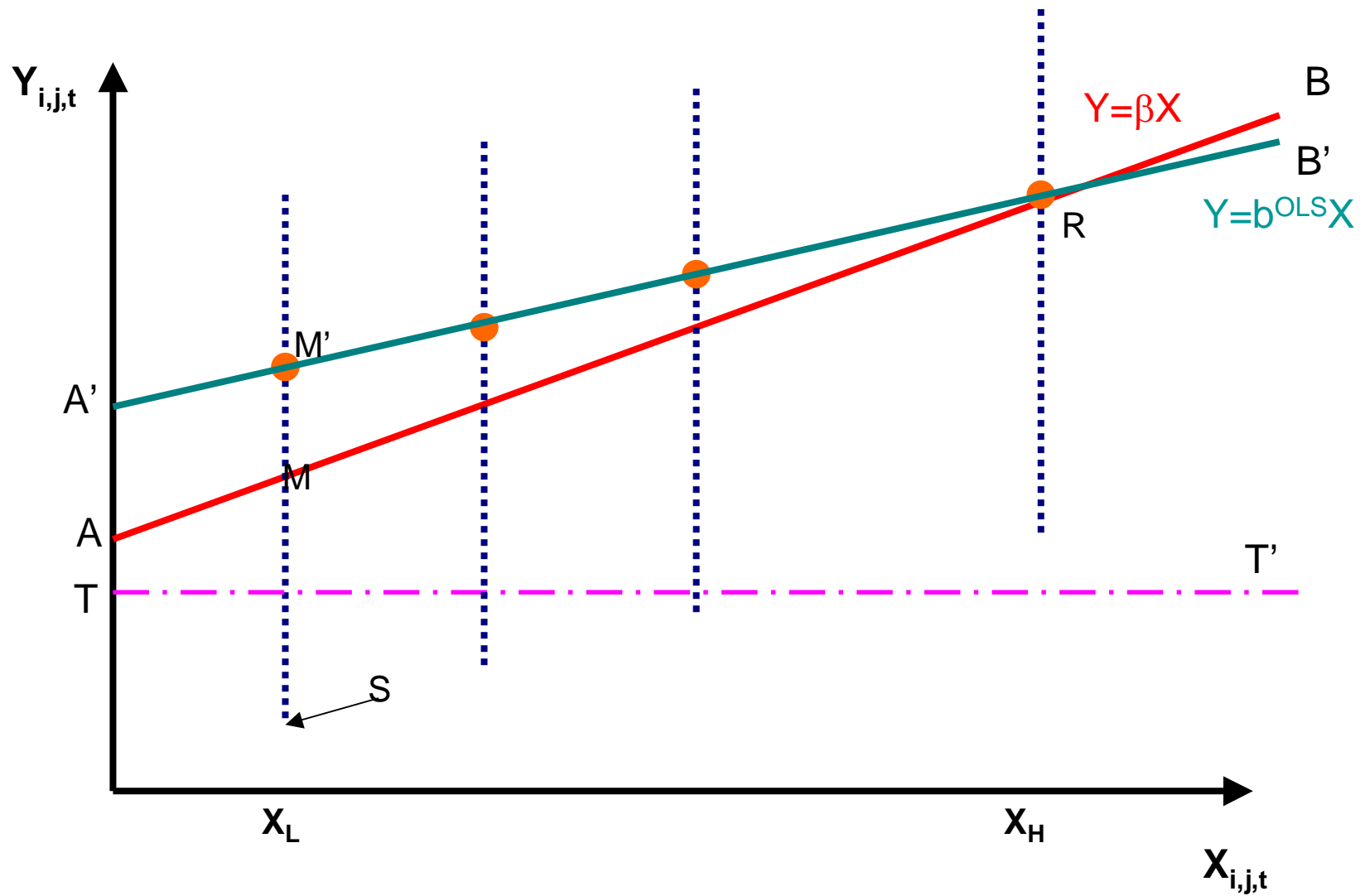
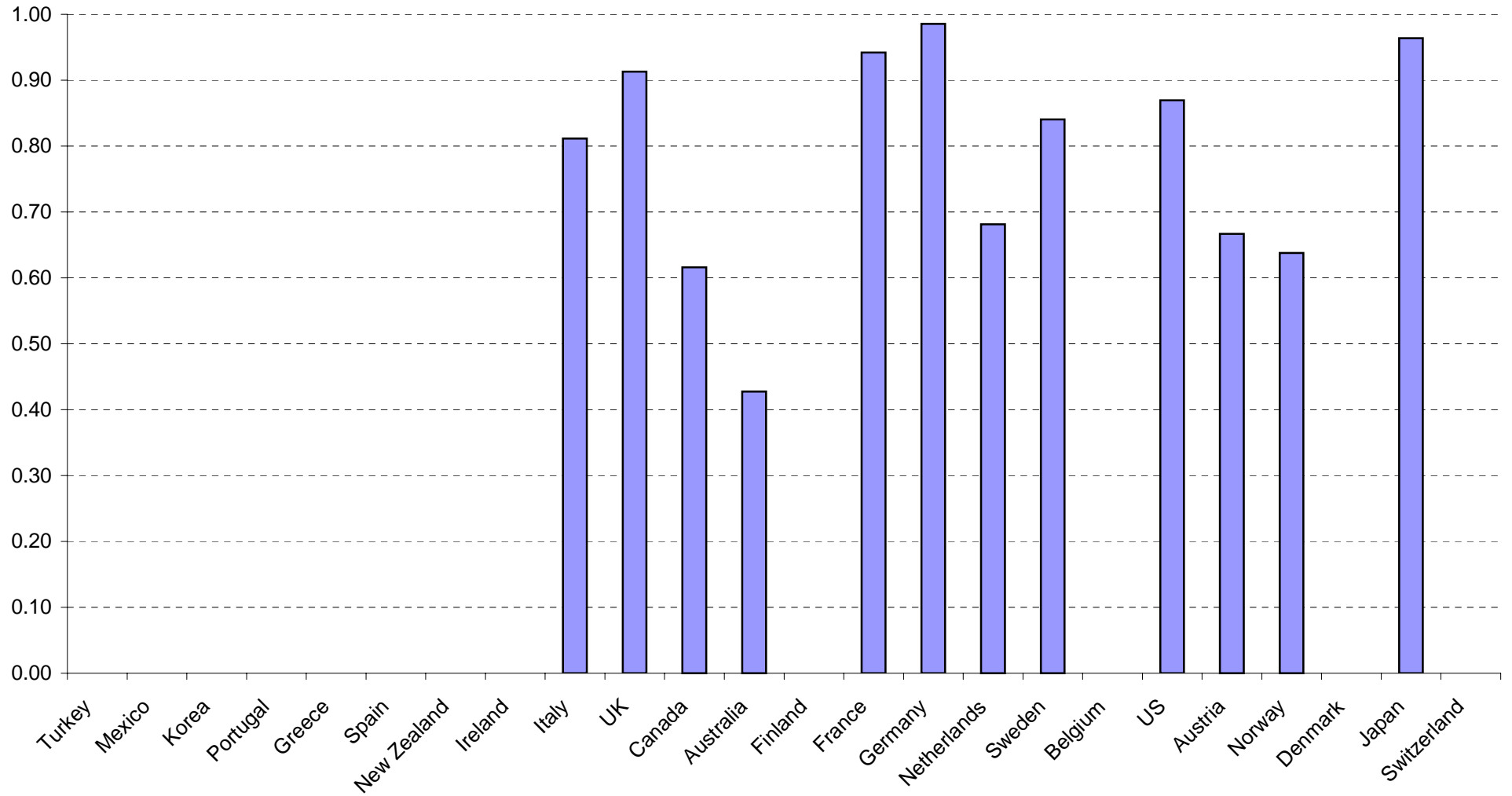


Figure 1: Selection Bias in theand Setup costs Presence of Setup Costs



**Figure 2:**  
**Fraction of OECD Countries which Serve as a Host to FDI Inflows from other OECD Countries,**  
**Ranked by GDP per Capita.**



**Table 1: Number of Source-Host country Pairs by GDP per capita**

Host / Source	Turkey	Mexico	Korea	Portugal	Greece	Spain	New Zealand	Ireland	Italy	UK	Canada	Australia	Finland	France	Germany	Netherlands	Sweden	Belgium	US	Austria	Norway	Denmark	Japan	Switzerland	
Turkey			0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mexico	0			0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Korea	0	0			0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Portugal	0	0	0			0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Greece	0	0	0	0			0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Spain	0	0	0	0	0			0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
New Zealand	0	0	0	0	0	0			0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Ireland	0	0	0	0	0	0	0			0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Italy	1	1	1	1	1	1	1	1		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
UK	1	1	1	1	1	1	1	1	1		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
Canada	0	1	1	1	1	1	1	1	1	1		1	0	1	1	1	1	1	1	1	1	1	1	1	1
Australia	1	0	1	0	0	0	1	1	1	1	1		0	1	1	1	0	1	1	0	0	0	1	1	1
Finland	0	0	0	0	0	0	0	0	0	0	0	0		0	0	0	0	0	0	0	0	0	0	0	0
France	1	1	1	1	1	1	1	1	1	1	1	1	1		1	1	1	1	1	1	1	1	1	1	1
Germany	1	1	1	1	1	1	1	1	1	1	1	1	1	1		1	1	1	1	1	1	1	1	1	1
Netherlands	1	1	1	1	1	1	0	1	1	1	1	1	1	1	1		1	1	1	1	1	1	1	1	1
Sweden	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1		1	1	1	1	1	1	1	1
Belgium	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0	0	0	0	0	0	0
US	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1		1	1	1	1	1	1
Austria	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1		1	1	1	1	1
Norway	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1		1	1	1	1
Denmark	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		0	0	0
Japan	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1		1
Switzerland	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Average	0.48	0.48	0.52	0.48	0.48	0.48	0.48	0.52	0.48	0.48	0.48	0.48	0.43	0.48	0.48	0.48	0.43	0.52	0.48	0.43	0.43	0.48	0.48	0.52	

**Table 2: Source-Host country Pairs by GDP per capita: FDI Flows in Percentage of GDP**

Host / Source	Turkey	Mexico	Korea	Portugal	Greece	Spain	Netherlands	Ireland	Iceland	UK	Canada	Australia	Finland	France	Germany	Netherlands	Sweden	Belgium	US	Austria	Norway	Denmark	Japan	Switzerland
Italy	0.7	0.3	0.1	3.6	1.5	2.5	0.0	5.7		2.7	0.5	0.2	0.3	2.2	0.4	12.2	0.8	20.1	0.4	1.1	0.2	0.3	0.1	7.8
UK	4.5	3.5	0.7	12.0	8.0	8.8	32.3	52.1	3.5		9.6	27.1	1.0	6.9	2.4	62.7	8.7	15.8	10.7	2.1	15.6	3.6	0.4	17.3
Canada	0.0	1.7	0.1	0.4	0.3	0.4	7.8	32.1	0.2	3.8		2.2	0.0	0.7	0.2	1.6	1.3	3.1	4.0	0.6	0.4	0.1	0.1	1.0
Australia	0.0	0.0	0.1	0.0	0.0	0.0	43.7	4.4	0.2	5.8	1.0		0.0	0.0	0.0	1.2	0.0	0.2	1.2	0.0	0.0	0.0	0.0	0.0
Finland	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
France	3.3	1.2	1.0	8.4	2.7	12.1	1.4	7.9	6.6	11.0	4.4	3.6	0.5		3.4	27.2	6.7	44.5	3.8	2.1	2.4	1.8	0.1	16.6
Germany	4.7	3.4	1.8	9.3	4.0	9.0	0.7	69.0	6.2	16.6	4.7	2.9	2.1	8.0		19.9	6.1	39.6	4.7	22.7	4.3	4.7	0.4	18.3
Netherlands	1.0	1.5	0.5	5.8	3.8	5.5	0.0	35.1	1.2	13.1	1.3	2.2	0.5	3.3	1.3		6.5	40.0	3.3	1.3	2.8	5.6	0.1	10.0
Sweden	0.2	0.5	0.3	0.8	0.1	0.8	0.1	21.1	0.5	4.3	0.3	0.4	35.4	1.6	0.6	9.9		2.7	1.0	0.6	15.4	6.0	0.0	3.3
Belgium	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0
US	3.4	36.2	4.8	6.8	1.2	6.5	26.1	127.3	6.4	57.0	47.0	27.4	4.1	8.0	4.3	60.3	5.7	35.7		4.2	16.8	3.9	1.3	39.9
Austria	0.2	0.0	0.0	0.5	0.1	0.2	0.0	2.1	0.3	0.8	0.2	0.3	0.0	0.1	0.4	0.4	0.2	0.9	0.1		0.0	0.7	0.0	1.3
Norway	0.0	0.0	0.0	1.1	0.0	0.4	0.2	4.1	0.1	1.6	0.9	0.1	1.8	0.3	0.1	1.6	8.4	0.9	0.2	0.7		7.1	0.0	0.2
Denmark	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Japan	1.8	4.1	7.7	1.2	0.5	2.7	16.7	19.1	0.8	19.1	7.7	34.2	0.6	2.6	1.3	28.3	0.3	18.2	15.7	1.0	3.3	0.2		4.5
Switzerland	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Average 0.9 2.3 0.7 2.2 1.0 2.1 5.6 16.5 1.1 5.9 3.4 4.4 2.0 1.5 0.6 9.8 1.9 9.6 2.0 1.6 2.7 1.5 0.1 5.2

Table 3:  
 Bilateral FDI Flows and Selection into Source-Host Pairs:  
 OLS, Tobit and Heckman Maximum Likelihood  
 Controlling for Country Fixed Effects  
 OECD Countries only

Variables	Panel A: OLS	Panel B: Tobit Correction		Panel C: Heckman selection		Panel D: Heckman selection	
		Low censored		Equation:		FDI flows Selection	
		0.01	1	FDI flows Selection		FDI flows Selection	
GDP per capita - host <sup>^</sup>	0.283 (0.459)	0.454 (1.093)	0.351 (0.971)	0.207 (0.684)	0.237 (0.830)	0.158 (0.697)	0.082 (0.853)
GDP per capita - source <sup>^</sup>	0.324 (0.316)	-0.192 (1.347)	-0.186 (1.181)	-0.123 (0.609)	-1.178 (1.412)	-0.232 (0.624)	-1.882 (1.587)
Difference between source and host years of schooling	<b>0.086</b> <b>(0.060)</b>	<b>0.338</b> <b>(0.136)*</b>	<b>0.263</b> <b>(0.122)*</b>	<b>-0.052</b> <b>(0.099)</b>	<b>0.276</b> <b>(0.112)*</b>	<b>-0.073</b> <b>(0.100)</b>	<b>0.261</b> <b>(0.106)*</b>
Financial risk rating - host	<b>0.002</b> <b>(0.012)</b>	<b>0.001</b> <b>(0.029)</b>	<b>0.015</b> <b>(0.026)</b>	<b>0.053</b> <b>(0.017)**</b>	<b>-0.014</b> <b>(0.025)</b>	<b>0.058</b> <b>(0.016)**</b>	<b>-0.018</b> <b>(0.026)</b>
Financial risk rating - source	<b>-0.040</b> <b>(0.011)**</b>	<b>-0.201</b> <b>(0.054)**</b>	<b>-0.171</b> <b>(0.047)**</b>	<b>-0.057</b> <b>(0.032)</b>	<b>-0.134</b> <b>(0.046)**</b>		<b>-0.153</b> <b>(0.048)**</b>
Common language	<b>0.529</b> <b>(0.135)**</b>	<b>1.222</b> <b>(0.152)**</b>	<b>1.163</b> <b>(0.134)**</b>	<b>0.892</b> <b>(0.121)**</b>	<b>0.491</b> <b>(0.211)*</b>	<b>0.881</b> <b>(0.123)**</b>	<b>0.410</b> <b>(0.187)*</b>
Distance (in logs)	<b>-0.448</b> <b>(0.077)**</b>	<b>-0.926</b> <b>(0.090)**</b>	<b>-0.883</b> <b>(0.079)**</b>	<b>-0.667</b> <b>(0.084)**</b>	<b>-0.482</b> <b>(0.107)**</b>	<b>-0.663</b> <b>(0.083)**</b>	<b>-0.408</b> <b>(0.098)**</b>
Population - host <sup>^</sup>	1.949 (1.608)	6.878 (3.715)	4.119 (3.286)	-4.952 (2.489)*	10.438 (2.767)**	-5.331 (2.366)*	8.949 (2.792)**
Population - source <sup>^</sup>	0.202 (1.490)	-2.695 (4.468)	-2.629 (3.959)	-0.136 (2.864)	-0.016 (3.278)	-1.170 (2.817)	0.514 (3.400)
Lagged FDI participation variable							<b>0.619</b> <b>(0.145)**</b>
Correlation between the error terms $\rho(U_F, U_S)$				<b>-0.577</b> <b>(0.177)</b>		<b>-0.605</b> <b>(0.157)</b>	
$\sigma(U_F)$				<b>1.068</b> <b>(0.051)</b>		<b>1.070</b> <b>(0.048)</b>	
Inverse Mills ratio				<b>-0.616</b> <b>-(0.213)</b>		<b>-0.648</b> <b>-(0.191)</b>	
Observations	2116	2116	2116	2116	2116	2116	2116

Note:  
<sup>^</sup> in logs  
 All specifications include year and country fixed-effects.  
 Robust standard errors in parentheses  
 \* significant at 5%; \*\* significant at 1%

Table A.2:  
 Bilateral FDI Flows and Selection into Source-Host Pairs:  
 OLS, Tobit and Heckman Maximum Likelihood  
 Without Country Fixed Effects  
 OECD Countries only

Variables	Panel A:	Panel B:		Panel C:		Panel D:	
	OLS	Tobit Correction		Heckman selection		Heckman selection	
		Low censored		Equation:			
		0.01	1	FDI flows Selection		FDI flows Selection	
GDP per capita - host <sup>^</sup>	0.026 (0.156)	-0.183 (0.260)	-0.091 (0.229)	0.357 (0.216)	-0.111 (0.140)	0.400 (0.214)	0.068 (0.103)
GDP per capita - source <sup>^</sup>	1.589 (0.155)**	3.910 (0.323)**	3.251 (0.282)**	0.261 (0.442)	1.432 (0.146)**	0.487 (0.480)	1.419 (0.150)**
Difference between source and host years of schooling	-0.033 (0.028)	0.013 (0.046)	-0.009 (0.041)	-0.062 (0.035)	-0.006 (0.028)	-0.095 (0.036)**	0.003 (0.027)
Financial risk rating - host	0.068 (0.017)**	0.128 (0.029)**	0.131 (0.026)**	0.104 (0.020)**	0.027 (0.015)	0.104 (0.019)**	
Financial risk rating - source	0.047 (0.014)**	0.244 (0.042)**	0.210 (0.037)**	0.126 (0.033)**	0.050 (0.017)**		0.055 (0.019)**
Common language	0.590 (0.224)**	1.075 (0.230)**	1.099 (0.200)**	1.242 (0.220)**	0.128 (0.150)	1.186 (0.214)**	0.152 (0.152)
Distance (in logs)	-0.349 (0.082)**	-0.779 (0.085)**	-0.744 (0.075)**	-0.541 (0.090)**	-0.111 (0.053)*	-0.505 (0.098)**	-0.101 (0.052)
Population - host <sup>^</sup>	0.327 (0.078)**	0.642 (0.086)**	0.621 (0.076)**	0.643 (0.079)**	0.096 (0.055)	0.611 (0.086)**	0.105 (0.053)
Population - source <sup>^</sup>	1.350 (0.059)**	2.344 (0.092)**	2.111 (0.082)**	0.844 (0.136)**	0.790 (0.065)**	0.749 (0.206)**	0.773 (0.069)**
Correlation (U <sub>i,j</sub> , V <sub>i,j</sub> )				0.055 (0.214)		-0.275 (0.323)	
SD of U <sub>i,j</sub> (flow equation)				1.462 (0.055)		1.504 (0.083)	
Inverse Mills ratio				0.081 (0.313)		-0.414 (0.503)	
Observations	2116	2116	2116	2116	2116	2116	2116

Note:

<sup>^</sup> in logs

All specifications include year fixed-effects.

Robust standard errors in parentheses

\* significant at 5%; \*\* significant at 1%

Table A.3.1:  
 Bilateral FDI Flows and Selection into Source-Host Pairs:  
 OLS, Tobit and Heckman Maximum Likelihood  
 Controlling for Country Fixed Effects  
 OECD and Non-OECD Countries

Variables	Panel A:	Panel B:		Panel C:		Panel D:	
	OLS	Tobit Correction		Heckman selection		Heckman selection	
		Low censored		Equation:			
		0.01	1	FDI flows Selection		FDI flows Selection	
GDP per capita - host <sup>^</sup>	0.104 (0.077)	-0.593 (0.543)	-0.611 (0.517)	0.297 (0.381)	-0.206 (0.394)	0.346 (0.386)	-0.292 (0.369)
GDP per capita - source <sup>^</sup>	0.087 (0.034)*	0.668 (1.036)	0.367 (0.911)	-0.141 (0.466)	0.715 (1.249)	-0.264 (0.483)	-0.112 (1.171)
Financial risk rating - host	<b>-0.001</b> <b>(0.004)</b>	<b>0.013</b> <b>(0.017)</b>	<b>0.022</b> <b>(0.015)</b>	<b>0.034</b> <b>(0.010)**</b>	<b>-0.009</b> <b>(0.014)</b>	<b>0.036</b> <b>(0.010)**</b>	<b>-0.017</b> <b>(0.014)</b>
Financial risk rating - source	<b>-0.028</b> <b>(0.003)**</b>	<b>-0.207</b> <b>(0.042)**</b>	<b>-0.189</b> <b>(0.037)**</b>	<b>-0.076</b> <b>(0.027)**</b>	<b>-0.097</b> <b>(0.034)**</b>		<b>-0.127</b> <b>(0.036)**</b>
Difference between source and host years of schooling	<b>0.081</b> <b>(0.026)**</b>	<b>0.316</b> <b>(0.111)**</b>	<b>0.262</b> <b>(0.101)**</b>	<b>0.060</b> <b>(0.083)</b>	<b>0.222</b> <b>(0.081)**</b>	<b>0.038</b> <b>(0.084)</b>	<b>0.216</b> <b>(0.079)**</b>
Common language	0.187 (0.070)**	0.962 (0.115)**	0.925 (0.102)**	0.721 (0.101)**	0.352 (0.124)**	0.715 (0.101)**	0.278 (0.107)**
Distance (in logs)	-0.321 (0.039)**	-1.059 (0.069)**	-1.007 (0.061)**	-0.762 (0.071)**	-0.503 (0.083)**	-0.754 (0.068)**	-0.399 (0.075)**
Population - host <sup>^</sup>	1.289 (0.356)**	9.334 (1.687)**	7.529 (1.529)**	-0.317 (1.438)	7.904 (1.505)**	-0.488 (1.285)	6.606 (1.470)**
Population - source <sup>^</sup>	-0.929 (0.197)**	-7.247 (3.506)*	-5.797 (3.127)	2.899 (2.442)	-7.142 (2.655)**	1.608 (2.345)	-5.665 (2.613)*
Lagged FDI participation variable							<b>0.809</b> <b>(0.098)**</b>
Correlation between the error terms $\rho(U_F, U_S)$				<b>-0.520</b> <b>-(0.213)</b>			<b>-0.632</b> <b>(0.100)</b>
$\sigma(U_F)$				<b>1.071</b> <b>-(0.051)</b>			<b>1.091</b> <b>(0.0381)</b>
Inverse Mills ratio				<b>-0.557</b> <b>-(0.252)</b>			<b>-0.689</b> <b>(0.128)</b>
Observations	6724	6724	6724	6724	6724	6724	6724

Note:

<sup>^</sup> in logs

All specifications include year fixed-effects.

Robust standard errors in parentheses

\* significant at 5%; \*\* significant at 1%

Table A.3.2:  
 Bilateral FDI Flows and Selection into Source-Host Pairs:  
 OLS, Tobit and Heckman Maximum Likelihood  
 Without Country Fixed Effects  
 OECD and Non-OECD Countries

Variables	Panel A:	Panel B:		Panel C:		Panel D:	
	OLS	Tobit Correction		Heckman selection		Heckman selection	
		Low censored		Equation:			
		0.01	1	FDI flows Selection		FDI flows Selection	
GDP per capita - host <sup>^</sup>	0.273 (0.047)**	0.639 (0.111)**	0.655 (0.099)**	0.764 (0.088)**	0.107 (0.059)	0.729 (0.103)**	0.264 (0.048)**
GDP per capita - source <sup>^</sup>	0.944 (0.048)**	4.264 (0.223)**	3.588 (0.193)**	0.319 (0.353)	1.402 (0.100)**	0.401 (0.391)	1.361 (0.102)**
Difference between source and host years of schooling	-0.063 (0.014)**	-0.078 (0.034)*	-0.087 (0.030)**	-0.093 (0.027)**	-0.022 (0.019)	-0.121 (0.028)**	-0.012 (0.019)
Financial risk rating - host	0.024 (0.005)**	0.104 (0.014)**	0.099 (0.013)**	0.056 (0.010)**	0.031 (0.008)**	0.055 (0.010)**	
Financial risk rating - source	0.012 (0.004)**	0.226 (0.028)**	0.190 (0.025)**	0.136 (0.027)**	0.053 (0.009)**		0.059 (0.011)**
Common language	0.333 (0.084)**	1.060 (0.165)**	1.108 (0.146)**	1.067 (0.161)**	0.159 (0.095)	0.981 (0.155)**	0.158 (0.093)
Distance (in logs)	-0.243 (0.052)**	-0.732 (0.070)**	-0.688 (0.062)**	-0.490 (0.077)**	-0.123 (0.043)**	-0.432 (0.079)**	-0.126 (0.043)**
Population - host <sup>^</sup>	0.207 (0.036)**	0.766 (0.062)**	0.728 (0.055)**	0.635 (0.065)**	0.175 (0.037)**	0.567 (0.073)**	0.206 (0.035)**
Population - source <sup>^</sup>	0.809 (0.036)**	2.321 (0.067)**	2.094 (0.060)**	0.863 (0.130)**	0.727 (0.044)**	0.713 (0.142)**	0.704 (0.046)**
Correlation (U <sub>i,j</sub> , V <sub>i,j</sub> )				0.059 (0.229)		-0.379 (0.205)	
SD of U <sub>i,j</sub> (flow equation)				1.443 (0.042)		1.517 (0.079)	
Inverse Mills ratio				0.086 (0.331)		-0.575 (0.337)	
Observations	6724	6724	6724	6724	6724	6724	6724

Note:

<sup>^</sup> in logs

All specifications include year fixed-effects.

Robust standard errors in parentheses

\* significant at 5%; \*\* significant at 1%