

# The Interplay of Political Turbulence and Investor-State Dispute:

Insights from Africa  
and the MENA Region

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# The Interplay of Political Turbulence and Investor-State Dispute: Insights from Africa and the MENA Region

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## Abstract

*This paper examines the impact of political violence on investment arbitration, exploring two hypotheses: 1) Political violence, controlling for economic factors, does not independently increase arbitration likelihood; 2) Robust institutions mitigate the adverse effects of political violence on arbitration. Utilizing an ordinal logistic regression on 242 investment arbitration claims, documented from 1996 to 2019 in Africa and the MENA region, and data on political conflicts from both the Uppsala Conflict Data Program (UCDP) and the Armed Conflict Location Events Dataset (ACLED), findings reveal that riots and protests significantly heighten arbitration probability. Strong institutions may paradoxically amplify vulnerability to disputes during political unrest. The findings call for a nuanced approach to investment arbitration amid political turmoil.*

**JEL Classification:** F23, F53, F21, K33, F51

**Keywords:** Investment Arbitration, Investor-State Disputes, Political Violence, Legal Protections.

## ***Introduction***

International investments play an important role in the economic growth and development of all states, specifically the underdeveloped ones. That's why these states endeavor to attract foreign direct investments to their territories. However, the investment contracts which are concluded between these states and foreign direct investors initiate a lot of conflicts which, in turn, lead to disputes, called the Investor-State Disputes (ISDs). Although these disputes are economic in nature, as their subject matter is investment, they have a political nature.

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In recent years, investor-state arbitration has witnessed a surge becoming a pivotal mechanism for resolving disputes between investors and host countries. Investor-state arbitration has undergone a transformative evolution in recent years, evolving from the periphery to the forefront of global economic interactions. The trajectory of its utilization is staggering, with the number of known cases per year more than doubling (from an average of 37 cases per year in the last decade to 75 per year between 2011 and 2021). By 2022, a total of 1354 investment arbitration claims had been filed, involving over 120 countries across the developing and developed worlds.

Participating in arbitration imposes substantial financial burdens on both states and investors. Notably, the average cost of an investment arbitration case has been reported to be significant. The expenses associated with arbitration proceedings alone can average around 6 million USD, with some cases reaching an astonishing 30 million USD, covering legal fees and related costs.<sup>2</sup> This financial impact goes beyond the amounts paid in the event of a breach; it encompasses the considerable costs associated with the arbitration process itself. Additionally, the payments made in the case of a breach or even for settlement can be substantial. For instance, the 2009 dispute involving Mærsk Olie, a Danish oil company, resulted in Algeria being ordered to pay over 920 million USD in settlement.<sup>3</sup> The Unión Fenosa Gas dispute in 2014 was decided in favor of the investor and cost Egypt 2 billion USD due to the alleged suspension of gas supplies by a state-owned enterprise to the claimant.<sup>4</sup>

As the international legal community grapples with the proliferation of investment claims, our focus turns to the developing world, respondent to a considerable amount of investment arbitration claims (see Figure 1). Explaining why developing countries are frequent targets of investment arbitration has been a subject of interest. Developing states, often characterized by unstable political environments, intentionally commit to broader obligations in their International Investment Agreements (IIAs) (Poulsen and Aisbett, 2013). Poor governance provides a dual explanation: first, weak institutions related to property rights and contract enforcement increase the likelihood of breaches or violations of IIAs by governments in developing economies (Behn et al., 2017). Second, low regulatory quality erodes investor confidence in domestic legal systems, leading to a higher resort to international arbitration and explaining the prevalence of claims that bypass national channels. Beyond factual considerations, there's a reputational effect working against developing states as cases against them have a higher success rate compared to developed economies (Strezhnev, 2017; Rao,

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<sup>2</sup> UNCTAD, 2014.

<sup>3</sup> ICSID Case No. ARB/09/14.

<sup>4</sup> ICSID Case No. ARB/14/4.

2009). This established reputation might incentivize investors to file claims against developing countries, anticipating larger expected gains.

**Figure 1: Investor-State Arbitration Claims, Total (1882-2022)**



Source: Data compiled by author.

Not only is the frequency of claims against developing states on the rise, but it is particularly pronounced amidst challenging political developments. To illustrate, in the five years following the onset of the Arab Spring, Egypt faced 20 cases, Libya dealt with 15, and Tunisia encountered, in 2012, the first claim since 2004. A similar pattern emerges in Africa, where instances of political violence trigger a surge in international arbitration claims (see Figure 2). These dynamic underscores the intricate relationship between political instability and investor-state disputes, presenting an intriguing puzzle for analysis. The crucial question arises when investment claims coincide with challenging political developments, particularly a surge in political violence. Is this alignment a consequence of the inherent link between political violence, economic crises, and an inhospitable institutional environment for foreign investment? Alternatively, could it be indicative of opportunistic behavior on the part of investors strategically leveraging moments of heightened political tension to file claims with a higher likelihood of success, capitalizing on the perception that the government, during such times, is unjust and violent? This situation can be analogized to the filing of a legal claim against an individual for a completely unrelated offense, with the aim to portray habitual unethical behavior. Yet, the critical question remains: does this analogy hold true when it comes to states?

While an emerging literature has discussed the relevance of economic crises in explaining ISDs, the role played by political developments, and political violence in particular, remains unexplored. A priori, potential confounding factors such as changes in the institutional environment, governmental behavior, and concurrent economic crises would lead

to breach of International Investment Agreement provisions, thereby increasing arbitration. This paper seeks to determine however whether political violence, when isolated from these factors, independently explains the evolution of investment claims.

The contributions of this paper are threefold: First, by using up-to-date datasets on arbitration claims and political violence in the MENA region and Africa, this paper analyzes the impact of the Arab Spring and intrastate conflicts in Africa on the likelihood of countries experiencing political turmoil becoming respondents to investment claims, thus offering new insights to the debate on biases in international arbitration and proposes amendments to the current system. Second, by extending the analysis in Dupont et al. (2020) to include political violence as an explanatory variable for arbitration claims, this paper validates results related to the effect of institutional quality being highlighted during times of economic crises. Finally, by using different specifications and datasets on political violence, this paper checks the robustness of the original findings to alternative model specifications and data.

The remainder of this paper proceeds as follows. The following section briefly reviews the emerging literature on the determinants of economic arbitration. Datasets used in this paper are described in Section 3. Section 4 presents stylized facts and descriptive analysis. The empirical model, major results and robustness checks are presented in Section 5. Section 6 discusses the findings and presents policy recommendations.

## ***I. Related Literature***

The economic literature has predominantly focused on the effect of political instability on FDI inflows, particularly emphasizing the impact of political risks while overlooking potential moral hazards within the host state's economy. A substantial body of literature has examined the relationship between political stability and FDI, finding that political stability positively influences FDI inflows (Borensztein et al., 1998; Asiedu, 2002; Li and Resnick, 2003). The impact of different forms of political instability on FDI has also been explored, with armed conflicts, protests, and regime changes shown to have adverse effects on FDI (Jongwanich, 2007; Brückner and Ciccone, 2010).

A significant yet underexplored channel is the indirect effect of political instability on FDI through the initiation of investor-State disputes. By establishing a reputation for states violating investment law, these disputes create an inhospitable image for foreign investments, thereby acting as a deterrent to FDI inflows (Alfaro et al., 2008; Broude and Shany, 2014). The literature's limited attention to this feedback channel emphasizes the importance of understanding the determinants of investment disputes, as perceptions of investment risks play a crucial role in FDI decisions.

An emerging literature on investor–state has started to investigate the triggers of such disputes. Empirical evidence consistently points to bad governance and weak rule of law as primary contributors to arbitration cases (Freeman, 2013). Recent case studies and qualitative analyses by international law scholars also underscore the significant role of severe macroeconomic turmoil, such as economic crises, as catalysts for arbitration cases (Dupont et al., 2020). Notably, economic crises alone do not incur liability for the host country; instead, liability may arise if regulatory measures implemented in response to the crisis adversely affect foreign investors' rights. Contrary to conventional wisdom linking economic crises with increased investment disputes, theoretical and empirical work challenges this notion, suggesting that financial crises are associated with market-friendly policies that reduce the likelihood of expropriation (Jensen et al., 2020).

In addition to governance and economic factors, the arbitration literature has begun to incorporate political aspects, notably focusing on the influence of democracy. Carlson and Ziegler (2021) find that, contrary to the common belief, increased levels of democracy are correlated with higher likelihood of investment arbitration. Controlling for GDP growth, natural resource rents, and net inflows of FDI, the authors use a logistic regression model to assess the impact of the level of democracy, as measured by the Polity IV score, on the likelihood of violating an IIA in a given year. Owing to the fact that credible elections create incentives for governments to side with domestic voters, leading them to pass legislation that may violate investment agreements, democracies are more likely to be perceived as investment agreement violators, and this tendency increases as their time in office extends.

This study builds upon the analysis in Dupont et al. (2020) by introducing political violence as an explanatory variable for the probability of a country becoming a respondent in an investment arbitration, controlling for the effect of institutions and economic crises. The main inquiries that this aims to answer are as follows: What factors contribute to the surge in arbitration claims following incidents of political violence? Apart from the influence of economic crises or any adverse policy measures implemented by the host state in response to political violence, does political violence itself independently contribute to the rise in claims? Finally, does investor confidence in the quality of institutions within the host economy mitigate the heightened probability of arbitration? Alternatively, do investors exploit instances of political violence to initiate claims against states with robust institutions?

## ***II. Data sources***

The empirical analysis in this paper draws upon distinct datasets for the main variables of interest; namely investor-state arbitration, political violence, and economic crises.

A comprehensive dataset for investor-state arbitration claims was compiled from various sources, including: (1) A database compiled by Wellhausen (2016), covering

arbitrations brought under contractual ISDS clauses and domestic law, not limited to treaty-based cases under international investment agreements (data available up to 2014), (2) the UNCTAD Investment Dispute Settlement Navigator database, which provides information on publicly-known treaty-based ISDS cases (updated as of July 2020). Missing data on arbitrations between 2020 and 2022, as well as data on non-treaty-based arbitration, was supplemented by the author through research on the ICSID website, *italaw.com*, NAFTA Secretariat's database, *naftaclaims.com*, ICC Dispute Resolution library, the website of the Stockholm Chamber of Commerce, and the website of the Energy Charter Treaty Secretariat. Claims added to the database also include as *ad hoc* arbitrations, primarily conducted under the rules of the United Nations Commission for International Trade Law (UNCITRAL).

Data on political violence were sourced from two prominent event datasets: the Uppsala Conflict Data Program (UCDP) and the Armed Conflict Location Events Dataset (ACLED). The former is utilized as the primary dataset in this paper, while the latter serves as a robustness check for reasons that will be clarified further below. The UCDP categorizes armed conflict into four types: state-based conflict, non-state conflict, one-sided violence, and violent political protests. State-based conflict, resembling conventional warfare, occurs between two states or between a state and a rebel group challenging it. Non-state conflicts involve parties that are not states, such as an organized group attacking civilians. One-sided violence is defined as the use of armed force by a government or formally organized group against civilians, resulting in at least 25 deaths in a year. Violent political protests are by design state-based; a group of protestors challenges the state over a contested incompatibility concerning government and/or territory and the use of armed force between the two parties results in at least 25 battle-related deaths in a year. Although there is no clear-cut distinction, conflicts interstate or between the state and an armed group – i.e. state-based conflict - are perceived to have a more obvious direct impact on foreign investors. In both one-sided violence and violent protests, however, state legitimacy is questioned without a straightforward impact on political risks faced by foreign investors, offering however investors an opportunity to file claims that they are likely to win.

The ACLED project, on the other hand, provides a dataset containing information on political violence in the developing world, specifically focusing on civil and communal conflicts, violence against civilians, remote violence, and instances of rioting and protesting. Violence against civilians is defined as deliberate violent acts perpetrated by an organized political group such as a rebel, militia, or government force against unarmed non-combatants. These conflict events result in harm or fatalities among civilians and constitute the sole instance where civilians are active participants. Battles in ACLED are defined as violent interactions between two politically organized armed groups, typically government military or militias and rebel groups or factions within the context of a civil war. However, such

interactions also encompass violence involving militias, rebels against rebels, and military against military. Finally, riots and protests include demonstrations against a (typically) political entity, such as a government institution as well as spontaneous acts of violence by disorganized groups, which may target property, or businesses, or may involve clashes with other disorganized groups or security institutions. Lastly, riots and protests involve demonstrations against a typically political entity, such as a government institution, as well as spontaneous violent acts carried out by unorganized groups. These acts may target property or businesses and may involve clashes with other unorganized groups or security institutions.

There are significant disparities between the two databases, and these variations should be acknowledged as they can impact the regression results. Firstly, while the UCDP dataset primarily focuses on violence, the ACLED dataset does not impose a minimum threshold for lethality for the event to be included in the database. Secondly, the ACLED dataset lacks a clear differentiation between events where violence is state-based or involves militias, except in the specific subcategory of riots and protests. This distinction diverges from the UCDP, where datasets are categorized based on whether the State is one of the conflicting parties. A third noteworthy difference between the UCDP and ACLED datasets is the unit of observation. In UCDP, the unit is the conflict, while in ACLED, it is the event. Consequently, the same conflict may be recorded multiple times in ACLED if it spans several days or events. This disparity makes the absolute number of events not directly comparable between the two datasets, even if inconsistencies in event definitions are addressed.

Finally, to control for the effect of economic crises, potentially accompanying political violence, on the likelihood of arbitration, episodes of economic crises are controlled for, using the dataset provided by Nguyen et al. (2022). This dataset extends the systemic banking crises database by Laeven and Valencia (2020) to the period 1970–2019. It covers 206 countries and three forms of financial crises: systematic banking crises, currency crises, and sovereign debt crises. Systemic banking crises are characterized by large loan losses, potentially leading to the insolvency of the entire banking system. Currency crises involve a sharp depreciation of the domestic currency, often triggered by speculative attacks, with potential outcomes including a decline in reserves and increased interest rates. Sovereign debt crises are characterized by a country's failure to meet debt payments, reschedules debts unfavorably, or faces arrears exceeding 5% of total commercial outstanding debt.

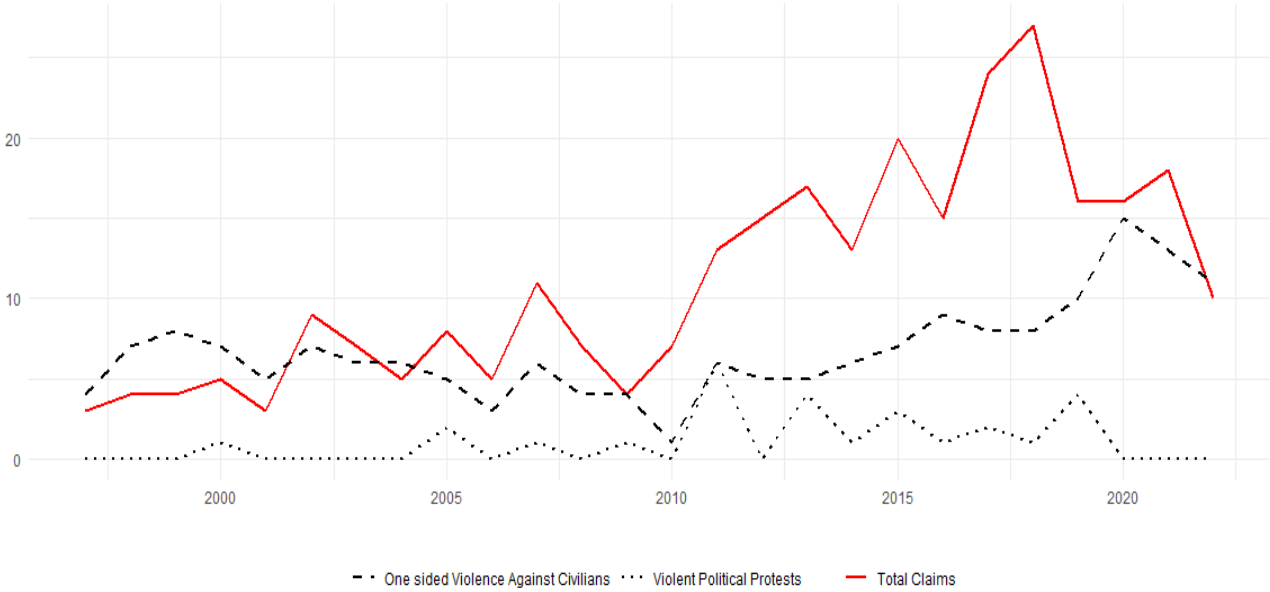
### ***III. Stylized Facts***

An initial inspection of the data reveals a noticeable parallelism between the number of claims filed against respondents in the region and the trend of political violence. Interestingly, the number of ISD claims seems to be correlated to a specific category of political violence,



namely protests. This observation holds true whether the protest data is derived from the Armed Conflict Location & Event Data (ACLED) or the Uppsala Conflict Data Program (UCDP). Figure 2 illustrates the evolution of the total number of claims filed against countries from the MENA region and Africa between 1996 and 2022 and the trajectory of political violence over the same period sourced from UDCP dataset. This is measured through indicators such as the count of violent political protests and instances of one-sided violence against civilians. Notably, a significant surge in the number of claims is observed with the initiation of the Arab Spring, indicating a strong correlation between political developments, particularly political violence, and the initiation of arbitration claims in the region.

Figure 2. Total Claims and Political Violence (ACLED dataset), MENA region and Africa (1996-2022)

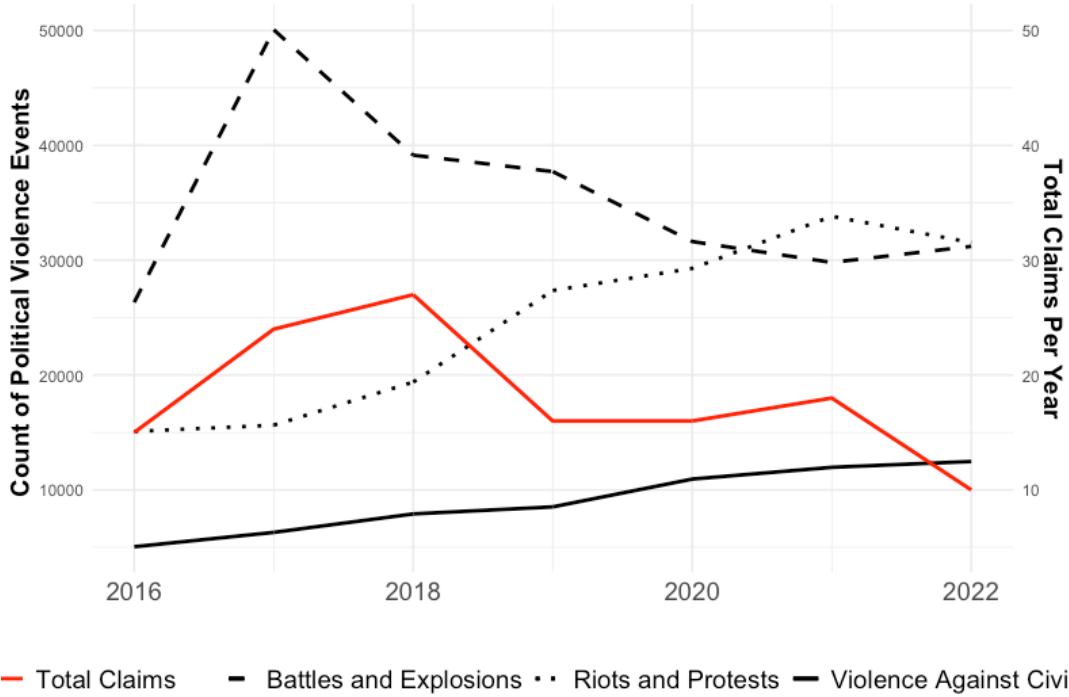


Source: Author, using dataset on ISD claims compiled by author and the Uppsala Conflict Data Program Georeferenced Events Dataset (UCDP GED).

Figure 3 utilizes data sourced from the Uppsala Conflict Data Program (UCDP) to juxtapose the progression of claims against the backdrop of developments in political violence, serving as a cross-validation of the two datasets. Notably, the previously identified parallelism persists, particularly in the context of riots and protests, signaling a correlation between the riots and protests indicator in ACLED dataset and instances of violent political protests in the UCDP dataset. This alignment will be discussed further below. Figure 3 deliberately narrows the time frame, as ACLED coverage for non-African Middle East and North African (MENA) countries begins in 2016, whereas data on investment claims spans the entire analysis period. This intentional reduction in the time horizon aims to prevent a potentially misleading interpretation wherein protest incidents show a sudden increase from 2016 onward, falsely

correlating with an abrupt rise in claims. In other words, this is to ensure that inconsistencies in data availability are not mistaken for genuine patterns.

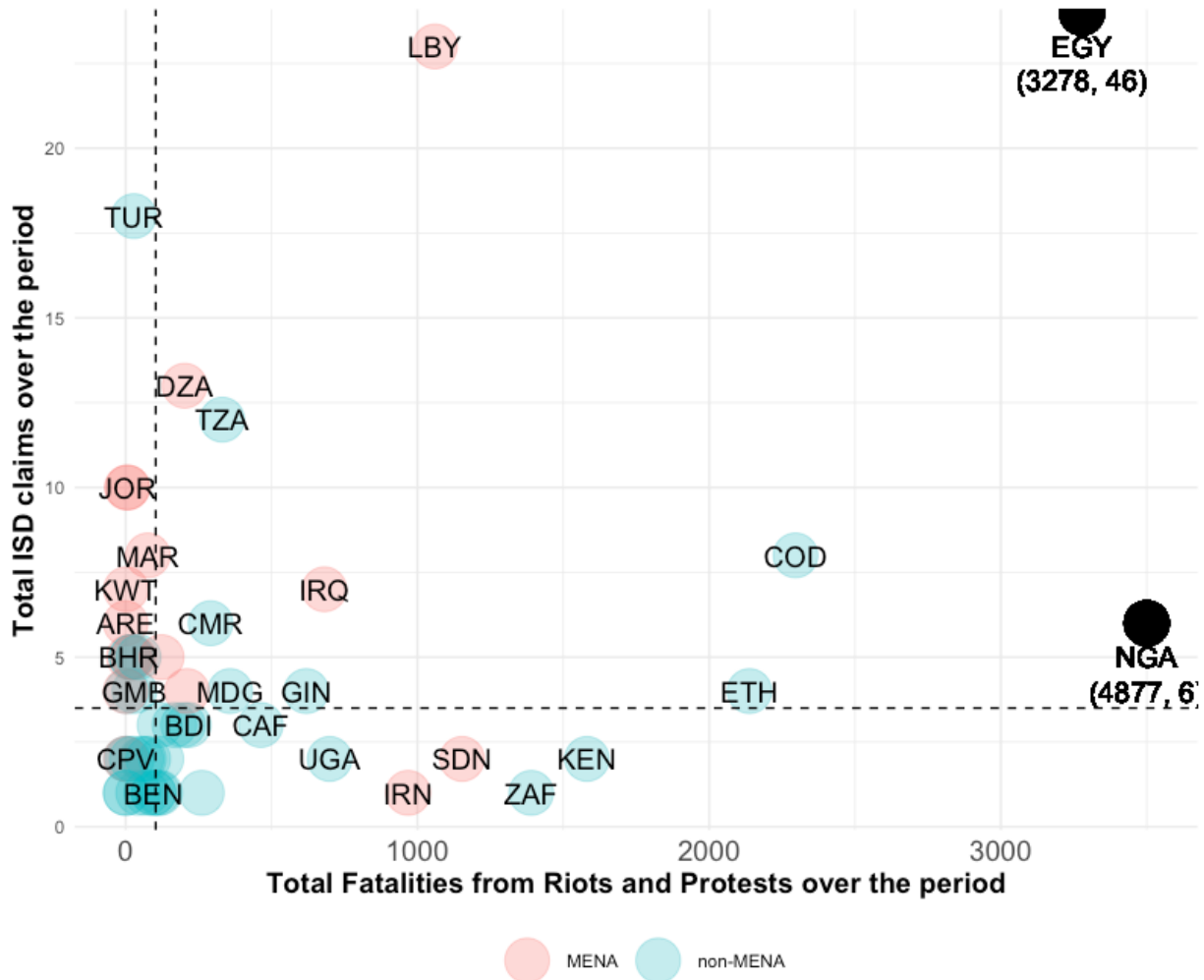
Figure 3. Total Claims and Political Violence (ACLED dataset), MENA region and Africa (2016-2022)



Source: Author, using dataset on ISD claims compiled by author and the Armed Conflict Location Events Dataset (ACLED).

A first attempt to examine the nexus between political violence and likelihood of claims is to map the countries in the sample on the fatality/claims plot (Figure 4). While higher fatalities tend to be associated with increased arbitration claim, certain countries exhibit high fatalities in protests while maintaining a position near the median concerning the number of claims (Nigeria for instance). The findings from this visualization present a nuanced picture, and a more insightful analysis involving a year-by-year examination analysis and accounting for country-specific effects is needed.

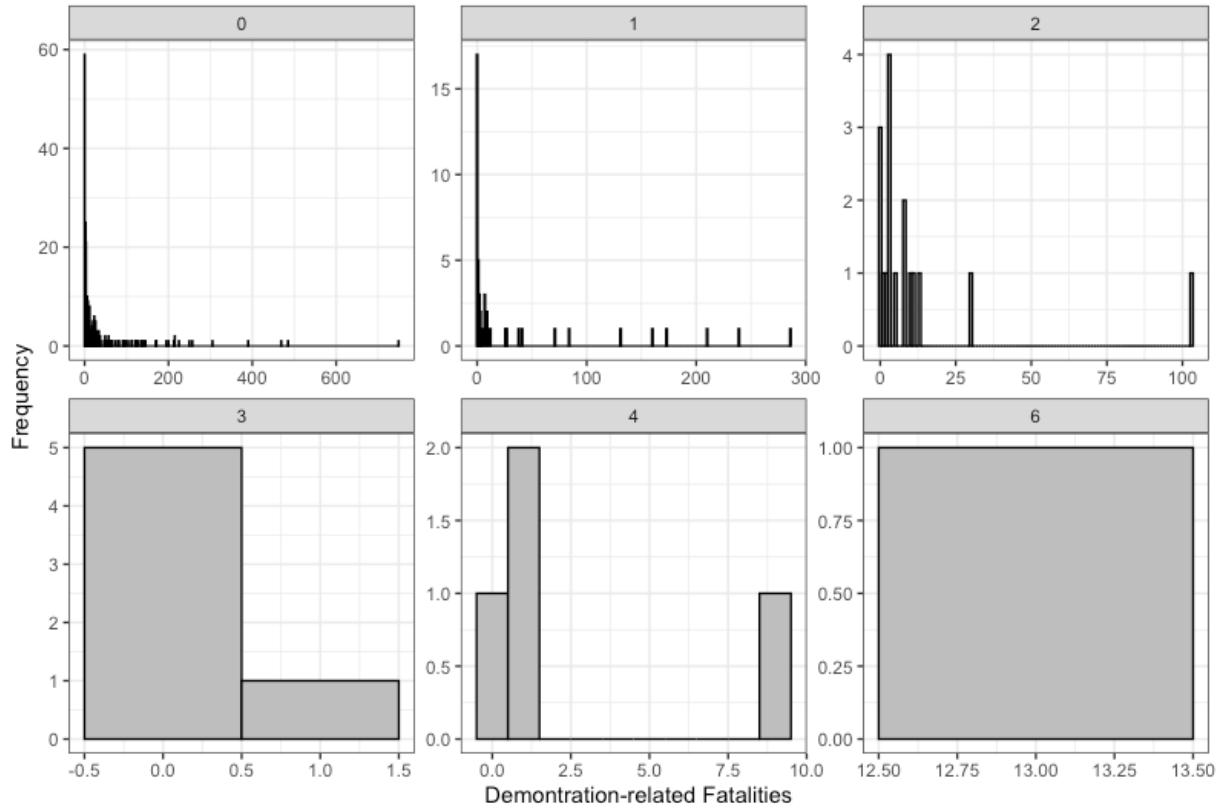
Figure 4. Mapping of MENA and African countries on the Fatalities/Claims Plan, totals



Source: Author using the ACLED dataset.

In my dataset, the annual ISD claims against a specific country range from 0 to 6. Figure 5 depicts the distribution of the number of fatalities corresponding to each yearly claim count. For 0, 1, and 2 claims per year, the fatality distribution implies that higher fatalities linked to riots and protests are correlated with a higher number of claims annually. This association is less apparent in the categories of 3, 4, and 5 claims, primarily due to the limited number of cases in these categories. Consequently, our dependent variable on claims will be formulated considering that the explanatory influence of political violence is likely concentrated in the 0, 1, and 2 categories, as elaborated further below.

Figure 5. Distribution of Demonstration-related Fatalities by Category of Claims



Source: Author, using the ACLED dataset.

#### IV. Methodology and Empirical Results

The analysis in this paper thus relies on a dataset comprising 242 investment arbitration claims, documented from 1996 (date for availability of WGI indicators) to 2022. The scope of investor-State disputes goes beyond investment treaty arbitration, which typically involves disputes based on international treaties such as bilateral investment treaties (BITs). Our dataset includes arbitration claims stemming from various sources, including treaties (bilateral or multilateral), contracts between host states and investors, or domestic investment laws of the host state. Moreover, the investigation spans all forms of investment arbitration, covering claims filed under the rules of key arbitration institutions (predominantly the World Bank’s International Center for Settlement of Investment Disputes (ICSID), the Permanent Court of

Arbitration (PCA), the International Chamber of Commerce (ICC), the Stockholm Chamber of Commerce (SCC)), as well as ad hoc arbitrations, primarily conducted under the rules of the United Nations Commission for International Trade Law (UNCITRAL).

### *Model Specification*

The empirical model is designed to assess two primary hypotheses. The first hypothesis suggests that intrastate political violence, irrespective of any concurrent economic crises or institutional changes resulting from the political turmoil, triggers arbitration claims. Essentially, it posits an increased likelihood of a country becoming a respondent to an arbitration claim during periods of intrastate political violence. The decision to focus on intrastate violence, rather than interstate violence, is motivated by the desire to avoid introducing additional complexities related to the political motivations and position of another country involved in the conflict but not subject to the arbitration claim. The second hypothesis proposes that investors are more inclined to initiate claims against countries during episodes of political violence when they lack confidence in the nature and scope of policy reactions. This inclination becomes more pronounced in countries with poor governance records. That is, the presence of superior institutions is expected to mitigate the impact of political violence on the heightened likelihood of arbitration.

To examine the impact of political violence on the likelihood of arbitration claims, an ordinal logistic model of the following specification is implemented:<sup>5</sup>

$$Y_{it} = \alpha + \beta_0 pviolence_{it} + \beta_1 instquality_{it} + \beta_2 ecocrises_{it} + Z_{it} + \mu_{it} \quad (1)$$

where  $Y_{it}$  is the *intensity of arbitration* against country  $i$  at year  $t$ ,  $pviolence_{it}$  is political violence,  $ecocrises_{it}$  is a tally of indicators that reflects economic crises,  $instquality_{it}$  reflects the quality of institutions and  $Z_{it}$  is a vector of control variables.

The dependent variable employed in the model is a categorical variable reflecting the *intensity* of arbitration rather than the *number* of claims. Following the approach outlined in Dupont et al. (2022), the intensity of arbitration is coded 0 if either the county is not respondent to any claims in the given year or is respondent to an isolated claim - a single country-year claim without any claims in the preceding and following four years. The variable is assigned a score of 1 for country-year observations with either one non-isolated claim or two claims. It is assigned a score of 2 for country-year observations with three or more claims, indicating that three or more claims were filed against a given country in that year. The choice

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<sup>5</sup> A negative binomial regression to test the same hypotheses with a count model.

of the categorical encoding of the dependent variable is motivated by two main considerations. First, the distribution of the number of claims per country-year is highly skewed, as anticipated.<sup>6</sup> Second, a simple probability model might fall short in capturing the magnitude of the frequency of claims against a country. A state who is respondent to four claims in a given year must have different developments than one who is only respondent to one, and the informational value of this variance would not be captured by a probability model (though it is noteworthy that a negative Poisson model is utilized as a robustness check).

To assess the impact of political violence on the likelihood of a country becoming respondent to an investment claim in a given year, various proxies for political violence are utilized. Proxies drawn from the ACLED dataset include riots and protests, battles and explosions, and violence against civilians. For each of these variables, three alternative measures can be applied to indicate the extent of political violence - one related to the number of events, another to fatalities, and a third representing the number of events weighted by the accompanying fatalities. Additionally, two proxies for political violence are derived from the UCDP dataset: violent political protests and one-sided state-based violence. In the case of violent political protests, two measures are employed – count, and a dummy variable that equals 1 if violent protests occurred during the year and 0 otherwise.

I also include controls for economic crises due to their potential impact on the relationship between the likelihood of arbitration and political violence. The emerging economic literature on the determinants of international arbitration recognizes economic crises as a plausible factor influencing the likelihood of arbitration, although there is no consensus on this matter (Jensen, 2020). Countries experiencing economic hardships may resort to actions such as expropriating foreign assets, implementing regulatory changes that adversely affect foreign investors' interests, or failing to accommodate their needs adequately. If such an effect exists, omitting this variable would result in an overstatement of the impact of political violence. In other words, political violence might be associated with arbitration simply because it often coincides with a form of economic crisis, such as a currency crisis, debt crisis, or banking crisis. In such a scenario, it is not political violence itself that leads to arbitration, but rather another underlying variable - economic crisis - that triggers arbitration. The economic crisis variable I use is a composite of three indicators reflecting the presence of different types of economic crises during the year.

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<sup>6</sup> In my dataset, there are 147 instances with only one claim per year, 34 occurrences with two claims, 11 instances with three claims, 6 observations with four claims, and merely 2 instances with six claims each.

The model also controls for the quality of institutions in the host country, as institutions play a role in influencing the investor's decision to initiate a claim. The impact of domestic legal and judicial institutions on the likelihood of resorting to international arbitration can be understood through three distinct mechanisms. Firstly, high-quality domestic legal and judicial institutions - such as contract enforcement, property rights, police and courts - may reduce the investor's incentives to resort to international arbitration, as conflicts can be effectively resolved in domestic courts, reducing costs for both the host state and the investor. The WGI Rule of Law indicator is employed to capture this effect. Secondly, the level of corruption in the host country is likely to lead to unfair treatment of the foreign investor, thereby increasing the likelihood of arbitration. This institutional aspect is proxied by the WGI Control of Corruption index, which measures the extent to which government officials are perceived to exploit their public power for private gains. Lastly, the quality of regulatory institutions in the business environment is a key determinant for the likelihood of arbitration as these institutions inherently determine whether a breach by the is likely to occur. This is measured by the WGI Regulatory Quality index.

A set of control variables, summarized by  $Z_{it}$ , is introduced to control for country-specific aspects affecting the likelihood of arbitration. These include per capita GDP (at current USD), net FDI inflows as a percentage of GDP, a dummy variable for the country being part of the MENA region, and a dummy variable to reflect whether the country is a major oil-exporter.

To examine the second hypothesis, specifically whether superior institutions mitigate the impact of political violence on arbitration, the analysis is expanded to incorporate the interaction between political violence and institutions. This extended model specification is as follows:

$$Y_{it} = \alpha + \beta_0 pviolence_{it} + \beta_1 instquality_{it} + \beta_2 ecocrises_{it} + \beta_3 pviolence * ecocrises + Z_{it} + \mu_{it} \quad (2)$$

The robustness of the results is checked in two different ways. Robust to model specification; a negative Poisson binomial is used. Robustness to data, data on political violence from a different database is used.

### *Empirical results*

Table 1 presents the correlation matrix between the different economic, institutional, and political variables included in the model estimation. The correlation coefficient is mostly weak, with the exception of the correlation between the WGI indicators, namely Rule of Law, Regulatory Quality and Control of Corruption Indexes. The Economic Crises variable also seems to be correlated with economic and institutional regressors; however, the correlation coefficient never exceeds the 0.5 bound. One can also see from the correlation matrix that the ‘Riots and Protests’ or demonstrations variable from ACLED dataset is particularly correlated to the Violent Political Protests occurrence sourced from the UCCDP dataset (with a coefficient of 0.14 for demonstrations measured by the mere count of events and 0.52 for demonstrations severity measured by fatalities. This emphasizes the observation that the two datasets are not consistent across all categories of political violence.

Table 1. Correlation between economic, institutional, and political variables

	Ln pc GDP	FDI Percent	Eco Crises	Oil export.	WGI Rule Law	WGI Con. Corrup	WGI Reg. qual	VPP Count	One- sided Viol.	Dem onstr ations	Battles Explo.	Viol ag. civil	Fatal. Dem onst.	Fatal. battles	Fatal Ag. civil
Ln pc GDP	1														
FDI percent	-0.0296	1													
Eco. crises	-0.5317	0.1225	1.0000												
Oil exporter	0.5814	-0.0477	-0.2021	1.0000											
WGI Rule Law	0.5471	0.0004	-0.4841	0.0367	1.0000										
WGICon.Corrup	0.4889	0.0503	-0.3845	0.0204	0.8917	1.0000									
WGI Reg. qual	0.4889	-0.0306	-0.4395	-0.0216	0.8888	0.8100	1.0000								
VPP Count	0.0204	-0.037	-0.0142	-0.0038	-0.0549	-0.0678	-0.0516.	1.0000							
One-sided Viol.	-0.1819	-0.0546	0.1949	0.0100	-0.3250	-0.2796	-0.2861	0.1208	1.0000						
Demonstrations	0.2949	-0.0819	-0.2017	0.1304	0.0478	-0.0139	0.0265	0.1378	0.0736	1.0000					
Battles&explos.	0.0066	-0.0802	-0.0361	0.0024	-0.2767	-0.2303	-0.2171	0.0004	0.1183	0.1016	1.0000				
Violagainstcivil	-0.0682	-0.0788	0.0259	-0.0057	-0.3663	-0.3440	-0.3034	0.0391	0.4024	0.2008	0.5464	1.0000			
fatal_Demonstr.	0.0351	-0.0507	-0.0340	0.0769	-0.0525	-0.0780	-0.0479	0.5245	0.2282	0.2568	0.0229	0.1828	1.0000		
fatal_Battleexp.	-0.0176	-0.0768	0.0281	0.0326	-0.2765	-0.2391	-0.2169	0.0088	0.2120	0.0646	0.8363	0.4567	0.0516	1.0000	
Fatal_againstcivil	-0.0752	-0.0743	0.0845	0.0757	-0.2845	-0.2546	-0.2109	0.0111	0.5005	0.0807	0.2872	0.6002	0.1874	0.4751	1.0000

Source: Author.

This distinction can further be seen in the model results. Table 2 presents the initial results for equation (1) from the ordinal logistic regression assessing the probability of claims. Noteworthy political violence proxies that exhibit a significant effect on the heightened likelihood of arbitration include riots and protests (measured in both fatalities and the number of events weighted by fatalities, columns 1 and 3) and violent political protests (measured both as a count and a dummy variable, columns 4 and 5). The shared characteristic among the significant proxies is their involvement in demonstrations or direct clashes between the government and civilians, portraying the state as potentially unfair or unethical in targeting civilians. It is crucial to observe that a mere confrontation between the state and unorganized groups is not significant, as indicated by the lack of significance for the number of demonstrations alone (column 2). The level of violence is pertinent because it establishes a



mechanism for reputation building. Recall that for an investor to capitalize on political violence and file a claim, there must be visible evidence of unethical behavior to strengthen the case. Both battles and explosions and violence against civilians (columns 6 and 7) are deemed insignificant. Battles and explosions fall under ‘remote violence’, where the state is not directly nor necessarily implicated in the events. Furthermore, violence against civilians in the ACLED dataset is not necessarily state-based, lacking the state implication criteria. These findings suggest that the type of political violence that triggers claims is the one investors can leverage to make their case, specifically when the state is involved and when there is a certain degree of violence.

The significance of the remaining variables appears consistent across all models (columns 1 to 7). Specifically, institutions exhibit a negative but statistically insignificant effect on the likelihood of arbitration. Findings related to economic crises align with those in Jensen (2020), indicating that economic crises have no discernible effect on arbitration. This suggests that developing states exercise caution to avoid breaching investment agreements during economic crises. Other country-specific factors appear to explain the probability of claims. In line with existing literature, an increase in per capita GDP heightens the likelihood of arbitration. This implies that the income in the host country plays a crucial role in an investor’s decision to file a claim, with income serving as a proxy for the market’s importance to the investor and the potential gain at stake through arbitration.

As noted by Wellhausen (2019), arbitrations often do not lead to the termination of an investor’s investment in the host country; instead, many investors retain or reinvest in the host country, using arbitration as a means to improve the business environment and capitalize on market potential. The findings also suggest that the significance of foreign direct investment (FDI) in the host country and the host country’s familiarity with FDI - as measured by net FDI inflows to GDP - reduces the risk of arbitration. Essentially, countries with higher levels of FDI appear to offer a more hospitable environment for foreign businesses, lowering the risk of breaching international investment agreements. Additionally, being an oil-exporting country significantly reduces the risk of arbitration, likely attributable to the bargaining power enjoyed by oil-rich nations.

Table 2. Impact of Political Violence on Likelihood of Arbitration claims, Ordinal Logistic Regression

VARIABLES	(1) ACLED Riots & Protests <i>weighted</i>	(2) ACLED Riots & Protests <i>Nb events</i>	(3) ACLED Riots & Protests <i>fatalities</i>	(4) UCDP Violent Political Protests <i>count</i>	(5) UCDP Violent Political Protests <i>dummy</i>	(6) ACLED Battles & Explosions <i>weighted</i>	(7) ACLED Violence against Civilians <i>weighted</i>
Riots & Protests, <i>weighted</i>	0.00576** (0.00232)						
Riots & Protests, <i>nb events</i>		-4.22e-05 (0.000279)					
Riots & Protests, <i>fatalities</i>			0.00277*** (0.001000)				
Violent Political Protests, <i>count</i>				1.436*** (0.478)			
Violent Political Protests, <i>dummy</i>					1.102* (0.611)		
Battles & Explosions, <i>weighted</i>						-2.67e-05 (0.000116)	
Violence against Civilians, <i>weighted</i>							-0.00115 (0.00166)
WGI Regulatory quality indicator	-0.402 (0.323)	-0.429 (0.318)	-0.388 (0.323)	0.00792 (0.334)	-0.0280 (0.331)	-0.436 (0.318)	-0.452 (0.320)
Economic crises, <i>tally</i>	0.122 (0.390)	0.0353 (0.387)	0.0952 (0.389)	0.371 (0.386)	0.351 (0.385)	0.0402 (0.389)	0.0407 (0.388)
Oil exporting country	-1.185** (0.537)	-1.180** (0.543)	-1.150** (0.533)	-1.513*** (0.502)	-1.534*** (0.499)	-1.179** (0.540)	-1.148** (0.548)
Log per capita GDP (current USD)	0.876*** (0.214)	0.863*** (0.213)	0.871*** (0.212)	0.836*** (0.196)	0.839*** (0.194)	0.859*** (0.211)	0.850*** (0.212)
Net FDI inflows, % of GDP	-9.746 (6.079)	-10.10* (6.086)	-9.031 (6.040)	-5.164 (4.898)	-5.521 (4.950)	-10.36* (6.168)	-10.91* (6.214)
Trend	0.0777** (0.0352)	0.0757** (0.0352)	0.0716** (0.0349)	0.0802** (0.0314)	0.0813*** (0.0311)	0.0755** (0.0346)	0.0756** (0.0343)
/cut1	165.5** (70.46)	161.2** (70.56)	153.3** (69.74)	170.2*** (62.97)	172.3*** (62.56)	160.9** (69.19)	160.9** (68.70)
/cut2	167.0** (70.47)	162.7** (70.56)	154.8** (69.74)	171.6*** (62.97)	173.7*** (62.57)	162.4** (69.19)	162.4** (68.70)
Observations	735	731	731	762	762	735	735

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

Now turning to the second hypothesis, I investigate whether robust institutions play a dampening role in mitigating the increased probability of arbitration triggered by political violence. Table 2 illustrates the impact of institutional quality on the relationship between

political violence and arbitration. The interaction term reveals that countries with stronger institutions exhibit a higher likelihood of arbitration in the face of political violence. This result is positive in all models where political violence is proxied by demonstrations but only statistically significant with the violent political protests. These findings hold true even when alternative measures for institutional quality are utilized (refer to Table 7 in the Appendix). Albeit relevant to specific setup, this finding seems to suggest a paradoxical link between institutional quality and the propensity for political violence to lead to arbitration claims.

While indicators such as the rule of law, control of corruption, and regulatory quality, show no discernible impact on the overall incidence of disputes, as indicated by the results in Table 3, a nuanced narrative likely unfolds during periods of political instability and violence. Contrary to common belief, this preliminary analysis suggests that countries with robust institutions paradoxically become more vulnerable to investment disputes during times of political unrest. This seemingly counterintuitive phenomenon consistent with the hypothesis that claims filed during times of political violence are not necessarily damage-based but can stem from an opportunistic behavior. Countries with strong institutions are perceived as less likely to yield to unfavorable arbitral decisions. Thus, in times of political turbulence, investors may strategically leverage such situations to challenge the institutional integrity of the host country, potentially improving their chances of winning arbitration cases.

Nations with weaker institutional frameworks experience a different dynamic. For these countries, the imperative to capitalize on moments of political upheaval to highlight institutional deficiencies is less pronounced. Given their inherent institutional weaknesses, investors may refrain from actively exploiting periods of instability as a means to strengthen their arbitration cases.

Table 4. Impact of Quality of Institutions on the relationship between Political Violence and the Likelihood of claims, Ordinal Logistic Regression

VARIABLES	(1) ACLED Riots & Protests <i>weighted</i>	(2) ACLED Riots & Protests <i>Nb events</i>	(3) ACLED Riots & Protests <i>fatalities</i>	(4) UCDP Violent Political Protests <i>count</i>	(5) UCDP Violent Political Protests <i>dummy</i>
Riots & Protests, <i>weighted</i>	0.0216* (0.0117)				
WGI Regulatory quality indicator	-0.443 (0.323)	-0.401 (0.332)	-0.480 (0.326)	-0.0893 (0.333)	-0.102 (0.330)
Riots & Protests, <i>weighted*</i> WGI Regulatory quality	0.0283 (0.0210)				
Riots & Protests, <i>nb events</i>		-7.56e-05 (0.000308)			
Riots & Protests, <i>nb events*</i> WGI Regulatory quality		-0.000118 (0.000404)			
Riots & Protests, <i>fatalities</i>			0.00611** (0.00244)		
Riots & Protests, <i>fatalities*</i> WGI Regulatory quality			0.00584 (0.00399)		
Violent Political Protests, <i>count</i>				3.424*** (1.133)	
Violent Political Protests, <i>count* WGI Reg. quality</i>				2.968* (1.627)	
Violent Political Protests, <i>dummy</i>					3.803*** (1.411)
Violent Political Protests, <i>dummy* WGI Reg. quality</i>					3.435* (1.870)
Economic crises, <i>tally</i>	0.106 (0.390)	0.0488 (0.390)	0.120 (0.389)	0.499 (0.396)	0.469 (0.394)
Oil exporting country	-0.976* (0.549)	-1.200** (0.548)	-0.969* (0.548)	-1.458*** (0.501)	-1.482*** (0.499)
Log per capita GDP (current USD)	0.816*** (0.215)	0.872*** (0.215)	0.823*** (0.215)	0.868*** (0.197)	0.870*** (0.195)
Net FDI inflows, % of GDP	-8.686 (5.769)	-10.12* (6.119)	-8.365 (5.735)	-4.745 (4.654)	-5.068 (4.751)
Trend	0.0847**	0.0743**	0.0813**	0.0880***	0.0872***
/cut1	179.2** (71.85)	158.5** (71.09)	172.5** (71.70)	186.2*** (64.20)	184.5*** (63.67)
/cut2	180.8** (71.86)	160.0** (71.10)	174.1** (71.71)	187.7*** (64.21)	185.9*** (63.67)
Observations	735	731	731	762	762

Standard errors in parentheses

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

### Robustness checks

As a robustness check, a negative binomial regression is employed to test the validity of results obtained from the ordinal logistic regression. The dependent variable in tables 5 and 6 is the

count of claims filed against country  $i$  at year  $t$ . The results related to both hypotheses 1 and 2 seem to hold, both in terms of the direction of the effects as well as their significance. Furthermore, the robustness of these results to alternative proxies for institutional quality can be seen in Tables A1 and A2 in the appendix.

Table 5. Impact of Political Violence on Count of Arbitration claims, Negative Binomial Regression Results

MODEL	(1)	(2)	(3)	(7)	(9)	(11)	(13)
VARIABLES	ACLED Riots & Protests	ACLED Riots & Protests	ACLED Riots & Protests	UCDP Violent Political Protests	UCDP Violent Political Protests	ACLED Battles & Explosions	ACLED Violence against Civilians
	<i>weighted</i>	<i>Nb events</i>	<i>fatalities</i>	<i>count</i>	<i>dummy</i>	<i>weighted</i>	<i>weighted</i>
Riots & Protests, <i>weighted</i>	0.00267** (0.00120)						
Riots & Protests, <i>nb events</i>		0.000161 (0.000232)					
Riots & Protests, <i>fatalities</i>			0.00152** (0.000610)				
Violent Political Protests, <i>count</i>				0.869*** (0.324)			
Violent Political Protests, <i>dummy</i>					0.958** (0.450)		
Battles & Explosions, <i>weighted</i>						-3.04e-05 (0.000105)	
Violence against Civilians, <i>weighted</i>							-0.000110 (0.000544)
WGI Regulatory quality indicator	-0.185 (0.230)	-0.240 (0.238)	-0.175 (0.229)	-0.148 (0.221)	-0.160 (0.225)	-0.245 (0.239)	-0.247 (0.240)
Economic crises, <i>tally</i>	-0.0936 (0.237)	-0.170 (0.242)	-0.0803 (0.237)	-0.0635 (0.233)	-0.0923 (0.235)	-0.170 (0.244)	-0.179 (0.242)
Oil exporting country, <i>dummy</i>	-0.483 (0.363)	-0.596 (0.378)	-0.464 (0.362)	-0.823** (0.326)	-0.865*** (0.331)	-0.650* (0.375)	-0.651* (0.376)
Log per capita GDP (current USD)	0.469*** (0.141)	0.497*** (0.148)	0.472*** (0.140)	0.490*** (0.127)	0.499*** (0.128)	0.520*** (0.145)	0.519*** (0.145)
Net FDI inflows, % of GDP	-0.188 (1.413)	-0.177 (1.436)	-0.0988 (1.396)	0.240 (1.310)	0.208 (1.331)	-0.301 (1.467)	-0.281 (1.460)
Trend	0.0490** (0.0206)	0.0426** (0.0212)	0.0470** (0.0205)	0.0496*** (0.0185)	0.0492*** (0.0187)	0.0456** (0.0211)	0.0451** (0.0210)
Constant	-103.5** (41.01)	-90.97** (42.22)	-99.69** (40.86)	-105.0*** (37.08)	-104.1*** (37.51)	-96.94** (42.07)	-96.11** (41.92)
Ln alpha	0.814*** (0.266)	0.986*** (0.239)	0.801*** (0.268)	0.760*** (0.258)	0.840*** (0.244)	0.997*** (0.239)	0.997*** (0.239)
Observations	735	731	731	762	762	735	735

Standard errors in parentheses

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

Table 6. Impact of Quality of Institutions on the relationship between Political Violence and count of claims, Negative Binomial Regression Results

MODEL	(1)	(2)	(3)	(4)	(5)	(6)	(7)
VARIABLES	ACLED Riots & Protests <i>weighted</i>	ACLED Riots & Protests <i>Nb events</i>	ACLED Riots & Protests <i>fatalities</i>	UCDP Violent Political Protests <i>count</i>	UCDP Violent Political Protests <i>dummy</i>	ACLED Battles & Explosion s <i>weighted</i>	ACLED Violence against Civilians <i>weighted</i>
Riots & Protests, <i>weighted</i>	0.0110* (0.00591)						
WGI Regulatory quality indicator	-0.209 (0.227)	-0.228 (0.249)	-0.229 (0.231)	-0.182 (0.219)	-0.193 (0.222)	-0.264 (0.240)	-0.239 (0.244)
Riots & Protests, <i>nb events</i>		0.000145 (0.000252)					
Riots & Protests, <i>nb events</i> * WGI Regulatory quality		-6.24e-05 (0.000387)					
Riots & Protests, <i>fatalities</i>			0.00360** (0.00175)				
Riots & Protests, <i>fatalities</i> * WGI Regulatory quality			0.00399 (0.00303)				
Violent Political Protests, <i>count</i>				1.847** (0.785)			
Violent Political Protests, <i>count</i> * WGI Reg. quality				1.582 (1.090)			
Violent Political Protests, <i>dummy</i>					2.759** (1.103)		
Violent Political Protests, <i>dummy</i> * WGI Reg. quality					2.429* (1.340)		
Battles & Explosions, <i>weighted</i>						0.000536 (0.00110)	
Battles & Explosions, <i>weighted</i> * WGI Reg. qual.						0.000528 (0.00105)	
Violence against Civilians, <i>weighted</i>							-0.000523 (0.00245)
Violence against Civil*WGI Reg. qual.							-0.000363 (0.00209)
Economic crises, <i>tally</i>	-0.0912 (0.235)	-0.164 (0.245)	-0.0714 (0.236)	-0.0259 (0.232)	-0.0365 (0.235)	-0.164 (0.244)	-0.177 (0.242)
Oil exporting country	-0.401 (0.363)	-0.600 (0.378)	-0.397 (0.363)	-0.805** (0.323)	-0.823** (0.326)	-0.672* (0.376)	-0.635 (0.387)
Log per capita GDP (current USD)	0.445*** (0.140)	0.499*** (0.149)	0.454*** (0.140)	0.498*** (0.126)	0.506*** (0.127)	0.525*** (0.145)	0.515*** (0.147)
Net FDI inflows, % of GDP Trend	-0.195 0.0515**	-0.166 0.0423**	-0.170 0.0506**	0.205 0.0512***	0.197 0.0512***	-0.328 0.0458**	-0.287 0.0455**
Constant	-108.4*** (40.87)	-90.35** (42.39)	-106.8*** (41.10)	-108.3*** (36.93)	-108.3*** (37.27)	-97.41** (42.08)	-96.77** (42.09)
Ln alpha	0.753*** (0.276)	0.986*** (0.239)	0.768*** (0.273)	0.718*** (0.264)	0.776*** (0.252)	0.994*** (0.239)	0.997*** (0.239)
Observations	735	731	731	762	762	735	735

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

## V. *Discussion*

The findings of this paper emphasize the ongoing relevance of international law amid periods of political volatility, yet stress the need for additional considerations to prevent an overwhelming deluge of challenges.

Developing states, in an attempt to attract foreign investment, bind themselves to demanding investment agreements and contracts. Recognizing the heightened exposure of states during challenging times, it becomes imperative to avoid an "it never rains, it pours" scenario where the state needs to deal internally with challenging political development and, externally, with investment arbitration claims. Therefore, within the context of civil unrest, legal protections must be extended to both foreign investors and host states alike. Crafting IIAs with meticulous planning to specifically address issues of attribution and responsibility in this unique context is crucial. It is essential to establish clear parameters determining whether the host state should bear responsibility for damage caused by third parties during unrest, particularly for developing states. To the extent that increased arbitration claims deter foreign investments, what is the net value to overcommitment in investment agreements and contracts?

Striking a balance is crucial; states should not be unduly burdened with responsibility for economic risks associated with civil unrest, while compensation for political risks should be carefully considered. A good starting point would be to define a baseline level of risk that companies, both national and foreign, operating in the host market should generally assume. To discourage opportunistic behavior and mitigate the potential for excessive claims during challenging periods, a deterrence mechanism should be instituted, fostering a fair and equitable international investment landscape.

Furthermore, the findings of this paper point to robust institutions, generally perceived as safeguards against unfavorable arbitral decisions, paradoxically increasing the vulnerability of countries to investment disputes during political unrest. This counterintuitive result calls for nuanced policy responses. States with strong institutions should consider developing mechanisms that protect against strategic challenges to their institutional integrity during turbulent times. Conversely, nations with weaker institutional frameworks may focus on strengthening their institutions to enhance resilience and diminish vulnerability to investor-state disputes.

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*Annex*

Table A1. WGI Rule of Law Regressions

MODEL	(1)	(2)	(3)	(4)	(5)
	ACLED	ACLED	ACLED	UCDP	UCDP
	Riots & Protests	Riots & Protests	Riots & Protests	Violent Political Protests	Violent Political Protests
VARIABLES	<i>weighted</i>	<i>Nb events</i>	<i>fatalities</i>	<i>count</i>	<i>dummy</i>
Riots & Protests, <i>weighted</i>	0.0177* (0.00917)				
WGI Rule of Law indicator	0.172 (0.366)	0.298 (0.383)	0.166 (0.373)	0.809** (0.393)	0.771** (0.389)
Riots & Protests, <i>weighted</i> *	0.0171 (0.0136)				
Riots & Protests, <i>nb events</i>		-0.000299 (0.000399)			
Riots & Protests, <i>nb events</i> * WGI Rule of Law		-0.000723 (0.000591)			
Riots & Protests, <i>fatalities</i>			0.00541* (0.00284)		
Riots & Protests, <i>fatalities</i> *			0.00354 (0.00391)		
Violent Political Protests, <i>count</i>				3.741*** (1.434)	
Violent Political Protests, <i>count</i> * WGI Rule of Law				2.828 (1.888)	
Violent Political Protests, <i>dummy</i>					3.755** (1.719)
Violent Political Protests, <i>dummy</i> * WGI Rule of Law					3.002 (2.130)
Economic Crises	0.380 (0.400)	0.284 (0.396)	0.373 (0.399)	0.865** (0.405)	0.821** (0.404)
Oil exporting country	-0.651 (0.521)	-0.811 (0.522)	-0.637 (0.520)	-1.230** (0.508)	-1.264** (0.505)
Log per capita GDP (current USD)	0.674*** (0.214)	0.690*** (0.212)	0.673*** (0.212)	0.667*** (0.196)	0.670*** (0.193)
Net FDI inflows, % of GDP	-10.51* (6.185)	-11.07* (6.439)	-9.830 (6.147)	-7.542 (5.277)	-7.916 (5.342)
Trend	0.0856** (0.0349)	0.0783** (0.0346)	0.0822** (0.0347)	0.0998*** (0.0318)	0.0985*** (0.0315)
/cut1	179.7** (69.77)	165.0** (69.34)	173.0** (69.41)	208.0*** (63.88)	205.4*** (63.31)
/cut2	181.2*** (69.77)	166.4** (69.35)	174.5** (69.42)	209.5*** (63.88)	206.8*** (63.31)

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

Table A2. WGI Control of Corruption Regressions

VARIABLES	(1) ACLED Riots & Protests weighted	(2) ACLED Riots & Protests Nb events	(3) ACLED Riots & Protests fatalities	(4) UCDP Violent Political Protests count	(5) UCDP Violent Political Protests dummy
Riots & Protests, <i>weighted</i>	0.0154 (0.00980)				
WGI Control of Corruption indicator	0.0324 (0.333)	0.0153 (0.340)	0.0221 (0.340)	0.701* (0.368)	0.666* (0.364)
Riots & Protests, <i>weighted</i> * WGI Control of Corruption	0.0139 (0.0143)				
Riots & Protests, <i>nb events</i>		-9.57e-05 (0.000394)			
Riots & Protests, <i>nb events</i> * WGI Control of Corruption		-9.86e-05 (0.000587)			
Riots & Protests, <i>fatalities</i>			0.00579* (0.00322)		
Riots & Protests, <i>fatalities</i> * WGI Control of Corruption			0.00434 (0.00463)		
Violent Political Protests, <i>count</i>				4.189*** (1.530)	
Violent Political Protests, <i>count</i> * WGI Control of Corruption				3.333* (1.981)	
Violent Political Protests, <i>dummy</i>					4.120** (1.790)
Violent Political Protests, <i>dummy</i> * WGI Control of Corruption					3.295 (2.086)
Economic Crises	0.308 (0.391)	0.202 (0.386)	0.307 (0.390)	0.839** (0.406)	0.785* (0.402)
Oil exporting country	-0.765 (0.515)	-0.861* (0.517)	-0.692 (0.520)	-1.295*** (0.502)	-1.330*** (0.499)
Log per capita GDP (current USD)	0.724*** (0.204)	0.730*** (0.206)	0.708*** (0.203)	0.734*** (0.187)	0.735*** (0.185)
Net FDI inflows, % of GDP	-10.43* (6.141)	-10.49* (6.186)	-9.637 (6.031)	-6.787 (5.071)	-7.095 (5.141)
Trend	0.0831** (0.0347)	0.0813** (0.0348)	0.0815** (0.0347)	0.101*** (0.0319)	0.0994*** (0.0316)
/cut1	175.0** (69.53)	171.3** (69.71)	171.9** (69.54)	211.3*** (64.19)	207.7*** (63.48)
/cut2	176.5** (69.54)	172.7** (69.72)	173.4** (69.54)	212.8*** (64.20)	209.1*** (63.49)
Observations	735	731	731	762	762

Standard errors in parentheses

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