in tax haven FDI was insignificant across both estimations. These results support La Porta et al. (1999) and La Porta et al. (2004) who asserted that weak property rights and little adherence to the rule of law increase the risk of illegal expropriations by the state, thus MNEs will seek the jurisdictional advantages afforded by tax havens to avoid escape these institutional risks (Kemme et al., 2021). Moreover, these results would also partially support the strand of the IB literature that argues that the absence of rule of law and property rights in not a feature of, but defines autocratic governments (Genschel et al., 2016; Li, 2006; Olson, 1993).

However, whilst no significant relationship was found between rule of law and tax haven FDI, a significant relationship was found between property rights – often a measure of the degree of rule of law for private property (La Porta et al., 1999; La Porta et al., 2004) and tax haven FDI, however only across the broader Jones and Temouri (2016) tax haven measure. Albeit, these results are in line with the expectations of greater levels of authoritarianism. The results show that as property rights reduces, tax haven FDI increases, providing further examples of what Palan et al. (2023) and Sharafutdinova and Dawisha (2017) referred to as institutional arbitrage.

Across political stability and the economic controls, the results were somewhat expected. Countries with lower levels of political instability, and lower levels of economic development, as measured by GDP growth and GDP per capita of 15000 USD or less, were very likely to conduct tax haven FDI. These results were significant at $p<0.01$ across all 8 estimations. However, these economic results highlight areas for further research. Assertions from previous studies that countries with highly authoritarian leadership finds it difficult to attract inward FDI given the little

emphasis for rule of law and property rights (see La Porta et al., 2004; Glaeser et al.,2004; Kemme et al., 2021), and further assertion from Bueno de Mesquita and Smith (2010) and Ahmed (2012) that autocratic governments rely on the revenues from MNEs for their survivability, then further research in this area will go some way in improving the current IB literature. Further research will likely encounter further limitations if attempts are made to aggregate loss of revenue due outward FDI into tax havens given issues of secrecy and non-obligation to provide financial reports of assets held in tax havens. Moreover, dissidents in autocratic countries will most likely insist on anonymity given the dire consequences if caught engaging in disallowed, or allowed, tax haven FDI (Kemme et al., 2021; La Porta et al., 1999).

6.8 Conclusion

This chapter examined the relationship between autocracy and the propensity of MNEs to engage in tax haven FDI, and the effects of property rights on tax haven FDI. It argued that a rise in autocracy will see a corresponding rise in tax haven FDI by MNEs. Our second argument was conceptual in nature and that there is no significance between property rights and tax haven FDI, as the effects of the absence of property rights is already captured by MNEs responses to autocracy. The empirical findings supported our arguments, and the results appeared consistent across various robustness tests.

The findings of this chapter highlight further areas of research that the existing IB literature can benefit from. First, there is consensus that autocratic governments rely on revenues from FDI and its national MNEs for their stability and longevity in power (Ahmed, 2009; Morisson, 2009), thus further investigations into whether or not autocratic governments have a superior FDI inflow

compared to total revenue outflow amongst national MNEs will go some way to explain whether or not the positive relationship between tax haven FDI and autocracy is sustainable in the long-term. Moreover, the IB literature can be further advanced by further investigations into whether or not the incentives given to business elites by autocrats in return for their support (Bak and Moon, 2016; Morrison, 2009), extends to the allowance, implicit or otherwise, of MNEs to engage in tax haven FDI.

Secondly, Gastanaga et al (1998) noted that MNEs from developing countries have adapted to the political institutions of their home countries to the point where they can assert a level of control over governments and might actually prefer the predictability and stability of authoritarian governments, rather than the unpredictability of a democratically elected government. Again, further research into whether or not the tax haven activities of MNEs from these countries are as a result of this control over autocratic governments would be beneficial in expanding the current IB literature regarding tax haven FDI amongst MNEs from autocratic emerging countries.

Lastly, this chapter was limited to filling an existing gap in the IB literature by investigating how the impact of democratic accountability influences tax haven FDI, and not on necessarily on how authoritarian governments might react to MNEs conducting outward tax haven FDI. Overall, and being the first of its kind to study the relationship between democratic accountability and tax haven FDI across the developing countries as a whole, this paper show autocracy to be positively correlated to tax haven FDI.

Chapter 7

Conclusion

The last four (4) decades have seen significant increases in total global FDI, the vast majority of which are accounted for by multinational enterprises (MNEs). Given that much of these FDI flows are routed through tax havens and other secrecy jurisdictions, this presents significant issues for countries, particularly developing countries, that rely heavily on these capital flows as a part of their tax base. Moreover, developing countries further exacerbate their inability to effectively tax local MNEs as these firms are significantly more likely to engage in tax avoidance practices in the presence of internal risks. Hence, this thesis utilised panel data at the firm and country level to concentrate on three areas of internal conflict and their relationship to tax haven FDI amongst developing country MNEs, covering the time period 2008 – 2018.

In regard to FDI into tax havens, this thesis makes a number of contributions to the international business (IB) literature. Firstly, on a holistic level, all three empirical chapters provides valuable evidence to support the postulations of institutional theory as posited by DiMaggio and Powell (1983) and Powell and DiMaggio (1991), in that MNEs must adapt to what they see, and what Jones and Temouri (2016) referred to as exogenous market imperfection. These imperfections this thesis concentrated on include the presence of conflicts, tensions, violence, corruption and issues concerning democratic accountability within MNEs home countries. The limited empirical evidence was perhaps somewhat surprising given the well documented need developing countries place on tax revenues from MNEs. Moreover, the results of the first empirical chapter specifically highlights the heterogeneity in the tax haven behaviours seen across MNEs operating across

different industries, whilst also highlighting the homogeneity of such tax haven behaviours across firms operating in comparable industries. Further evidence was provided to show at what point homogeneity in tax haven activity was seen across all MNEs, irrespective of the industry they operate in, in the presence of increasing risks and other *imperfections* within their home countries, such as corruption and issues regarding the democratic accountability of ruling governments.

Furthermore, whereas previous studies that examined FDI in risky areas would have concentrated on univariate measures of risk such as conflict (see Driffield et al., 2013) or political violence (see Witte et al., 2017), this study used a multivariate approach to measures of risk. Hence, by distinguishing between different types of, and levels of risks, it was possible to demonstrate the effect of each type of risk on MNEs propensity to engage in tax haven FDI.

Secondly, previous studies linking FDI with tax haven usage are very limited, and existing studies have concentrated mainly on Asia as a whole, or on specific Asian countries such as South Korea, as was the focus of Driffield et al. (2021). Recently, sub-Saharan Africa is also fast becoming largely represented in the IB literature (see Kibria et al. (2020). This thesis, to the best of our knowledge, is the first to look all developing countries as a whole, hence, another novel addition to the IB literature.

Thirdly, the second empirical chapter tested the effects of corruption on the likelihood of state-owned (SO) MNEs to engage in tax haven FDI. To the best of our knowledge, this thesis is the first to present detailed findings covering a ten-year period, on the effects of corruption on the likelihood of SO MNEs to own subsidiaries located in tax havens. A unique feature of the dataset

used is that it tracks state ownership of MNEs at varying degrees of ownership. The findings of the second empirical chapter revealed that in the presence of corruption, MNEs are more likely to invest in tax havens. However, further analysis revealed that held true for MNEs with the lowest level of state ownership. These differences would not have been revealed had separate analyses not been conducted at varying degrees of state ownership. Moreover, the findings further revealed that SO MNEs were more likely to invest across tax haven countries that offer little or no opportunities for real economic growth. This distinction would not have been uncovered had a single, general measure of tax havens been used.

The final empirical chapter investigated MNEs propensity to invest in tax haven countries given how democratic, or autocratic, the ruling government is. The results were somewhat surprising and showed that autocracy increased the likelihood of MNEs to conduct tax haven FDI. With increasing levels of autocracy, property rights were seen to have no significance on the propensity of MNEs to engage in tax haven FDI.

The issue of tax haven FDI, from an institutional theory perspective though, should not be narrowed down to an overly simplified story of MNEs establishing subsidiaries in tax haven countries to escape unfavourable institutions at home. It is important to note that other theories such as Dunning (1977; 1988; 1995; 1998; 2000) eclectic OLI paradigm and Rugman (1981; 2009; 2010) have put forward widely accepted reasons that MNEs MUST take into consideration concerning their decisions to conduct FDI. These can include, but not limited to, reasons for growth, new markets, and asset protection. Some tax havens do in fact offer all these benefits.

Hence, asset protection through the facilitation of tax avoidance is a key, but not the only driver of tax haven FDI amongst firms looking to escape imperfect institutions at home.

A number of policy conclusions can be drawn from the results of this thesis. Firstly, as all three empirical chapters show a propensity for MNEs to invest in tax havens, this could very likely reduce the tax revenue bases of home country governments. Since the decisions taken by MNEs to invest in tax havens are made in the face of poor institutions such as corruption, governments holding themselves less accountable, less regard for property rights, and possible poor governmental management of the economy and finances of their country, then to a large extent, a strong argument can be made for the case that governments have a degree of influence over the decisions of its MNEs to shift taxable resources into tax havens. Hence, government themselves are perhaps strongly implicit in the reduction of the tax base of their country. Thus, when seeking to further expand their tax base, it would be prudent for policymakers to offer sufficient incentives for local MNEs to deter their tax haven decisions.

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Appendices

3.5 Political Stability

Political Stability and Absence of Violence/Terrorism

Political Stability and Absence of Violence/Terrorism measures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism. This table lists the individual variables from each data source used to construct this measure in the Worldwide Governance Indicators. Please note that the table refers to the questions in the most recently used edition of each source in the WGI. Questions in some sources have changed over time and some sources have been discontinued from the WGI. For more details, please refer to the data files for each source available at www.govindicators.org.

Representative Sources:

EIU Orderly transfers
Armed conflict
Violent demonstrations
Social unrest
International tensions / terrorist threat

HUM Political terror scale

IJT Security risk rating

IPD Intensity of internal conflicts: ethnic, religious or regional
Intensity of violent activities…of underground political organizations
Intensity of social conflicts (excluding conflicts relating to land)

PRS Government stability
Internal conflict
External conflict
Ethnic tensions

WMO *Protests and riots.* The risk that the nature and impact of protests and riots (excluding those related to labour) cause damage to assets or injure or detain people, particularly if these disrupt normal movement, business operations, and activity.
Terrorism. The risk that the activities of any non-state armed group or individual cause (or are likely to cause) property damage and/or death/injury through violence. This risk definition includes terrorism, which uses violence (or the threat of) to advance a political cause, and similar tactics used by "for profit" organised crime.
Interstate war. This risk measures resultant impacts (death/property damage) and means, covering the spectrum from targeted military strikes against limited targets to full-scale war with the aim of changing the government and/or occupation.
Civil war. The risk of intra-state military conflict, in the form of an organised insurgency, separatist conflict, or full- blown civil war, in which rebels/insurgents attempt to overthrow the government, achieve independence, or at least heavily influence major government policies.

Non-representative Sources:

HRMRight to Freedom from Disappearance
Right to Freedom from Extrajudicial Execution
Right to Freedom from Arbitrary Political Arrest
Right to Freedom from Torture and Ill-Treatment
WCYThe risk of political instability is very low
WJPFactor 5.2: Civil conflict is effectively limited

Code Data Source Name:

ADB African Development Bank Country Policy and Institutional Assessments
AFR Afrobarometer
ASD Asian Development Bank Country Policy and Institutional Assessments
BPS Business Enterprise Environment Survey
BTI Bertelsmann Transformation Index
CCR Freedom House Countries at the Crossroads
EBR European Bank for Reconstruction and Development Transition Report
EIU Economist Intelligence Unit Riskwire & Democracy Index
EQI European Quality of Government Index (Underlying Survey Data)
FRH Freedom House
GCB Transparency International Global Corruption Barometer Survey
GCS World Economic Forum Global Competitiveness Report
GII Global Integrity Index
GWP Gallup World Poll
HER Heritage Foundation Index of Economic Freedom
HRM Human Rights Measurement Initiative
HUMCingranelli Richards Human Rights Database and Political Terror Scale
IFDIFAD Rural Sector Performance Assessments
IJTiJET Country Security Risk Ratings
IPDInstitutional Profiles Database
IRPAfrican Electoral Index
LBOLatinobarometro
MSIInternational Research and Exchanges Board Vibrant Information Barometer
OBIInternational Budget Project Open Budget Index
PIAWorld Bank Country Policy and Institutional Assessments
PRCPolitical Economic Risk Consultancy Corruption in Asia Survey
PRSPolitical Risk Services International Country Risk Guide
RSFReporters Without Borders Press Freedom Index
TPRUS State Department Trafficking in People Report
VABVanderbilt University Americas Barometer
VDMVarieties of Democracy Project
WCYInstitute for Management and Development World Competitiveness Yearbook
WJPWorld Justice Project Rule of Law Index
WMOIHS Markit World Economic Service

Source: World Bank (2023)

4.1 Table 15: Correlation Matrix

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1	Internal Conflict	1															
2	Tensions	0.55	1														
3	Violence	0.68	0.58	1													
4	Hines & Rice 1994	0.21	0.11	0.11	1												
5	Jones & Temouri 2016	0.23	0.12	0.11	0.94	1											
6	Jones & Temouri 2018	0.46	0.31	0.30	0.50	0.53	1										
7	Operating Revenue Turnover	0.41	0.13	0.24	0.18	0.19	0.38	1									
8	Intangible Fixed Assets	-0.05	-0.01	-0.04	-0.02	-0.02	-0.04	-0.13	1								
9	Number of Subsidiaries	0.19	0.11	0.11	0.51	0.51	0.42	0.24	-0.02	1							
10	MNE Parent Age	0.23	0.14	0.20	0.08	0.09	0.16	0.32	-0.05	0.13	1						
11	Top Rate of Tax	0.53	0.37	0.63	0.13	0.14	0.39	0.39	-0.05	0.16	0.23	1					
12	Rule of Law	-0.66	-0.35	-0.34	-0.16	-0.17	-0.40	-0.28	0.04	-0.13	-0.14	-0.28	1				
13	Political Stability	-0.85	-0.64	-0.66	-0.20	-0.21	-0.44	-0.36	0.06	-0.18	-0.22	-0.53	0.76	1			
14	GDP Growth	-0.45	-0.29	-0.33	-0.14	-0.15	-0.34	-0.31	0.03	-0.13	-0.10	-0.37	0.27	0.38	1		
15	GDP per capita	0.34	0.37	0.23	0.08	0.09	0.20	0.05	-0.01	0.04	0.04	0.15	-0.55	-0.46	-0.30	1	
16	Industry	-0.25	-0.10	-0.16	-0.03	-0.03	-0.15	-0.30	0.04	-0.04	-0.18	-0.24	0.20	0.24	0.19	-0.07	1

4.2 Table 16: Definition of Variables

Variable name	Description	Source
Tax Haven definition		
Hines and Rice "Dots"	Andorra, Anguilla, Antigua, Bahamas, Bahrain, Barbados, Belize, Bermuda, BVI, Cayman Islands, Cook Islands, Cyprus, Gibraltar, Grenada, Guernsey, Isle of Man, Jersey, Liechtenstein, Luxembourg, Macao, Malta, Monaco, Netherlands Antilles, St. Kitts and Nevis, Saint Lucia, Saint Vincent, Seychelles, Turks and Caicos	Hines and Rice (1994)
Jones and Temouri 2016	Andorra, Antigua, Bahamas, Bahrain, Barbados, Belize, Bermuda, Cayman Islands, Cote d'Ivoire, Cyprus, Dominica, Gibraltar, Grenada, Jordan, Kiribati, Liechtenstein, Luxembourg, Macao, Malta, Mauritania, Nauru, Netherland Antilles, St. Kitts & Nevis, St. Lucia, St. Vincent and the Grenadines, Vanuatu	Jones and Temouri (2016)
Jones & Temouri 2018	Andorra, Anguilla, Antigua, Aruba, Bahamas, Bahrain, Barbados, Barbuda, Belize, Bermuda, Botswana, British Virgin Islands, Brunei Darussalam, Cayman Islands, Cook Islands, Curacao, Cyprus, Dominica, Ghana, Gibraltar, Grenada, Guatemala, Guernsey, Hong Kong, Isle of Man, Jersey, Lebanon, Liberia, Liechtenstein, Luxembourg, Macao, Macedonia, Malaysia, Marshall Islands, Mauritius, Monaco, Montserrat, Nauru, Netherlands Antilles, Panama, Saint Kitts and Nevis, Saint Lucia, Saint Vincent, Samoa, San Marino, Seychelles, Singapore, Turks and Caicos Islands, UAE, Uruguay, Vanuatu	Jones and Temouri (2018)
Firm characteristics		
Operating Revenue Turnover	(Turnover) is listed in the Balance Sheet account and defined as Total Operating Revenue (Net sales + Other operating revenue + Stock variations). These figures do not include VAT or excise taxes or similar obligatory payments.	ORBIS
Age	The age of a firm calculated since the year the company was incorporated.	ORBIS
Intangible Fixed Assets	All intangible assets such as formation expenses, research expenses, goodwill, development expenses and all other expenses with a long-term effect.	ORBIS
Number of Foreign Subsidiaries	The total number of foreign subsidiaries identified for the parent firm.	ORBIS
Industry Characteristics		
Agriculture, Forestry & Fishing	Nace 2-digit codes: 01, 02, 03	Eurostat
Mining & Quarrying	Nace 2-digit codes: 05, 06, 07, 08, 09	Eurostat
High-technology Manufacturing	Nace 2-digit codes: 21 and 26	Eurostat
Medium/High Technology Manufacturing	Nace 2-digit codes: 20, 27, 28, 29, 30	Eurostat
Medium/Low Technology Manufacturing	Nace 2-digit codes: 19, 22, 23, 24, 25, 33	Eurostat
Low-technology Manufacturing	Nace 2-digit codes: 10, 11, 12, 13, 14, 15, 16, 17, 18, 31, 32	Eurostat
Knowledge Intensive Services	Nace 2-digit codes: 50, 51, 58, 59, 60, 61, 62, 63, 64, 65, 66, 69, 70, 71, 72, 73, 74, 75, 78, 80, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93	Eurostat
Tax variables		
Top corporate tax rate	This is obtained from a number of sources including the Ernst & Young Worldwide Corporate Tax Guide; IBFD Tax Research Platform; IBFD Global Corporate Tax Handbook; European Tax Handbook; ZEW Intermediate Report; Deloitte Tax Highlights and International Tax and Business Guide; KPMG Tax Rate Survey; and the PKF Worldwide Tax Guide.	Oxford Centre for Business Taxation

4.3 Table 17: Marginal effects of Violence on Tax Haven FDI

	"Dots" Tax Haven Classification		Extended Tax Haven Classification	"Dots" Tax Haven Classification		Extended Tax Haven Classification	"Dots" Tax Haven Classification		Extended Tax Haven Classification
VARIABLES	(1) Hines & Rice 1994	(2) Jones & Temouri 2016	(3) Jones & Temouri 2018	(4) Hines & Rice 1994	(5) Jones & Temouri 2016	(6) Jones & Temouri 2018	(7) Hines & Rice 1994	(8) Jones & Temouri 2016	(9) Jones & Temouri 2018
Violence Factors:									
Civil Violence	-0.0139***	-0.0169***	-0.0101*						
	(0.00347)	(0.00365)	(0.00522)						
Ethnic Violence				0.00387	0.00255	-0.0961***			
				(0.00577)	(0.00614)	(0.0115)			
Ethnic War							-0.00344	-0.00435**	0.0111***
							(0.00212)	(0.00219)	(0.00334)
Controls:									
Operating Revenue Turnover	0.00448***	0.00496***	0.0173***	0.00482***	0.00541***	0.0183***	0.00467***	0.00520***	0.0183***
	(0.000872)	(0.000894)	(0.00136)	(0.000875)	(0.000900)	(0.00132)	(0.000880)	(0.000901)	(0.00135)
Ln Intangible Fixed Assets	-0.0303	-0.0341	-0.0198	-0.0328	-0.0366	0.0111	-0.0326	-0.0369	-0.0161
	(0.0247)	(0.0262)	(0.0666)	(0.0249)	(0.0265)	(0.0641)	(0.0247)	(0.0263)	(0.0674)
Number of Subsidiaries	0.00306***	0.00337***	0.00913***	0.00307***	0.00339***	0.00905***	0.00307***	0.00338***	0.00917***
	(0.000145)	(0.000161)	(0.000811)	(0.000147)	(0.000164)	(0.000802)	(0.000146)	(0.000162)	(0.000806)
MNE Parent Age	0.000245*	0.000346***	0.000272	0.000207	0.000306**	0.000316*	0.000209	0.000304**	0.000256
	(0.000128)	(0.000128)	(0.000184)	(0.000130)	(0.000129)	(0.000181)	(0.000129)	(0.000129)	(0.000184)
Tax Burden	-0.000549	0.000100	0.00572***	-0.00119***	-0.000704*	0.00355***	-0.000982**	-0.000403	0.00431***
	(0.000412)	(0.000441)	(0.000687)	(0.000401)	(0.000427)	(0.000616)	(0.000406)	(0.000433)	(0.000675)
Rule of Law	-0.00539	-0.00868*	-0.105***	-0.00777	-0.0121**	-0.106***	-0.00523	-0.00872	-0.116***
	(0.00493)	(0.00513)	(0.00767)	(0.00501)	(0.00523)	(0.00743)	(0.00521)	(0.00545)	(0.00810)
Political Stability	-0.0261***	-0.0222***	-0.00917	-0.0223***	-0.0176***	-0.0296***	-0.0268***	-0.0228***	0.00535
	(0.00402)	(0.00429)	(0.00635)	(0.00441)	(0.00476)	(0.00616)	(0.00468)	(0.00498)	(0.00714)
GDP Growth	-0.00458***	-0.00576***	-0.0215***	-0.00460***	-0.00570***	-0.0181***	-0.00470***	-0.00592***	-0.0207***
	(0.000795)	(0.000850)	(0.00122)	(0.000776)	(0.000830)	(0.00116)	(0.000800)	(0.000856)	(0.00123)
GDP per Capita	0.0114*	0.0193***	-0.0211**	0.00912	0.0167***	-0.0206**	0.00961	0.0171***	-0.0247***
	(0.00617)	(0.00632)	(0.00877)	(0.00614)	(0.00629)	(0.00866)	(0.00616)	(0.00630)	(0.00879)
Industry Dummies:									

Mining & Quarrying	0.0917***	0.100***	0.0886***	0.0920***	0.101***	0.0917***	0.0912***	0.0996***	0.0892***
	(0.0239)	(0.0256)	(0.0335)	(0.0242)	(0.0258)	(0.0318)	(0.0239)	(0.0256)	(0.0339)
High Technology Manufacturing	0.0357***	0.0291***	0.0829***	0.0363***	0.0297***	0.0803***	0.0366***	0.0301***	0.0807***
	(0.00951)	(0.0102)	(0.0223)	(0.00973)	(0.0103)	(0.0214)	(0.00964)	(0.0103)	(0.0225)
Medium Tech Manufacturing	0.0328***	0.0250***	0.0121	0.0327***	0.0248***	0.0141	0.0329***	0.0251***	0.00916
	(0.00818)	(0.00905)	(0.0195)	(0.00834)	(0.00911)	(0.0187)	(0.00824)	(0.00907)	(0.0197)
Medium-Low Tech Manufacturing	0.0334***	0.0264***	0.0323	0.0321***	0.0248***	0.0334*	0.0323***	0.0250***	0.0283
	(0.00891)	(0.00963)	(0.0202)	(0.00898)	(0.00960)	(0.0193)	(0.00889)	(0.00957)	(0.0203)
Low Tech Manufacturing	0.0284***	0.0244***	0.0363*	0.0279***	0.0239***	0.0377**	0.0282***	0.0242***	0.0327
	(0.00816)	(0.00907)	(0.0199)	(0.00832)	(0.00914)	(0.0190)	(0.00823)	(0.00910)	(0.0201)
Total Knowledge Intensive Services	0.0811***	0.0825***	0.0948***	0.0799***	0.0811***	0.101***	0.0802***	0.0814***	0.0918***
	(0.00892)	(0.00987)	(0.0200)	(0.00905)	(0.00993)	(0.0192)	(0.00896)	(0.00988)	(0.0202)
Less Knowledge Intensive Services	0.0442***	0.0415***	0.0460**	0.0435***	0.0406***	0.0484***	0.0436***	0.0407***	0.0432**
	(0.00799)	(0.00896)	(0.0194)	(0.00813)	(0.00900)	(0.0185)	(0.00803)	(0.00895)	(0.0196)
Region Dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	57,698	57,698	57,698	57,698	57,698	57,698	57,698	57,698	57,698
Percent Correct	94.78	94.39	88.13	94.78	94.41	88.41	94.76	94.38	88.11
Pseudo R^2	0.317	0.325	0.412	0.314	0.321	0.420	0.315	0.322	0.412

5.1 Table 18: Correlation Matrix

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	18	20
1	Hines & Rice (1994) Dummy	1																			
2	Jones & Temouri (2016) Dummy	0.89	1																		
3	Hines & Rice (1994) Count	0.05	0.10	1																	
4	Jones & Temouri (2016) Count	0.05	0.10	0.12	1																
5	Corruption	0.07	0.05	-0.30	-0.30	1															
6	State-ownership (5%)	-0.12	-0.13	-0.07	-0.07	-0.07	1														
7	State-ownership (25%)	-0.09	-0.08	-0.01	-0.01	-0.05	0.55	1													
8	State-ownership (>25%)	0.09	0.08	0.01	0.01	0.05	-0.55	-0.22	1												
9	Operating Revenue Turnover	0.18	0.17	-0.05	-0.05	0.06	-0.11	-0.12	0.12	1											
10	Ln Intangible Fixed Assets	0.31	0.32	-0.12	-0.11	0.22	-0.21	-0.09	0.09	0.21	1										
11	Number of Subsidiaries	0.64	0.62	0.07	0.07	0.00	-0.18	-0.10	0.10	0.23	0.38	1									
12	MNE Parent Age	0.13	0.15	0.15	0.15	-0.08	-0.22	-0.09	0.09	0.04	0.21	0.22	1								
13	Tax Burden	0.00	-0.01	0.09	0.09	0.09	0.02	-0.02	0.02	-0.04	-0.24	-0.06	-0.04	1							
14	Foreign Debt Service as a % of GDP	-0.25	-0.27	0.11	0.10	-0.42	0.09	0.00	0.00	-0.11	-0.57	-0.22	-0.07	0.11	1						
15	Property Right	0.07	0.04	-0.40	-0.39	0.74	-0.08	-0.06	0.06	0.07	0.29	0.02	-0.07	-0.15	-0.37	1					
16	Political Stability	-0.14	-0.12	0.26	0.25	-0.53	0.14	0.05	-0.05	-0.08	-0.46	-0.12	-0.14	0.17	0.55	-0.60	1				
17	GDP per capita	0.04	0.02	-0.41	-0.41	0.63	-0.12	-0.05	0.05	0.06	0.28	0.03	0.05	-0.10	-0.23	0.76	-0.67	1			
18	State-ownership Binary	0.29	0.30	-0.03	-0.02	0.16	-0.40	-0.22	0.22	0.16	0.52	0.36	0.22	-0.15	-0.38	0.19	-0.29	0.20	1		
18	Authoritarian Rule	0.17	0.16	-0.32	-0.32	0.55	-0.04	-0.05	0.05	0.10	0.41	0.11	-0.13	-0.21	-0.56	0.71	-0.43	0.42	0.27	1	
20	Industry	-0.07	-0.10	-0.08	-0.08	-0.06	0.02	-0.01	0.01	-0.07	-0.26	-0.09	-0.13	0.11	0.33	-0.05	0.12	-0.03	-0.18	-0.18	1

5.2 Table 19: Relationship between Corruption and Tax Haven FDI amongst non-SO MNEs

VARIABLES	(1) Hines & Rice 1994	(2) Jones & Temouri 2016
Corruption	-0.0914	-0.210***
	(0.0700)	(0.0702)
Controls:		
Operating Revenue Turnover	0.0230*	0.0356***
	(0.0133)	(0.0103)
Ln Intangible Fixed Assets	0.0371***	0.0268***
	(0.00942)	(0.00881)
Number of Subsidiaries (winsorised)	0.0375***	0.0381***
	(0.00156)	(0.00175)
MNE Parent Age	0.00612***	0.00841***
	(0.00152)	(0.00138)
Tax Burden	0.0251***	0.0236***
	(0.00347)	(0.00336)
Foreign Debt Service as a % of GDP	-0.0810***	-0.151***
	(0.0158)	(0.0164)
Property Rights	0.00327	-0.00166
	(0.00236)	(0.00220)
Political Stability	-0.175***	0.0576
	(0.0527)	(0.0549)
GDP per capita	-0.434***	-0.164
	(0.108)	(0.101)
Authoritarian Rule	-0.362**	-0.328**
	(0.154)	(0.150)
Interaction: Corruption*Authoritarian Rule	0.115***	0.111***
	(0.0389)	(0.0386)
Industry:		
Mining & Quarrying	1.105***	1.165***
	(0.335)	(0.304)
High Technology Manufacturing	0.676**	0.779***
	(0.315)	(0.281)
Medium Tech Manufacturing	0.555*	0.520*
	(0.314)	(0.281)
Medium-Low Tech Manufacturing	0.663**	0.611**
	(0.315)	(0.283)
Low Tech Manufacturing	0.638**	0.616**
	(0.315)	(0.282)
Total Knowledge Intensive Services	0.973***	0.952***
	(0.313)	(0.280)
Less Knowledge Intensive Services	0.692**	0.661**
	(0.313)	(0.280)
Year Dummies	Yes	Yes
Observations	42,481	42,481
Percent Correct	93.63	92.02
Pseudo R^2	0.366	0.340

5.3 Table 20: Relationship between Corruption and Tax Haven FDI (all MNEs – both state and non-state-owned)

VARIABLES	(1) Hines & Rice 1994	(2) Hines & Rice 1994	(3) Hines & Rice 1994	(4) Jones & Temouri 2016	(5) Jones & Temouri 2016	(6) Jones & Temouri 2016
Corruption	0.558***	0.749***	0.0828*	0.511***	0.836***	-0.000363
	(0.151)	(0.215)	(0.0469)	(0.148)	(0.220)	(0.0469)
State Ownership						
SO up to ≤5%	1.888***			1.960***		
	(0.563)			(0.549)		
Interaction: SO≤5%*Corruption	-0.482***			-0.519***		
	(0.150)			(0.147)		
SO up to ≤ 25%		2.293***			3.034***	
		(0.819)			(0.832)	
Interaction: SO≤25%*Corruption		-0.667***			-0.837***	
		(0.215)			(0.220)	
>25%			-2.218***			-3.143***
			(0.711)			(0.711)
Interaction: >25%*Corruption			0.884***			0.814***
			(0.221)			(0.183)
Controls:						
Operating Revenue Turnover	0.0124*	0.0117	0.0117	0.0129	0.0131	0.0131
	(0.00726)	(0.00719)	(0.00719)	(0.00882)	(0.00864)	(0.00864)
Ln Intangible Fixed Assets	0.0331***	0.0336***	0.0336***	0.0283***	0.0287***	0.0287***
	(0.00823)	(0.00824)	(0.00824)	(0.00773)	(0.00773)	(0.00773)
Number of Subsidiaries (winsorised)	0.0347***	0.0346***	0.0346***	0.0352***	0.0351***	0.0351***
	(0.00110)	(0.00110)	(0.00110)	(0.00126)	(0.00126)	(0.00126)
MNE Parent Age	0.00403***	0.00364***	0.00364***	0.00597***	0.00573***	0.00573***
	(0.00135)	(0.00134)	(0.00134)	(0.00124)	(0.00124)	(0.00124)
Tax Burden	0.0217***	0.0213***	0.0213***	0.0208***	0.0206***	0.0206***
	(0.00302)	(0.00303)	(0.00303)	(0.00295)	(0.00296)	(0.00296)
Foreign Debt Service as a % of GDP	-0.0888***	-0.0913***	-0.0913***	-0.150***	-0.151***	-0.151***
	(0.0137)	(0.0138)	(0.0138)	(0.0136)	(0.0137)	(0.0137)
Property Rights	0.00355*	0.00336*	0.00336*	-0.00192	-0.00204	-0.00204
	(0.00184)	(0.00184)	(0.00184)	(0.00172)	(0.00173)	(0.00173)
Political Stability	-0.129***	-0.132***	-0.132***	0.0663	0.0626	0.0626
	(0.0462)	(0.0462)	(0.0462)	(0.0466)	(0.0467)	(0.0467)
GDP per capita	-0.560***	-0.572***	-0.572***	-0.331***	-0.341***	-0.341***
	(0.0940)	(0.0947)	(0.0947)	(0.0881)	(0.0885)	(0.0885)
State-ownership (SO) (Binary)	0.303***	0.249***	0.249***	0.347***	0.313***	0.313***
	(0.0722)	(0.0717)	(0.0717)	(0.0651)	(0.0646)	(0.0646)
Authoritarian Rule	0.0942***	0.0923***	0.0923***	0.115***	0.114***	0.114***
	(0.0218)	(0.0219)	(0.0219)	(0.0207)	(0.0208)	(0.0208)
Interaction (SO* Authoritarian Rule)	-0.0481**	-0.0408**	-0.0408**	-0.0721***	-0.0662***	-0.0662***
	(0.0206)	(0.0207)	(0.0207)	(0.0192)	(0.0192)	(0.0192)
Industry:						
Mining & Quarrying	1.105***	1.089***	1.089***	1.170***	1.165***	1.165***
	(0.335)	(0.331)	(0.331)	(0.306)	(0.304)	(0.304)
High Technology Manufacturing	0.676**	0.681**	0.681**	0.775***	0.779***	0.779***
	(0.315)	(0.310)	(0.310)	(0.284)	(0.281)	(0.281)
Medium Tech Manufacturing	0.555*	0.552*	0.552*	0.520*	0.520*	0.520*
	(0.314)	(0.309)	(0.309)	(0.283)	(0.281)	(0.281)
Medium-Low Tech Manufacturing	0.663**	0.660**	0.660**	0.611**	0.611**	0.611**
	(0.315)	(0.311)	(0.311)	(0.285)	(0.283)	(0.283)
Low Tech Manufacturing	0.638**	0.639**	0.639**	0.613**	0.616**	0.616**
	(0.315)	(0.310)	(0.310)	(0.284)	(0.282)	(0.282)
Total Knowledge Intensive Services	0.973***	0.959***	0.959***	0.958***	0.952***	0.952***
	(0.313)	(0.308)	(0.308)	(0.282)	(0.280)	(0.280)
Less Knowledge Intensive Services	0.692**	0.688**	0.688**	0.662**	0.661**	0.661**
	(0.313)	(0.308)	(0.308)	(0.282)	(0.280)	(0.280)
Year Dummies	Yes	Yes	Yes	Yes		
Observations	55,552	55,552	55,552	55,552	55,552	55,552
Percent Correct	90.98	91	91	89.22	89.19	89.19
Pseudo R^2	0.417	0.417	0.417	0.398	0.398	0.398

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

6.1 Table 21: Governance Type and Characteristics

Type of Governance	Essential Features	Source
Alternating Democracy	▪ A government/executive that has not served more than two successive terms ▪ Free and fair elections for the legislature and executive as determined by constitution or statute ▪ The active presence of more than one political party and a viable opposition ▪ Evidence of checks and balances among the three elements of government: executive, legislative and judicial ▪ Evidence of an independent judiciary ▪ Evidence of the protection of personal liberties through constitutional or other legal guarantees	ICRG
Dominated Democracy	▪ A government/executive that has served more than two successive terms ▪ Free and fair elections for the legislature and executive as determined by constitution or statute ▪ The active presence of more than one political party ▪ Evidence of checks and balances between the executive, legislature, and judiciary ▪ Evidence of an independent judiciary ▪ Evidence of the protection of personal liberties	ICRG
De Facto One-Party State	▪ A government/executive that has served more than two successive terms, or where the political/electoral system is designed or distorted to ensure the domination of governance by a particular government/executive ▪ Holding of regular elections as determined by constitution or statute ▪ Evidence of restrictions on the activity of non-government political parties (disproportionate media access between the governing and non-governing parties, harassment of the leaders and/or supporters of non-government political parties, the creation of impediments and obstacles affecting only the non-government political parties, electoral fraud, etc).	ICRG
De Jure One-Party State	▪ A constitutional requirement that there be only one governing party ▪ Lack of any legally recognized political opposition	ICRG
Autarchy	▪ Leadership of the state by a group or single person, without being subject to any franchise, either through military might or inherited right	ICRG

(Source: ICRG, 2018, p.6-7)

6.2 Table 22: Correlation Matrix (democratic accountability)

		1	2	3	4	5	6	7	8	9	10	11	12	13
1	Hines & Rice (1994)	1												
2	Jones and Temouri (2016)	0.892	1											
3	Authoritarian Rule	0.203	0.196	1										
4	Op. Revenue Turnover	0.182	0.173	0.112	1									
5	IATA	-0.02	-0.026	-0.03	-0.01	1								
6	Number of Subs	0.632	0.616	0.142	0.234	-0.03	1							
7	MNE Age	0.153	0.174	-0.06	0.049	-0.04	0.237	1						
8	Tax Burden	-0.02	-0.023	-0.18	-0.05	0.017	-0.08	-0.07	1					
9	Property Rights	0.086	0.058	0.658	0.076	-0.03	0.037	-0.03	-0.1	1				
10	Rule of Law	-0.12	-0.09	-0.6	-0.09	0.037	-0.07	-0.07	0.029	-0.9	1			
11	Political Stability	-0.16	-0.142	-0.44	-0.09	0.049	-0.14	-0.18	0.127	-0.61	0.783	1		
12	GDP Growth	-0.15	-0.153	-0.39	-0.08	0.032	-0.14	-0.09	0.019	-0.28	0.321	0.408	1	
13	GDP per capita	0.042	0.023	0.374	0.065	-0.02	0.034	0.058	-0.07	0.747	-0.86	-0.64	-0.22	1

6.3 Table 23: Tests of robustness

	Probit Estimations				Poisson Estimations			
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**
VARIABLES	Hines & Rice 1994	Jones & Temouri 2016	Hines & Rice 1994	Jones & Temouri 2016	Hines & Rice 1994	Jones & Temouri 2016	Hines & Rice 1994	Jones & Temouri 2016
Country Factor:								
Democratic Accountability	0.0211***	0.0235***	0.0200***	0.0231***	0.0290***	0.0331***	0.0278***	0.0323***
	(0.00129)	(0.00129)	(0.00156)	(0.00156)	(0.00161)	(0.00164)	(0.00182)	(0.00185)
Rule of Law			-0.00564	-0.00226			-0.00702	-0.00448
			(0.00427)	(0.00427)			(0.00440)	(0.00449)
Operating Revenue Turnover	0.00221***	0.00268***	0.00221***	0.00268***	4.30e-05	2.51e-05	3.37e-05	1.89e-05
	(0.000682)	(0.000879)	(0.000682)	(0.000879)	(7.12e-05)	(7.58e-05)	(7.06e-05)	(7.54e-05)
IATA	-0.0741***	-0.0810***	-0.0713***	-0.0799***	-0.118***	-0.135***	-0.115***	-0.133***
	(0.0244)	(0.0265)	(0.0246)	(0.0266)	(0.0275)	(0.0304)	(0.0277)	(0.0306)
Number of Subsidiaries	0.00396***	0.00447***	0.00397***	0.00448***	0.00326***	0.00346***	0.00327***	0.00347***
	(0.000115)	(0.000133)	(0.000116)	(0.000134)	(7.78e-05)	(7.90e-05)	(7.70e-05)	(7.83e-05)
MNE Parent Age	0.000411***	0.000633***	0.000405***	0.000631***	0.000749***	0.00104***	0.000746***	0.00104***
	(0.000128)	(0.000128)	(0.000128)	(0.000128)	(0.000121)	(0.000125)	(0.000121)	(0.000125)
Top Rate of Tax	0.00263***	0.00351***	0.00240***	0.00342***	0.00386***	0.00478***	0.00362***	0.00464***
	(0.000404)	(0.000401)	(0.000432)	(0.000434)	(0.000441)	(0.000459)	(0.000484)	(0.000503)
Observations	80,169	80,169	80,167	80,167	80,169	80,169	80,167	80,167
Percent Correct	91.87	91.08	91.87	91.08				
Pseudo R^2	0.347	0.358	0.347	0.358				

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