Local Politics, Global Capital: The Effects of Domestic Political Ties on Foreign Direct Investment Attraction*

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Abstract

How do local politics influence the subnational distribution of global capital inflows? We argue that political ties between local and national governments play a key role in attracting foreign direct investment (FDI). Local governments connected to influential national-level politicians gain greater visibility and stand out from their competitors, drawing in more FDI. We test this proposition using a novel municipal-level dataset on FDI transactions in Brazil (2012–2021), the largest FDI recipient in the developing world. Multilevel regression models and a regression discontinuity design corroborate our hypothesis. Qualitative evidence and additional statistical tests suggest that the mechanism connecting political ties and FDI attraction is primarily intangible, discarding alternative explanations that well-connected municipalities receive more transfers, investment incentives, or regulatory leniency. By unveiling a new political determinant of global capital allocation, our research underscores the heterogeneous effects of economic globalization at the local level.

Keywords: foreign direct investment; political alignment; local politics; Brazil.
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1 Introduction

Foreign direct investment (FDI) is often analyzed from a global perspective, yet its impacts also manifest locally. Foreign capital creates jobs, enhances public infrastructure, reduces inequality, and increases the incumbent party's reelection prospects (Bunte et al. 2018; Jensen and Rosas 2007; Owen 2019). Unsurprisingly, state and local governments spare no effort trying to attract FDI. They promote overseas investment missions (McMillan 2009), set up international investment offices and promotion agencies (Bauerle Danzman and Slaski 2022), distribute generous investment incentives (Baccini et al. 2018), attend "networking events" — including soccer games and Taylor Swift concerts — to rub shoulders with potential investors (Hamilton 2024), and claim credit for boosting the economy (Jensen and Malesky 2018). Beyond these visible efforts, what other aspects of subnational politics help draw investment to specific locations?

We argue that domestic political ties play a crucial role in shaping FDI inflows at the subnational level. When deciding where to invest, foreign firms often rely on guidance from national government actors or investment promotion agencies. Political connections between local and national governments help put a municipality on foreign investors' map, drawing attention to locations they would otherwise overlook. Beyond increasing a municipality's visibility to potential investors, close political connections with the national government signal that this municipality has easy access to key policymakers. From the investor's standpoint, well-connected municipalities are more likely to receive preferential treatment. As a result, investors view aligned municipalities as more attractive destinations for FDI than their non-aligned counterparts, all else equal.

We test our argument using an original, publicly available dataset of all FDI transactions received by each Brazilian municipality between 2012 and 2021. As the largest recipient of FDI in the developing world (UNCTAD 2022), Brazil is a democratic federation where political connections between the local and national governments play a significant role in policymaking (Novaes 2018; Zucco and Power 2024). Given the hierarchical structure of our data, with 5,570 municipalities nested within 26 states, we estimate multilevel regression models with different specifica-

tions, controlling for several municipal-level political, social, and economic covariates. We also implement a close-election regression discontinuity design (RDD) to leverage the as-if random assignment of candidates who narrowly win or lose an election. Both empirical approaches show that political connections between the local and national governments significantly increase the count of FDI transactions, an effect that is robust to different specifications. The RDD allows us to make causal statements about close elections, whereas the multilevel models identify broader trends across the entire sample, reinforcing the generalizability of our results.

Finally, we investigate the potential mechanisms connecting political ties to FDI. We find support for the intangible, enhanced visibility mechanism through an in-depth case study of the Dutch beverage manufacturer Heineken investing in Brazil around 2020. Evidence from local newspapers and interviews with local political actors confirm that strong political connections improved the visibility of small municipalities that would otherwise have been overlooked by Heineken. Additional statistical analyses discard alternative explanations based on more tangible benefits valued by investors that could stem from domestic political connections, such as more intergovernmental transfers and investment incentives or reduced regulatory barriers. Qualitative evidence highlights the key role of domestic political coalitions in promoting municipalities in the competition for foreign investment projects of different scales and sectors. Overall, political connections attract foreign investment primarily by raising municipalities' profiles to investors rather than directly generating material benefits.

Much of the literature on political alignment examines its effects on local public goods provision (e.g. Alberti, Díaz–Rioseco and Visconti 2022; Migueis 2013; Callen, Gulzar and Rezaee 2020; Brollo and Nannicini 2012). We show that political dynamics also influence how foreign actors engage with local economies. A growing literature builds bridges between international and comparative political economy (Ballard-Rosa et al. 2021; Rickard 2022) yet overlooks developing countries, where foreign capital flows are often most consequential (Rickard 2020). This gap underscores the importance of our study. Empirically, most studies linking subnational politics to FDI focus on states, which obscures the importance of local political dynamics (Garriga and

Phillips 2022; Garriga 2022; Halvorsen and Jakobsen 2013; Simmons et al. 2018). By leveraging highly granular municipal-level data, our analysis demonstrates how domestic political networks shape global economic outcomes, making broad contributions to political science.

2 How Local Factors Attract FDI

Much of the literature on FDI attraction studies national-level determinants (Pandya 2016). This includes bilateral investment treaties (Elkins, Guzman and Simmons 2006) and their investor-state dispute settlement clauses (Moehlecke and Wellhausen 2022), property rights (Jensen 2003; Li and Resnick 2003), screening requirements in strategic sectors (Bauerle Danzman and Meunier 2023), local content requirements (Pandya 2014), tax and regulatory policies (Li 2006; Jensen 2012), electoral cycles (Canes-Wrone and Park 2014; Chen, Nie and Ge 2019), partisanship (Pinto 2013), party structure (Simmons et al. 2018), and respect to human rights (Blanton and Blanton 2007). The influence of subnational factors in attracting foreign capital has received far less attention than it deserves, aside from a few notable contributions.

From a socioeconomic standpoint, low education levels, low trust in state authorities, high delinquency rates, and organized crime competition drive away investment at the subnational level, as shown by studies of Mexican states (Escobar Gamboa 2012; Samford and Gómez 2014; Garriga and Phillips 2022). Agglomeration, or geographic clustering, also plays an important role (Duranton and Puga 2001; Knoben 2009; Rodríguez-Pose and Crescenzi 2008). Business activities, especially those of high added value, tend to cluster in large cities, which offer more competitive consumer markets, knowledge-based services (like finance and IT), transportation networks (including airports, ports, and roads), and telecommunications infrastructure (Duranton and Puga 2001). Granted, large cities often display "diseconomies of scale:" high rental costs, congestion, and salaries may encourage firms to spread to contiguous locations. But this, in turn, bolsters the development of metropolitan areas, an important determinant of firm location itself (Crescenzi et al. 2019).

Concerning politics, one question approached by this emerging literature is how the partisanship and ideology of subnational governments affect their ability to attract investment. According to Garriga (2022), multinational corporations (MNCs) prefer Mexican states ruled by left-wing governors, who are more likely to invest in human capital. In contrast, right-wing mayors in Brazil are associated with more business creation than their leftist peers (Arvate and Story 2021). In the US, Republican-governed states experience a boost in investment from China (Lu and Biglaiser 2020) and in the manufacturing sector (Wang and Heyes 2021), relative to Democrats. As a compromise, Halvorsen and Jakobsen (2013) posit that divided state governments attract more FDI in the US; since Republicans support low taxes and Democrats invest in public goods provision, a mix of both is most appealing to MNCs.

There is also growing interest in whether investment incentives affect firms' subnational location decisions. The general answer is no: incentives sweeten the deal for firms that would have chosen a given location anyway (Oman 2000; Jensen and Malesky 2018). Yet much of the evidence comes from OECD countries (e.g. Jensen 2012; Bartik 2018). In developing countries, at least some incentives appear to make a difference: lower corporate income taxes and longer tax holidays attract more investment to Latin America (Klemm and Parys 2012), and tax cuts on direct investment profit increase FDI in some Russian jurisdictions (Baccini, Li and Mirkina 2014). Firms that receive incentives are often already embedded in local markets, in sectors conforming to governments' broader economic policy goals, at least in Latin America (Bauerle Danzman and Slaski 2022). This is yet another indication that subnational politics matter for investment attraction.

Ultimately, local politics does not happen in a vacuum; it is embedded in national politics. The national government plays a key role in shaping how subnational entities function, no matter the degree of administrative autonomy at the subnational level. In what follows, we explore an understudied aspect of subnational politics in attracting global capital: domestic political ties, that is, the extent to which local politicians are allies or opponents of the national government.

3 Argument

National and subnational entities compete for FDI (Jensen and Malesky 2018). Some disputes occur at the global level, where states, provinces, counties, or municipalities vie with counterparts in other countries (Markusen and Nesse 2007, p. 7). In other circumstances, the competition takes place domestically, as foreign investors who have already chosen a host country must then decide on a specific location within it (Mataloni Jr 2011; Bauerle Danzman and Slaski 2021).

Within this domestic competition, we argue that, all else equal, foreign investors favor municipalities with strong political ties to prominent national politicians. National governments play a key role in attracting FDI by leading trade and investment delegations abroad and promoting business opportunities to foreign audiences.[1] In many electoral systems, national legislators have a vested interest in local politics because their electoral success depends on regional constituencies.[2] Correspondingly, municipalities with stronger political ties to such national legislators gain privileged access to investment promotion initiatives. These municipalities are more likely to appear in investment promotion materials and discussions with foreign investors or diplomatic representatives visiting the host country (e.g. Durante 2020; InfoGEI 2024). Through these channels, national authorities can informally direct attention to their preferred location, increasing its visibility. Even a municipality with strong economic fundamentals — including high-quality infrastructure, skilled labor, and low crime — might struggle to attract FDI if investors lack information about it. Political connections help municipalities gain influential advocates who boost their appeal to foreign investors.

Two mechanisms drive an investor's preference for politically connected municipalities. First, investors may simply "discover" a well-connected location that meets their technical criteria. Here, political ties provide an informational advantage, increasing the visibility among otherwise similar competitors. Second, political ties may serve as a broader signal of favorable treatment. A

[1] See examples from the Philippines (Esguerra 2024), Peru (Embajada del Perú en Reino Unido 2023), and Nigeria (U.S. Mission Nigeria 2023).

[2] This dynamic is clearest in majoritarian electoral systems (like the US and the UK) and mixed-member systems (such as Germany and Japan) but also applies in proportional representation systems with informal regional power bases, such as Brazil, Colombia, and Indonesia.

World Bank report on city competitiveness highlights that firm perceptions and "softer factors" influence location decisions, particularly at the final selection stage (Zhu, Larrey and Santos 2015, p. 12). While economic fundamentals remain the primary determinant, perceptions of political support, stability, and predictability may be decisive. This applies not only to efficiency-seeking and market-seeking investments but also resource-seeking projects: firms weigh the local political landscape even when investing in sectors constrained by specific, immobile factors (Zhu, Larrey and Santos 2015, p.10). Domestic political ties matter for greenfield and brownfield investments alike, as governments actively facilitate mergers and acquisitions (M&A) (Bauerle Danzman 2020, p.2). Correspondingly, the World Bank advises cities to "promote effective partnerships and coordination" with regional and national governments to enhance their attractiveness to multinational firms (Zhu, Larrey and Santos 2015, p. 18).

The expectation of favorable treatment in politically connected locations is not just about perception — it has concrete implications. In Brazil (Brollo and Nannicini 2012; Meireles 2018), Chile (Alberti, Díaz–Rioseco and Visconti 2022), Croatia (Glaurdić and Vuković 2017), India (Arulampalam et al. 2009), Italy (Bracco, Porcelli and Redoano 2013), Portugal (Migueis 2013), Spain (Solé-Ollé and Sorribas-Navarro 2008), and the US (Berry, Burden and Howell 2010), local governments aligned with the national administration request and receive more financial resources than non-aligned ones (Goldstein and You 2017; Meireles 2018). These intergovernmental transfers serve to reward and secure local allies but also punish political opponents: as more resources go to friends, fewer resources are available to foes (Martin 2003; Brollo and Nannicini 2012).[3]

For investors, these additional resources might increase the appeal of a politically connected municipality by enabling infrastructure development and improving public services. Political ties may also expedite administrative processes, reduce regulatory hurdles, and improve fiscal management, all factors known to enhance FDI prospects (Tomasi, Pieri and Cecco 2023). Additionally, MNCs may believe (rightly or not) that investment incentives depend on a good relationship between the local and national governments, especially in federal systems with extensive fis-

[3] A related strategy is to bypass local-level opponents by distributing resources to non-state organizations instead (Bueno 2018).

cal transfers. Regardless of the specific mechanism at play, we can derive the following testable hypothesis:

Central Hypothesis: *All else equal, local governments with political ties to influential national politicians will attract more FDI than those without such ties.*

In summary, political connections between local and national politicians enhance a municipality's visibility to foreign investors. When making location decisions, investors consider a range of factors (Maitland and Sammartino 2015); increased visibility can help attract investment by providing vital information about a location's comparative advantages. Such connections may also signal a higher likelihood of favorable treatment in the host country, whether through positive perceptions or tangible benefits. Factors like infrastructure, skilled labor, and market access remain essential. Still, when multiple locations meet these technical criteria, political connections are a key tiebreaker, tipping the scales in favor of well-connected local governments.

4 The Case of Brazil

4.1 Background

We test our central hypothesis using data from Brazil. As the largest FDI recipient in the developing world (UNCTAD 2022), Brazil is a presidential democracy whose federal structure grants significant autonomy to its 5,570 municipal governments, sorted into 26 states and one federal district. There are general elections for president, state governors, and the National Congress every four years, with midterm elections for mayors and city councils. All municipalities follow a mayor-council system, with directly elected mayors who hold substantial executive powers.[4]

In Brazil, political connections between government levels play a key role in intergovern-

[4]There are only two exceptions: the capital Brasília does not have a local-level government, and the island of Fernando de Noronha has a city manager appointed by the state government of Pernambuco. Both are excluded from our discussion and subsequent analysis.

mental relations. Mayors value ties with the federal administration because they derive material benefits from it — for instance, the federal government tends to allocate more resources to aligned municipalities (Brollo and Nannicini 2012; Bueno 2018; Meireles 2018). At the same time, local elections are strategic for Members of Parliament (MPs), who are elected in a proportional representation system with regional lists, where entrenched local political strongholds play a decisive role. Thus, mayors act as key brokers of MPs, mobilizing local support (Novaes 2018). In turn, MPs help advance the president's legislative agenda, making it easier to govern (Zucco and Power 2024). Given this interdependence, MPs and presidents in Brazil often directly campaign for mayoral candidates in municipal elections, aiming to strengthen their local political base (e.g. Ribeiro 2024; Ferreira 2024; Martins 2024). The importance of political ties between the local and federal levels of government and the country's attractiveness to foreign investors make Brazil an ideal case for our study.

4.2 Case Study: Heineken in Brazil

Before conducting statistical analyses to test our hypothesis using data from all Brazilian municipalities, we present a case study to illustrate how political connections between the local and national governments influence the attraction of FDI. We analyze the case of the Dutch beverage manufacturer Heineken in Brazil. Heineken established its presence in the country — the world's third-largest beer market — through mergers and acquisitions in 2017. In December 2020, Heineken announced its first greenfield project in Brazil: the construction of a brand new brewery in Pedro Leopoldo, a small town of 60,000 inhabitants, located 40 km (25 miles) away from Belo Horizonte, the capital of the state of Minas Gerais. Pedro Leopoldo fulfilled two important technical criteria: it offered high-quality freshwater (an important input for beer) and proximity to Brazil's most densely populated regions.

However, in September 2021, Brazil's Ministry of Environment halted construction due to concerns that the brewery would displace wildlife, deplete freshwater reserves, and threaten caves of high archaeological value, where the oldest human fossil of the Americas was discovered in 1970

(Adler 2021). Despite securing legal support at the state level, Heineken ultimately withdrew its investment from Pedro Leopoldo. This decision was influenced by reputational concerns and the heightened risk of policy reversal, as the state-level permit was a preliminary injunction that could be overturned. Heineken's director of Corporate Affairs cited "the instability in legal interpretation between state and federal bodies, along with the involvement of other departments," as determining factors (Valverde 2021).

Heineken remained committed to building a factory in the state of Minas Gerais, and it had options. After the deal with Pedro Leopoldo fell through, 230 municipalities in the state filled out an online form expressing interest in hosting the brewery, with at least six serious contenders — all but one with a mayor connected to the federal government's most powerful political coalition at the time (Bianchetti 2022; Gomes et al. 2021). One of these towns was Passos, with a population of 112,000. The President of the National Congress, Senator Rodrigo Pacheco, took a personal interest in the dispute, as Passos was his hometown. To negotiate with Heineken, Pacheco enlisted his allies, including MP Emidinho Madeira, former MP Renato Andrade, state MP Cássio Soares, and the mayor of Passos, Diego Oliveira — all of whom were members of parties in the president's support coalition in the National Congress at the time, rendering them particularly influential. On April 19, 2022, Pacheco approved funding to pave a state highway leading to Passos (Alves 2022). Exactly one week later, Heineken announced Passos as the new location for its Brazilian brewery (Nascimento 2022*b*).

State MP Soares insisted: "Heineken's decision is not political. Heineken chose Passos because it has characteristics that favor industrialization... we have a town with an airport, a public university..., abundant water, and a reasonable Human Development Index" (Peixoto and Garcia 2022). The Secretary of Planning of Passos explained how his office approached Heineken: "We made presentations, we took them to the locations, we presented studies showing the strategic location of Passos, what audience they wanted to reach, what demand, and on top of that, we showed that Passos had these characteristics that they were looking for" (EPTV2 2022). Still, other towns had similar characteristics. Passos stood out for its powerful political supporters. Mayor

Oliveira, re-elected with 88.05 percent of the votes in 2024 and now known as "Heineken's mayor," noted: "We spared no effort, we went after it, we ran, we knocked on the doors of comrades who helped us" (Folha da Manhã 2023). Passos quickly approved licenses and generous tax incentives. Construction of the brewery began in March 2023 and is expected to be completed in May 2025 (EPTV2 2022).

Notably, at least two of the other final contenders — Uberlândia and Uberaba — were favored by the governor of Minas Gerais, Romeu Zema, due to their proximity to his hometown (Alves 2022). Two weeks before the final announcement, Heineken even pre-leased land in Uberaba (Manfrim 2022). However, these other municipalities were unable to build a broad support coalition like Passos did. MP Franco Cartafina, born in Uberaba, offered assistance to meet with Heineken representatives and lobby for his hometown, but was reassured by the municipal administration that "everything was on track."[5] After Heineken chose Passos, Uberaba mayor Elisa Araújo faced severe criticism for her inability to build bridges between different levels of the government. MP Aelton Freitas (who lives in Uberaba) and Brazil's then-Minister of Agriculture, Marcos Montes (a former mayor of Uberaba), complained that they had never been approached to help with negotiations (Prata 2022). According to City Council member Paulo César Soares, the mayor played up her political connections: "[Mayor] Elisa claims to be a good friend of [Governor] Zema, but he doesn't even remember that she exists."[6] Later, Governor Zema celebrated Heineken's choice for Passos (Nascimento 2022*a*). Despite his predilection for other cities, Governor Zema had been elected by a simple majority, with votes from all over the state. MPs, in contrast, relied on votes from municipal-level constituencies, so the final investment destination was more meaningful to them — and their efforts were more consequential than those of the governor.

The case of Heineken highlights several key aspects of our argument. First, foreign corporations wield significant bargaining power at the entry stage: they have multiple options even

[5]This anecdote was relayed in one of Uberaba's City Council meetings: https://www.youtube.com/watch?v=I8Of5mmcssA

[6]For a transcription of the Council member's remarks, see https://portal.camarauberaba.mg.gov.br/noticias/uberaba-perde-oportunidade-e-heineken-anuncia-instalacao-em-passos/

after location preferences are factored in.[7] Second, foreign investors do not always know the specifics of each investment location. Heineken representatives were likely familiar with Brazil's largest cities, but not with the 230 small towns competing for the brewery. Many of the towns were virtually indistinguishable from one another — so indistinguishable that Heineken shifted its decision from Pedro Leopoldo to Passos within months. Given the multitude of options, domestic political ties are a critical factor in building informal networks that help small towns like Passos stand out to foreign investors, especially when the decision comes down to a few contenders. Conversely, those who fail to cultivate strong political connections at the national level may struggle to attract investment. The case of Uberaba illustrates this risk: with 340,000 inhabitants, it is much larger than Passos, has better roads, and is better connected to large cities, but the lack of coordination between local and national political actors weakened its bid. Ultimately, the political support behind Passos proved decisive. In what follows, we leverage data from FDI transactions in all Brazilian municipalities to provide overarching quantitative evidence for our hypothesis.

5 Data

5.1 Outcome Variable: FDI Transactions

Our outcome variable is the annual *FDI Transaction Count* to each Brazilian municipality from January 1, 2012 to December 31, 2021, using data from the Brazilian Central Bank (BCB). The BCB records all firm-level FDI transactions in Brazil. Whenever a foreign firm transfers capital to a Brazilian firm, the latter must report this information to the BCB within 30 days, using the digital platform SCE–IED (a Portuguese acronym for "Foreign Capital Reporting System – Foreign Direct Investment"). Each transaction represents a foreign firm's decision to invest in Brazil, either through a greenfield project (where capital funds a newly created firm) or a brownfield

[7] In a large country like Brazil, even resource-seeking investors have options: mining companies, for instance, can choose between iron deposits in the states of Pará, in the North; Rio Grande do Norte, Piauí, and Bahia in the Northeast; Minas Gerais in the Southeast; and Goiás in the Center West.

project (where capital flows into an existing firm).

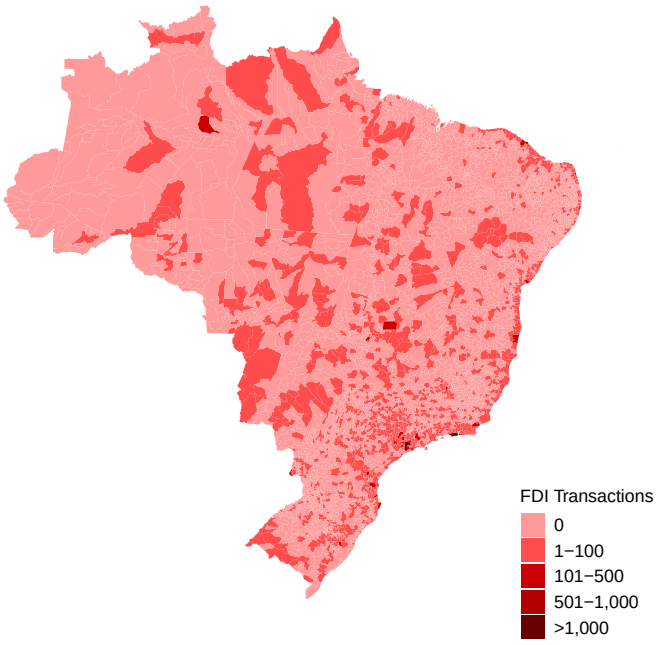
The original BCB dataset records investments at the *foreign firm-Brazilian firm* level. We use Brazil's national registry of legal entities (CNPJ) to identify each domestic firm's municipality and aggregate the transactions to the *municipality-year* level. To prevent artificial inflation of FDI activity, we only consider the *first* annual transfer from any foreign investor to each domestic firm. This approach mitigates concerns that investors may split transfers into smaller amounts for fiscal or administrative reasons. If multiple foreign partners invest in the same Brazilian firm within a year, we treat it as a single transaction, assuming their decisions are interdependent. Thus, our outcome variable indicates the number of firms registered in each municipality that received foreign capital at least once per year, reflecting how frequently foreign firms decide to invest in each location.

The final count of FDI transactions received by Brazil in the period is 33,254. As Figure 1 illustrates, the geographic distribution of the transaction counts is as expected: excluding São Paulo and Rio de Janeiro — with 13,238 and 3,692 transactions, respectively —, the average municipality attracted 0.597 transactions each year, and 4,382 did not attract a single transaction during this period.

Our data structure, while different from that typically employed in the politics of FDI literature, is particularly well-suited for testing our hypothesis. First, many studies of subnational FDI use more aggregated units, such as states or provinces, due to the lack of publicly available granular data (Garriga and Phillips 2022; Garriga 2022). Because our theory speaks to the municipality level, such an approach would not be appropriate. Second, since our data originate from a national registry, they capture actual transactions rather than announced deals that may never materialize (Kim 2023). In our case, announcements would only add noise.[8] Third, unlike data sets reliant on news reports or other secondary sources (Kim 2023), which may miss FDI activity in more remote areas of the country, ours provides reliable and comprehensive coverage of effec-

[8]We worried that recipient Brazilian firms could report foreign transactions before they occur, or even ones that never happen. However, interviews with BCB officials indicated that firms are unlikely to report "an intention to invest" unless they plan to follow through, as reporting is costly. Some firms may report transactions one or two months in advance; aggregating the data at the year level minimizes potential errors resulting from this process.

Figure 1: FDI Transactions to Brazilian Municipalities, 2012–2021



This figure shows the total number of FDI transactions to Brazil's 5,570 municipalities between 2012 and 2021.

tive FDI activity. Fourth, while some disaggregated FDI data sources focus solely on greenfield projects (Owen 2019), our dataset also captures brownfield investments, which is part of our theory.[9] One final advantage is that our data are publicly available, ensuring full reproducibility and transparency (which proprietary data sources do not allow).

We address our data's limitations in several ways. First, we do not have data on the total amount of FDI received by each municipality, as the specific firm-level investment value is kept confidential by the BCB. However, for our purposes, the count of transactions is the most appropriate measure. It is challenging to compare investment sizes across sectors, and values may carry very different meanings depending on the municipality's size. Thus, an operationalization that grasps *decisions* to invest — rather than the magnitude of investment — is ideal. Still, we

[9] As previously noted, governments may sometimes welcome brownfield investment (Bauerle Danzman 2020). Consistent with this view, an interview with an employee of a state-level investment promotion agency in Brazil revealed that a mayor's office had recently asked the agency for assistance in identifying potential foreign buyers for a local company. Another example of the positive reception of M&As is the acquisition of Biscoitos Parati, a crackers and cookies manufacturer in São Lourenço do Oeste, Santa Catarina, by the US multinational Kellogg's — a deal hailed as a major success by MPs from the region during a session of the National Congress (República Federativa do Brasil 2019, p. 8).

subject our count measure to a validation test. The BCB disclosed the total value of FDI received by each state in 2015 and 2020. Reassuringly, at the state level, the transaction *count* is strongly correlated with the transaction *value* ($\rho = 0.934, p = 0.000$). Second, the national registry of legal entities lists the head branch of the domestic firm, not its potential subsidiaries. This means that we might overestimate FDI activity to headquarters. Yet interviews with BCB officials confirm that this is not an issue, as foreign capital flows tend to be directed toward a firm's head branch anyway. Still, we take additional steps to address this concern when estimating our models, as explained further below.

5.2 Independent Variable: Political Alignment

Our main independent variable is *Political Alignment*, a proxy for the connections between the municipal government and influential MPs at the federal level. To construct this variable, we first use data from the Superior Electoral Court (Tribunal Superior Eleitoral, TSE) to identify the winner of all mayoral elections in 2008, 2012, 2016, 2020, and in over 500 special elections used to fill vacant mayor seats.[10] For each year of a mayor's term, we record their party affiliation.

Second, we link election data to voting records on motions in the lower chamber of the National Congress. For each motion, the president can directly issue a voting recommendation, reflecting the Latin American pattern of "proactive presidents" and "reactive assemblies" (Cox and Morgenstern 2001). The resulting *Political Alignment* variable is a continuous measure that captures the proportion of times, across all motions in a given year, that a mayor's party leadership followed the president's voting recommendation. Higher values indicate stronger alignment and suggest that the mayor's party is part of the president's support coalition, the most influential group in national politics. In separate analyses, we also dichotomize this variable so it takes the value of 1 when alignment reaches at least 90 percent.

[10] Special elections (Eleições Suplementares) usually take place when the elected mayor is suspended from office because of involvement with corruption or other irregularities.

5.3 Control Variables

Mayor Ideology, the ideology of the mayor's party, ranges from −1 (extreme left) to 1 (extreme right), using data from Zucco and Power (2024). We do not expect this variable to have a significant effect on the outcome, given the prevalence of catch-all parties with diffuse ideology.[11] We also include dichotomous variables that take the value of 1 in years of *Mayoral Election* or *Mayor Second Term*, as electoral rules only allow mayors to serve for two full consecutive terms.

Beyond politics, models control for economic and geographic factors associated with FDI attraction, all lagged by one year to avoid simultaneity bias. This includes *GDP* (in current Brazilian reais) and *Population Density* (total population divided by total area), using data from the Brazilian Institute of Geography and Statistics (IBGE), as well as the percentage of *STEM Workers* (engineers, mathematicians, statisticians, computer scientists, physicists, chemists, and biologists, as labeled by the Brazilian Classification of Occupations) and *Manufacturing Workers*, using the Ministry of Labor's RAIS database. All four variables are logged; in logging them, we add zero to all municipalities and years with no STEM or manufacturing workers. The municipal homicide rate (out of 100,000, logged), reported by DATASUS (the Ministry of Health's administrative dataset), serves as a measure of "diseconomies of scale." Finally, two dichotomous, time-invariant measures indicate the presence of a public airport or port (maritime, river, or lake), reported by the Civil Aviation Agency and the Federal Revenue Service, respectively.

6 Evidence from Multilevel Models

6.1 Model Specification

Count dependent variables are often modeled using a Poisson model. This assumes that the counts follow a Poisson distribution, where the mean and the variance are equal. Still, *FDI Trans-*

[11] In 2024, for example, 3,070 mayors — over 55 percent of the total — belonged to one of four catch-all parties: MDB, PP, PSD, and União (BBC 2024). However, the correlation between ideology and alignment is only moderate (0.47, $p < 0.001$). This is consistent with domestic politics in Brazil, where ideology is diffuse and less important than other dynamics for several outcomes, such as alignment.

action Count suffers from overdispersion: its variance (354.192) is considerably larger than its mean (0.597). A more suitable alternative, the negative binomial distribution, allows the variance to exceed the mean, providing greater flexibility in modeling overdispersed variables. The negative binomial model incorporates an additional parameter, the dispersion parameter, that accounts for unobserved heterogeneity or extra variability in the data. Yet our outcome poses a challenge to the traditional negative binomial model: *FDI Transaction Count* contains an excess of zeros, as nearly 80 percent of all municipalities did not attract a single transaction between 2012 and 2021. Therefore, we estimate a zero-inflated negative binomial model, combining a negative binomial model with a logistic regression that predicts the occurrence of excess zeros; both use the same set of predictors.

Additionally, the data exhibit a hierarchical structure: municipalities within the same state are likely more similar to each other than to municipalities from different states, and municipalities in one year are likely more similar to each other than to municipalities in other years. For this reason, we estimate multilevel models with state and year random intercepts.[12] Random intercepts estimate a single variance parameter for the distribution of state-specific or year-specific intercepts. This captures unobserved differences between states, for example, which may be due to cultural, economic, or geographic factors that are difficult to quantify. By assuming that the state-specific intercepts are drawn from a common distribution, the model pools information across states, particularly for states with smaller sample sizes. This helps stabilize parameter estimates and improves the reliability of inference.

As Appendix B shows, our results are robust to the use of fixed effects. However, including fixed effects results in a model with a large number of parameters, making interpretation more challenging. In particular, negative binomial models with fixed effects do not correctly control for time-varying covariates and often fail to converge (Allison and Waterman 2002), hence our preference for random effects. Appendix B also shows that our results are robust to the use of Poisson

[12]The large number of units prevents us from using random intercepts at the municipal level, hence our decision for state-level random effects. This approach follows other studies focusing on subnational phenomena in the discipline (e.g Han, Milner and Mitchener 2023).

and negative binomial models with random intercepts, even if these models are inadequate for our data.

6.2 Results

Table 1: The Effect of Political Alignment on FDI Transactions

	FDI Transaction Count		
	(1) All Transactions, All Municipalities	(2) All Transactions, All Municipalities	(3) All Transactions, Excl. RJ and SP
Political Alignment, t-1	0.43^{***}	0.20^{**}	0.19^{**}
	(0.14)	(0.08)	(0.08)
FDI Transaction Count, t-1		0.00^{***}	0.05^{***}
		(0.00)	(0.00)
Mayor Ideology, t-1		0.01	−0.05
		(0.05)	(0.05)
Mayoral Election, t-1		−0.19	−0.24
		(0.15)	(0.15)
Mayor Second Term, t-1		0.06	0.04
		(0.05)	(0.05)
GDP (Log), t-1		0.59^{***}	0.45^{***}
		(0.03)	(0.03)
Population Density (Log), t-1		0.15^{***}	0.10^{***}
		(0.02)	(0.02)
STEM Workers, % (Log), t-1		0.25^{***}	0.18^{***}
		(0.03)	(0.03)
Manufacturing Workers, % (Log), t-1		-0.38^{***}	-0.25^{***}
		(0.02)	(0.02)
Homicides per 100k (Log), t-1		−0.03	−0.01
		(0.03)	(0.02)
Airport		−0.01	−0.06
		(0.05)	(0.05)
Port		0.18^{**}	0.12^{*}
		(0.08)	(0.07)
Intercept	-1.63^{***}	-8.46^{***}	-6.57^{***}
	(0.26)	(0.39)	(0.36)
AIC	42371.13	27106.50	26410.08
Log Likelihood	−21176.57	−13522.25	−13174.04
Observations	55245	51693	51675
Number of States	26	26	26
Number of Years	10	10	10
Variance: States (Intercept)	1.23	0.69	0.41
Variance: Years (Intercept)	0.01	0.06	0.07

This table presents the results of three multilevel zero-inflated negative binomial models. All models include random intercepts for state and year. $^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

Table 1 presents three zero-inflated negative binomial models that support our central hy-

pothesis. Models 1 and 2 include all municipalities. Model 3 excludes Rio de Janeiro and São Paulo to ensure that these two municipalities (which received half of all transactions in the period under study) are not skewing the results.[13] For every model, the coefficients indicate how a one-unit increase in the corresponding predictor variable affects the logged incidence rate of *FDI Transaction Count*. Exponentiating each coefficient leads to its incidence rate ratio, which allows for an easier interpretation of effects by indicating the *percentage change* in the expected number of FDI transactions for a one-unit increase in the predictor variable.

Holding all other variables constant at their mean (for continuous variables) or reference category (for dichotomous variables), politically aligned municipalities attract 22.1 percent more FDI transactions ($e^{0.20} = 1.221$) than non-aligned municipalities, according to Model 2. This effect is statistically significant ($p < 0.05$) and robust to the exclusion of Rio de Janeiro and São Paulo. It is also robust to a series of changes reported in Appendices B and C — for example, replacing random effects with fixed effects, lagging political alignment at $t - 2$ or $t - 3$, using a dichotomous measure of political alignment, or using a measure of "triple alignment" (when the mayor, governor, and president come from the same party). Put simply, mayors are better equipped to attract FDI the more their party's voting recommendations follow the voting recommendations of the president in Congress, a proxy for domestic political connections with the most influential national politicians.

Whereas Table 1 includes *all* FDI transactions, Table 2 restricts the analysis to transactions in what we call goods and services: agriculture, manufacturing, electricity, water, sewage, construction, retail, transport, food and accommodation, information and communication, and extractive sectors.[14] Investments in these sectors are more attractive to municipalities, given their greater tangibility relative to, say, financial activities. Therefore, these types of investment may be more responsive to political ties: mayors might go to greater lengths to form broad political coalitions

[13] The exclusion of these two metropolises also helps account for the potential overestimation of FDI flowing to firms' headquarters, which are concentrated precisely in São Paulo and Rio de Janeiro.

[14] In the Brazilian National Classification of Economic Activities (CNAE), this matches all sectors with code numbers 1 to 63. The correspondence between CNAE and ISIC+, NACE, NAICS, ANZSIC, and JSIC systems can be found at https://www.unepfi.org/impact/impact-radar-mappings/impactmappings/sectors-mapping/

Table 2: The Effect of Political Alignment on FDI Transactions in Goods and Services

	FDI Transaction Count		
	(1) Goods and Services, All Municipalities	(2) Goods and Services, All Municipalities	(3) Goods and Services, Excl. RJ and SP
Political Alignment, t-1	0.37^{***}	0.19^{**}	0.19^{**}
	(0.14)	(0.09)	(0.08)
FDI Transaction Count, t-1		0.01^{***}	0.07^{***}
		(0.00)	(0.00)
Mayor Ideology, t-1		0.04	−0.02
		(0.06)	(0.06)
Mayoral Election, t-1		−0.26	-0.30^{*}
		(0.19)	(0.18)
Mayor Second Term, t-1		0.09	0.08
		(0.06)	(0.05)
GDP (Log), t-1		0.57^{***}	0.43^{***}
		(0.03)	(0.03)
Population Density (Log), t-1		0.10^{***}	0.06^{***}
		(0.02)	(0.02)
STEM Workers, % (Log), t-1		0.21^{***}	0.15^{***}
		(0.03)	(0.03)
Manufacturing Workers, % (Log), t-1		-0.34^{***}	-0.23^{***}
		(0.03)	(0.02)
Homicides per 100k (Log), t-1		-0.05^{*}	−0.03
		(0.03)	(0.03)
Airport		−0.04	−0.07
		(0.05)	(0.05)
Port		0.11	0.07
		(0.08)	(0.07)
Intercept	-2.04^{***}	-8.26^{***}	-6.34^{***}
	(0.27)	(0.42)	(0.40)
AIC	35911.03	23012.68	22413.77
Log Likelihood	−17946.51	−11475.34	−11175.88
Observations	55245	51693	51675
Number of States	26	26	26
Number of Years	10	10	10
Variance: States (Intercept)	1.29	0.69	0.40
Variance: Years (Intercept)	0.02	0.10	0.11

This table presents the results of three multilevel zero-inflated negative binomial models. All models include random intercepts for state and year. $^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

that improve the visibility of their municipality to investors, as the case of Heineken illustrates. As before, we find support for our expectation that aligned local governments attract more FDI, reinforcing the idea that political factors play a critical role in shaping investment flows in sectors with more tangible activities. Overall, Tables 1 and 2 confirm that domestic political ties shape the within-country distribution of foreign investment inflows.

7 Evidence from Close Elections

7.1 Model Specification

Our multilevel models control for several sources of heterogeneity across municipalities and mayors, yet it is still possible that aligned and non-aligned mayors differ in relevant, unmeasured ways. To identify the causal effect of political alignment on FDI attraction, we estimate a close-election regression discontinuity design (RDD), which exploits the as-if random assignment of candidates who narrowly win or lose an election. Close-election RDDs are often used in the context of the US — for example, to show that Republican governors attract more FDI than their Democratic counterparts (Wang and Heyes 2021). But this empirical design is also valid for mayoral elections in Brazil, as recent work shows (Brollo and Nannicini 2012; Litschig and Morrison 2013; Bueno 2018; Toral 2024).

We structure our analysis much like Alberti, Díaz–Rioseco and Visconti (2022), who use an RDD to show that political alignment reduces crime in Chile. Our outcome, like the authors', is a count. Also following Alberti, Díaz–Rioseco and Visconti (2022), we restrict the sample to all elections in which (1) more than one candidate received valid votes[15] and (2) the two most-voted candidates have different alignments (excluding instances where both are aligned, for example, or both are non-aligned). As before, we account for supplementary elections. Like Alberti, Díaz–Rioseco and Visconti (2022), our running variable is *Margin of Victory*, which is the difference in the share of votes between the aligned and the non-aligned candidate in the mayoral election. We consider that a candidate is aligned if their party leadership follows the president's recommendation at least 90 percent of the time. Positive values indicate that the aligned candidate won the election, whereas negative values indicate the aligned candidate lost. The probability of treatment (that is, the the probability that the mayor is aligned) jumps from 0 to 1 at the margin of victory cutoff.

[15] In 2020, for example, 117 municipalities (2 percent of the total) only had one candidate (Curado 2024). Sometimes one candidate receives 100 percent of all valid votes because the other candidates' votes were retroactively discarded by the electoral court after these candidates were found guilty of corruption. We also discard these cases.

The key assumption of a close-election RDD is that candidates just above the cutoff are similar to those just below the cutoff, with the only systematic difference being that one narrowly won and the other narrowly lost. In Appendix D, we provide evidence that this so-called continuity assumption holds for most pre-treatment covariates, with one exception: *Mayor Ideology*. This covariate is not balanced, which means its distribution is not statistically similar between groups: a narrow winner is significantly more conservative (i.e., has a larger value of *Mayor Ideology*) than a narrow loser ($p = 0.000$). This imbalance could affect the validity of the RDD, so we adjust for this covariate when estimating the model.

Our estimation uses the R package *rdrobust* (Calonico, Cattaneo and Titiunik 2015). By default, *rdrobust* uses a triangular kernel that weighs observations as a function of their distance from the cutoff, selecting the optimal bandwidth that minimizes the mean squared error (MSE) of the estimated treatment effect at the cutoff (see Appendix D for results using other bandwidth selection procedures). Following Alberti, Díaz–Rioseco and Visconti (2022), our main models cluster the standard errors by municipality and election cycle; in Appendix D, we present results following the specification of Toral (2024), who includes electoral cycle fixed effects.

7.2 Results

Table 3 confirms that well-connected mayors attract more FDI, even after controlling for potential sources of imbalance. To mirror the multilevel analysis, Table 3 reports the results for *all* transactions (Models 1 and 2) and only for transactions in goods and services (Models 3 and 4). Now, the coefficients are equivalent to those of a linear model, so political alignment increases the expected number of FDI transactions by 0.08 to 0.09 (p-value $<$ 0.01). This effect carries substantive meaning, given that most municipalities attract no FDI at all. In statistical terms, the effect is significant (p-value $<$ 0.05) for transactions in goods and services, consistent with the expectation that such transactions are more responsive to alignment due to their attractiveness to politicians. Figure 2 provides a graphical representation of these effects, including only observations within the optimal, MSE-minimizing bandwidth selected by *rdrobust*. The red line

represents the local polynomial smoothing, and the blue dots represent the evenly spaced bins of the running variable. Blue dots above the cutoff represent municipalities with aligned mayors, whereas blue dots below the cutoff represent municipalities with non-aligned mayors.

Table 3: The Effect of Political Alignment on FDI Transactions

	FDI Transaction Count			
	(1) All Transactions, All Municipalities, No Covariates	(2) All Transactions, All Municipalities, Covariate-Adjusted	(3) Goods and Services, All Municipalities, No Covariates	(4) Goods and Services, All Municipalities, Covariate-Adjusted
Political Alignment	0.09*	0.08*	0.08**	0.08**
	(0.08)	(0.09)	(0.04)	(0.03)
Mayor Ideology (Pt. Estim.)		0.01		0.00
Bandwidth (MSE)	3.32	3.32	5.63	5.6
Effective Observations (Left)	1534	1534	2472	2463
Effective Observations (Right)	1654	1654	2671	2648

This table presents the results of four regression discontinuity models with robust p-values. All models cluster standard errors by municipality and election cycle. Models 2 and 4 adjust for the covariate *Mayor Ideology*, which can lead to efficiency gains, though its point estimate has no substantive meaning (Calonico et al. 2019). $^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

One limitation of the RDD is that it estimates the Local Average Treatment Effect (LATE), which reflects the treatment effect only for units close to the cutoff. These results may not be generalizable to all municipalities or to aligned candidates with larger margins of victory; units further away from the cutoff might have different treatment effects. This is why the multilevel models are so important: in incorporating all observations, they allow us to examine the overall effects across all Brazilian municipalities, indicating that the treatment effect is not confined to just those near the cutoff. Together, the global effect captured by multilevel models and the local effect captured by the RDD show that political ties have an independent effect in attracting foreign capital at the local level.

8 Why Domestic Political Ties Attract FDI

We argue that domestic political ties increase FDI transactions because well-connected municipalities have more opportunities to promote themselves to foreign investors. This advantage stems from the efforts of influential national politicians who have a vested interest in channeling

Figure 2: The Effect of Political Alignment on FDI Transactions

This figure shows the relationship between the FDI transaction count and the margin of victory for the aligned candidate, using evenly-spaced bins (the blue dots) and local polynomial smoothing (the red line). The figure only includes observations within the optimal bandwidth selected by *rdrobust*, which minimizes the mean squared error (MSE) of the estimated treatment effect at the cutoff.

FDI to specific locations.

Beyond elevating a municipality's visibility, political connections might signal a greater likelihood of favorable treatment. The case of Heineken suggests that domestic connections provide

tangible and intangible benefits alike: a broad political coalition helped Passos stand out from its competitors by presenting a united front, but it also secured a new paved road. Other investment projects may require different tangible benefits, which vary depending on a firm's sector, size, and other characteristics. Thus, we do not expect a single tangible benefit to fully explain the relationship between political connections and FDI transactions. Rather, broad intangible or "soft factors" — to use the World Bank's terminology (Zhu, Larrey and Santos 2015) — likely play a more decisive role.

Admittedly, it is challenging to test for the effects of intangible factors. As such, we engage in an exploratory exercise of first testing three tangible benefits that may stem from alignment and that investors likely value: (1) more intergovernmental transfers; (2) more investment incentives; or (3) lower regulatory barriers. For any mechanism to hold true, it must be significantly *affected* by alignment while also significantly *affecting* FDI.

To examine whether aligned municipalities attract more FDI due to a higher volume of intergovernmental transfers, we use National Treasury data on two types of transfers from federal to municipal governments (in Brazilian reais, per capita). Non-discretionary transfers (*Fundo de Participação do Municípios*, or FPM) follow strict population thresholds,[16] whereas discretionary transfers (*convênios*) follow no pre-established set of criteria.[17]

To assess whether alignment increases federal investment incentives, which in turn might attract more FDI, we employ data published by the Federal Revenue Service in 2024. This dataset records the name and identification number of every firm that benefited from one of Brazil's 24 federal incentive programs since 2015, including the equivalent amount of tax revenue foregone by the federal government. We match this information with our firm-level FDI data; the resulting variable reflects the total amount of *Investment Incentives* (in Brazilian reais, per capita) granted to foreign firms, by municipality and year.

Finally, we mobilize two proxies to probe the potential mechanism that alignment reduces

[16] However, Brollo et al. 2013 and Litschig 2012 show that these thresholds are often manipulated.

[17] Like Bueno (2018), we use data on *all* discretionary transfers to mayors. In Appendix E, we show that our results are robust to using only discretionary capital transfers in the infrastructure sector, as Brollo and Nannicini (2012) do.

regulatory barriers and thus facilitates investment. One is a municipal-level fiscal management index created by the Industry Federation of the State of Rio de Janeiro (Firjan). This index, available since 2013, ranges from 0 to 1. The other is the average time to register a business, in hours, considering only the first step (*Pesquisa Prévia de Viabilidade*), which happens at the municipal level. This information is available for 2019–2021 from the Federal Revenue Service.

Table 4: The Effect of Political Alignment on Intergovernmental Transfers, Investment Incentives, and Regulatory Barriers

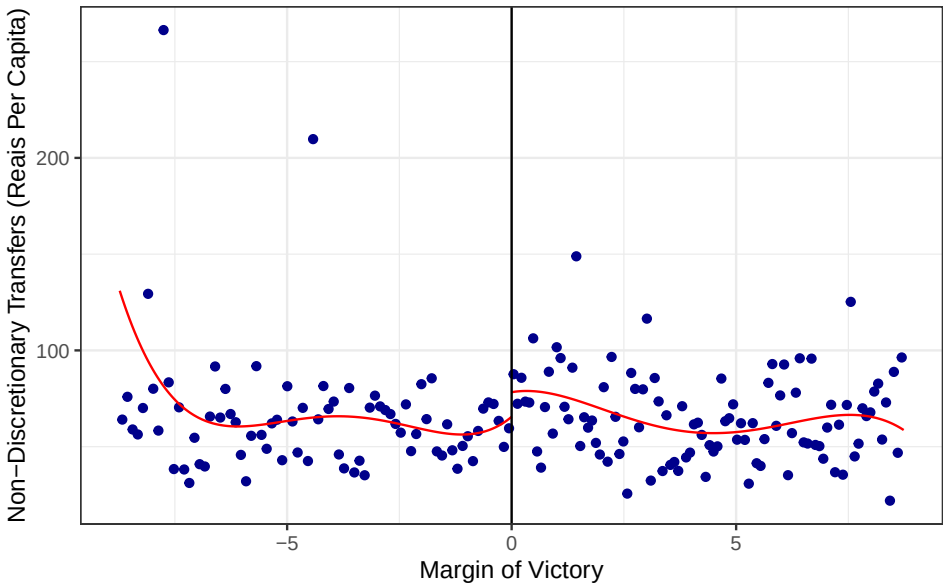
	Non-Discretionary Transfers	Discretionary Transfers	Investment Incentives	Fiscal Management	Time to Register a Business
	(1)	(2)	(3)	(4)	(5)
	2012–2021	2012–2021	2015–2021	2013–2021	2019–2021
Political Alignment	4.57	22.98***	−3.76*	0.00	−0.81
	(0.89)	(0)	(0.08)	(0.99)	(0.86)
Mayor Ideology (Pt. Estim.)	218.36	-5.93	2.14	0.05	-10.96
Bandwidth (MSE)	15.1	8.73	11.76	12.35	16.05
Effective Observations (Left)	5616	3664	4023	4326	1625
Effective Observations (Right)	6010	3844	4142	4422	1748

This table presents the results of five regression discontinuity models with robust p-values. All models cluster standard errors by municipality and election cycle. All models adjust for the covariate *Mayor Ideology*, which can lead to efficiency gains, though its point estimate has no substantive meaning (Calonico et al. 2019). $^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

Table 4 presents the results of five RDDs examining how alignment affects the potential mechanisms, controlling for *Mayor Ideology* (as before). Alignment has no discernible effect on non-discretionary transfers, fiscal management or time to register a business, and only a weak negative effect on investment incentives ($p = 0.08$). Consistent with previous studies, though, we find that aligned mayors receive significantly more discretionary transfers than their non-aligned counterparts (Model 2), an effect illustrated by Figure 3. Compared to municipalities where the aligned candidate barely lost, municipalities where the aligned candidate barely won receive an average of 23.23 additional reais per capita in discretionary transfers. For context, the median municipality received 30.56 reais per capita in discretionary transfers between 2012 and 2021, suggesting that alignment can make a substantial — and statistically significant — difference.

In sum, of the potential mechanisms, only discretionary transfers are positively *affected* by political alignment. But do they *affect* FDI? Table 5 re-estimates the original multilevel models,

Figure 3: The Effect of Political Alignment on Discretionary Transfers



This figure shows the relationship between discretionary transfers (*convênio*) and the margin of victory for the aligned candidate, using evenly-spaced bins (the blue dots) and local polynomial smoothing (the red line). The figure only includes observations within the optimal bandwidth selected by *rdrobust*, which minimizes the mean squared error (MSE) of the estimated treatment effect at the cutoff.

adding *Discretionary Transfers* (logged) as an independent variable. Transfers have a *negative* effect on FDI transactions, though this effect is not statistically significant once we restrict the analysis to transactions in goods and services (Model 2). Relative to Tables 1 and 2, the coefficients and significance levels for *Political Alignment* remain practically unchanged, indicating that *Discretionary Transfers* is not a mediator: it does not account for any of the variation in the outcome that was previously attributed to alignment. Put simply, the effect of alignment on FDI is not "transmitted" through transfers, just as it is not "transmitted" through investment incentives or regulatory barriers. Given that intergovernmental transfers to Brazilian municipalities have little or no benefit due to poor implementation (Brollo et al. 2013; Gadenne 2017), we speculate that investors may not perceive them as particularly relevant when making location decisions.

By exclusion, Tables 4 and 5 suggest that the mechanism linking political connections to FDI is primarily intangible. This is supported not only by the Heineken episode, which we recognize as exceptional (after all, foreign firms rarely invest $350 million and create 350 direct jobs in a

Table 5: The Effect of Political Alignment and Intergovernmental Transfers on FDI Transactions

	FDI Transaction Count	
	(1) All Transactions, All Municipalities	(2) Goods and Services, All Municipalities
Discretionary Transfers (Log), t-1	-0.02^{*}	-0.02
	(0.01)	(0.01)
Political Alignment, t-1	0.21^{**}	0.20^{**}
	(0.08)	(0.09)
FDI Transaction Count, t-1	0.00^{***}	0.01^{***}
	(0.00)	(0.00)
Mayor Ideology, t-1	0.01	0.04
	(0.05)	(0.06)
Mayoral Election, t-1	-0.20	-0.27
	(0.16)	(0.19)
Mayor Second Term, t-1	0.07	0.09
	(0.05)	(0.06)
GDP (Log), t-1	0.59^{***}	0.57^{***}
	(0.03)	(0.03)
Population Density (Log), t-1	0.14^{***}	0.09^{***}
	(0.02)	(0.02)
STEM Workers, % (Log), t-1	0.24^{***}	0.21^{***}
	(0.03)	(0.03)
Manufacturing Workers, % (Log), t-1	-0.38^{***}	-0.34^{***}
	(0.02)	(0.03)
Homicides per 100k (Log), t-1	-0.04	-0.05^{*}
	(0.03)	(0.03)
Airport	-0.01	-0.05
	(0.05)	(0.05)
Port	0.18^{**}	0.11
	(0.08)	(0.08)
Intercept	-8.40^{***}	-8.22^{***}
	(0.39)	(0.42)
AIC	27106.85	23014.52
Log Likelihood	-13520.42	-11474.26
Observations	51691	51691
Number of States	26	26
Number of Years	10	10
Variance: States (Intercept)	0.69	0.69
Variance: Years (Intercept)	0.07	0.10

This table presents the results of two multilevel zero-inflated negative binomial models. All models include random intercepts for state and year. $^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

single municipality), but by various other instances. For example, in April 2023, recently-elected Brazilian president Luiz Inácio Lula da Silva traveled to China with over 70 government ministers, special advisors, MPs, senators, and state governors. Among the many items on the agenda was the attraction of Chinese investment to Brazil. Unsurprisingly, all the political figures who

accompanied President Lula to Beijing were close allies, including influential figures such as the aforementioned President of the National Congress, Pacheco, as well as MPs presiding over key committees in the lower and upper chambers of Congress (Haubert 2023). These actors gained privileged access to potential Chinese investors and could promote politically significant municipalities on the international stage. Following the official mission, MP Heitor Schuch, from the state of Rio Grande do Sul, was featured in Venâncio Aires' local newspaper, emphasizing that the trip presented an opportunity to "develop future partnerships" beyond the tobacco industry — already a key sector in the region's engagement with Chinese firms[18] — to include the food sector (Olá Jornal 2023). Under a very different political environment, President Michel Temer visited Norway in 2017 and delivered a speech stating: "When I come here with an expressive group of ministers, house representatives, and senators, the goal is exactly this one: to strengthen our friendship ties, cultural relations, political relations, and investment relations with Norway, but to effectively seek Norwegian investments to our country" (Temer 2017). Influential MPs do not promote their municipalities through foreign missions alone. An interview with employees from a state-level International Affairs office in Brazil revealed that well-connected politicians frequently meet with potential investors visiting the country.

Direct evidence that *investors* factor domestic political connections into their location decisions is challenging to obtain. Many deals are negotiated behind closed doors, as noted in an interview with a Municipal Department of Economic Development, and foreign investors have little incentive to explicitly attach themselves to local political interests. Still, investor-focused outlets suggest that these actors do pay attention to domestic political ties. Ahead of the 2024 municipal elections, the São Paulo Stock Exchange (B3) published that "political activity in ... municipalities can still influence investor expectations regarding specific sectors such as real estate, sanitation, transportation, technology, education, and healthcare ... One direct impact could come after the election results, if the new municipal administration seeks to stimulate the local

[18]The municipality of Venâncio Aires has hosted China Brasil Tabacos since 2011 and was the second most important source of votes for Schuch in the 2022 election. The company also operates in the neighboring town of Santa Cruz do Sul, Shuch's hometown and largest constituency.

economy ... *This could be coordinated with state and federal governments to attract more companies to the region*" (Piovezan 2024). In the same context, investment bank BTG Pactual stated that "municipal elections are also important for markets. In addition to serving as a preview for general elections, *they also affect the formation of alliances*" (Sousa 2024). This evidence suggests that investors take domestic political connections into account when looking for opportunities. More broadly, our diverse qualitative findings support the argument that political connections between local and national governments play a crucial role in attracting FDI across sectors and project scales through various intangible channels.

9 Conclusion

This study advances a research agenda on how local political dynamics affect the subnational allocation of FDI. While previous research focused on the effects of partisanship and ideology, we uncover domestic political connections between the local and the national governments as a key dimension associated with FDI attraction at the local level. Using novel data on FDI transactions entering Brazilian municipalities between 2012 and 2021, we estimate multilevel regression models and an RDD, finding that political alignment has a positive and significant effect on foreign investment. Concretely, a municipality tends to attract more FDI transactions when the mayor's party is a member of the president's support coalition in Congress, our proxy for powerful domestic political ties. An in-depth case study, combined with statistical tests of potential mechanisms, suggests that political ties work primarily by raising the profile of municipalities among investors through intangible means, rather than directly altering local economic conditions. Well-connected municipalities can rely on influential advocates who participate in meetings, trade delegations, investment roadshows, and government-prepared materials. Through these and other channels, national politicians help enhance the attractiveness of specific locations to foreign investors.

Our results serve as a stepping stone for future research that explores how and when domes-

tic political ties shape not only FDI inflows but also other aspects of local integration with the global economy. In practical terms, policies incentivizing cooperation between different government levels might play a key role in regional economic development strategies. Although this study employs evidence from Brazil, the same analytical framework could be applied to other democracies with electoral systems that privilege regional dynamics and where FDI inflows are unevenly distributed across locations. Much of this unevenness stems from local economic, social, and geographic aspects that are difficult to change in the short run. Municipalities cannot increase their market size, build extensive roads, or improve educational outcomes overnight. However, our findings suggest that political connections can (partially) level the playing field by increasing visibility, allowing municipalities to attract foreign capital even if they lose in some aspects to competitors. Political ties make investors aware of municipalities that might otherwise go unnoticed, persuading such investors of the attractiveness of specific local investment environments.

A less optimistic take on our results is that while political connections facilitate FDI, they may also reinforce patterns of favoritism and clientelism, as aligned municipalities receive disproportionate attention regardless of economic fundamentals or needs (e.g. Arulampalam et al. 2009; Brollo and Nannicini 2012; Bracco, Porcelli and Redoano 2013). Future research can assess whether political alignment enhances overall economic welfare or merely redistributes investment toward politically connected regions.

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Appendix for
Local Politics, Global Capital: The Effects of Domestic Political Ties on Foreign Direct Investment Attraction

March 30, 2025

Contents

A Summary Statistics

Table A.1: Summary Statistics: Data for Multilevel Models

Variable	N	Mean	Std. Dev.	Min	Pctl. 25	Pctl. 75	Max
FDI Transaction Count	55695	0.5971	18.82	0	0	0	1863
FDI Transaction Count, Goods and Services	55695	0.3212	8.113	0	0	0	783
FDI Transaction Count, Brownfield	55695	0.36	11.53	0	0	0	1477
FDI Transaction Count, Greenfield	55695	0.2365	7.784	0	0	0	714
Political Alignment (Continuous), t-1	55245	0.7749	0.2487	0	0.6739	0.9701	1
Political Alignment (90%), t-1	55690						
... 0	30569	54.89%					
... 1	25121	45.11%					
Political Alignment (80%), t-1	55690						
... 0	21459	38.53%					
... 1	34231	61.47%					
Mayor, Governor, and President Are Co-Partisans, t-1	55690						
... 0	53974	96.92%					
... 1	1716	3.08%					
Mayor Ideology, t-1	51743	0.1602	0.3947	−0.9675	−0.1706	0.4343	0.7931
Mayoral Election, t-1	55690						
... 0	38668	69.43%					
... 1	17022	30.57%					
Mayor Second Term, t-1	55690						
... 0	47493	85.28%					
... 1	8197	14.72%					
GDP (Log), t-1	55690	12.18	1.432	8.998	11.14	12.94	20.45
Population Density (Log), t-1	55640	3.255	1.433	−3.211	2.466	4.005	9.575
STEM Workers, % (Log), t-1	55689	−0.8245	0.8525	−4.791	−1.427	0	3.57
Manufacturing Workers, % (Log), t-1	55690	1.734	1.558	−3.81	0.1091	3.069	4.519
Homicides per 100k (Log), t-1	55689	1.99	1.569	−0.4717	0	3.304	5.877
Airport	55695						
... 0	50865	91.33%					
... 1	4830	8.67%					
Port	55695						
... 0	55155	99.03%					
... 1	540	0.97%					
Fiscal Management Index, t-1	42566	0.464	0.2064	0	0.3068	0.6159	1
Investment Incentives (Log), t-1	33396	0.04252	0.5691	−7.4	0	0	8.113
Non-Discretionary Transfers (Log), t-1	55648	6.6	0.6465	2.496	6.205	6.975	9.212
Discretionary Transfers (Log), t-1	55656	2.962	1.95	−13.99	1.533	4.419	9.18
Capital Discretionary Transfers (Log), t-1	55656	2.529	2.05	−13.99	0	4.214	8.893

Table A.2: Summary Statistics: Data for Regression Discontinuity

Variable	N	Mean	Std. Dev.	Min	Pctl. 25	Pctl. 75	Max
FDI Transaction Count	33043	0.8488	24.3	0	0	0	1863
Margin of Victory, t-1	19993	1.507	22.51	−99.55	−10.21	12.84	99.55
Mayor Ideology, t-1	30787	0.09098	0.413	−0.9675	−0.3363	0.3991	0.7931
Mayoral Election, t-1	33039						
... 0	23019	69.67%					
... 1	10020	30.33%					
Mayor Second Term, t-1	33039						
... 0	28418	86.01%					
... 1	4621	13.99%					
GDP (Log), t-1	33039	12.2	1.462	8.998	11.14	12.95	20.45
Population Density (Log), t-1	33006	3.293	1.458	−2.839	2.486	4.042	9.547
STEM Workers, % (Log), t-1	33039	−0.8287	0.8633	−4.266	−1.441	0	3.57
Manufacturing Workers, % (Log), t-1	33039	1.712	1.559	−3.571	0.01907	3.045	4.505
Homicides per 100k (Log), t-1	33038	2.024	1.559	−0.3313	0	3.319	5.877
Airport	33043						
... 0	30109	91.12%					
... 1	2934	8.88%					
Port	33043						
... 0	32698	98.96%					
... 1	345	1.04%					
Fiscal Management Index	27727	0.4738	0.2127	0	0.3095	0.6328	1
Investment Incentives	22132	2.968	70.3	0	0	0	6876
Non-Discretionary Transfers	33018	946.2	731.4	12.13	510.7	1118	11227
Discretionary Transfers	33018	66.16	126.4	−0.1697	4.004	81.33	9703
Capital Discretionary Transfers	33018	54.45	103	−0.1697	0	66.19	3659

B Alternative Specifications

B.1 Fixed Effects

As Table B.1 shows, the results are robust to replacing random effects with fixed effects. However, fixed effects struggle with quasi-separation: some values of some independent variables predict the outcome almost perfectly, hence our preference for random effects.

Table B.1: The Effect of Political Alignment on FDI Transactions (Fixed Effects)

	FDI Transaction Count
	(1)
	All Transactions, All Municipalities
Political Alignment, t-1	0.22^{***}
	(0.08)
FDI Transaction Count, t-1	0.00^{***}
	(0.00)
Mayor Ideology, t-1	0.01
	(0.05)
Mayoral Election, t-1	−0.43
	(0.28)
Mayor Second Term, t-1	0.06
	(0.05)
GDP (Log), t-1	0.61^{***}
	(0.03)
Population Density (Log), t-1	0.13^{***}
	(0.02)
STEM Workers, % (Log), t-1	0.25^{***}
	(0.03)
Manufacturing Workers, % (Log), t-1	-0.38^{***}
	(0.02)
Homicides per 100k (Log), t-1	−0.04
	(0.03)
Airport	−0.02
	(0.05)
Port	0.17^{**}
	(0.08)
Intercept	-9.09^{***}
	(0.49)
AIC	26979.32
Log Likelihood	−13394.66
Observations	51693

This table presents the results of a zero-inflated negative binomial model with fixed effects for state and year. $^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

B.2 Poisson and Negative Binomial Models

Table B.2: The Effect of Political Alignment on FDI Transactions (Poisson and Negative Binomial)

	FDI Transaction Count	
	(1) All Transactions, All Municipalities, Poisson	(2) All Transactions, All Municipalities, Negative Binomial
Political Alignment, t-1	0.21^{***}	0.14^{*}
	(0.03)	(0.08)
FDI Transaction Count, t-1	0.00^{***}	0.00^{***}
	(0.00)	(0.00)
Mayor Ideology, t-1	0.20^{***}	0.06
	(0.02)	(0.05)
Mayoral Election, t-1	-0.44^{***}	-0.30^{*}
	(0.13)	(0.18)
Mayor Second Term, t-1	-0.04^{**}	0.03
	(0.02)	(0.05)
GDP (Log), t-1	0.99^{***}	1.01^{***}
	(0.01)	(0.02)
Population Density (Log), t-1	0.13^{***}	0.17^{***}
	(0.01)	(0.02)
STEM Workers, % (Log), t-1	0.38^{***}	0.04^{*}
	(0.01)	(0.02)
Manufacturing Workers, % (Log), t-1	-0.20^{***}	-0.10^{***}
	(0.01)	(0.02)
Homicides per 100k (Log), t-1	-0.04^{***}	0.05^{***}
	(0.01)	(0.02)
Airport	0.09^{***}	0.07
	(0.02)	(0.05)
Port	0.15^{***}	0.26^{***}
	(0.03)	(0.09)
Intercept	-15.49^{***}	-16.61^{***}
	(0.25)	(0.33)
AIC	36041.91	29213.20
Log Likelihood	−18005.96	−14590.60
Observations	51693	51693
Number of States	26	26
Number of Years	10	10
Variance: States (Intercept)	0.64	0.82
Variance: Years (Intercept)	0.18	0.12

This table presents the results of a multilevel Poisson model and a multilevel negative binomial model. All models include random intercepts for state and year. $^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

Since our outcome variable exhibits overdispersion and excess zeros, our main analysis favors zero-inflated negative binomial models. Table B.2 presents alternative specifications that support our main findings. The Poisson model suffers from numerical instability due to its inability to properly handle overdispersion or excess zeros. While the negative binomial model can account for overdispersion, it still struggles to model the excess zeros. These limitations lead us to favor the zero-inflated negative binomial model, which is more appropriate for our data structure.

To compare the relative fit of these models, we can use the Akaike information criterion (AIC) — which penalizes models for having more parameters — and the log-likelihood — which measures how well the model explains the observed data. A lower AIC value and a higher log-likelihood value indicate a better fit. By both metrics, the zero-inflated negative binomial model in the main text outperforms the other two models, with an AIC of 27106.67 and a log-likelihood of −13523.33.

C Evidence from Multilevel Models: Robustness Checks

C.1 Brownfield vs. Greenfield Investment

Local-level political factors might matter more for greenfield investment — when foreign firms establish new operations in Brazil — because this type of investment requires new permits, zoning approvals, environmental impact assessments, tax break requests, etc. Thus, greenfield investment requires more interaction with local, regional, and national governments and is associated with higher risks, as the case of Heineken illustrates. In contrast, brownfield investment — when foreign firms purchase existing production facilities — might be less influenced by political factors because the existing infrastructure is already in place and many regulatory hurdles have already been overcome. To test for this possibility, we estimate models that separate *FDI Transaction Count* into greenfield and brownfield transactions. Following the recommendation of our interviewees at the Brazilian Central Bank, we consider that a transaction counts as greenfield investment if it enters Brazil up to 12 months after the Brazilian firm was registered (i.e. after the firm entered the national registry of legal entities and received a registration number, CNPJ). If a transaction enters Brazil over 12 months after registration, we record this transaction as an instance of brownfield investment. Table C.1 presents the results of these models, which confirm our expectations that *Political Alignment* has a stronger influence on greenfield than on brownfield FDI.

Table C.1: The Effect of Political Alignment on FDI Transactions (Greenfield vs. Brownfield Investment)

	FDI Transaction Count	
	(1) All Transactions, All Municipalities Brownfield	(2) All Transactions, All Municipalities Greenfield
Political Alignment, t-1	0.03	0.20*
	(0.10)	(0.12)
FDI Transaction Count, t-1	0.00***	0.01***
	(0.00)	(0.00)
Mayor Ideology, t-1	0.05	0.11
	(0.06)	(0.08)
Mayoral Election, t-1	−0.32	0.03
	(0.20)	(0.18)
Mayor Second Term, t-1	0.09	−0.09
	(0.06)	(0.08)
GDP (Log), t-1	0.68***	0.48***
	(0.03)	(0.04)
Population Density (Log), t-1	0.08***	0.13***
	(0.02)	(0.03)
STEM Workers, % (Log), t-1	0.40***	0.14***
	(0.04)	(0.04)
Manufacturing Workers, % (Log), t-1	−0.34***	−0.44***
	(0.03)	(0.03)
Homicides per 100k (Log), t-1	−0.11***	−0.02
	(0.03)	(0.04)
Airport	−0.06	0.14*
	(0.05)	(0.07)
Port	0.09	0.20**
	(0.08)	(0.10)
Intercept	−9.64***	−7.41***
	(0.46)	(0.53)
AIC	19863.27	15894.02
Log Likelihood	−9900.63	−7916.01
Observations	51693	51693
Number of States	26	26
Number of Years	10	10
Variance: States(Intercept)	0.63	0.75
Variance: Years (Intercept)	0.10	0.09

This table presents the results of two multilevel zero-inflated negative binomial models. All models include random intercepts for state and year. $^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

C.2 Delayed Effects: Longer Lags of Political Alignment

The main models use *Political Alignment* at time $t-1$, but the results are robust to using political alignment at times $t-2$ and $t-3$, as Table C.2 shows.

Table C.2: The Effect of Political Alignment on FDI Transactions (Longer Lags for Alignment)

	FDI Transaction Count	
	(1)	(2)
	All Transactions, All Municipalities	All Transactions, All Municipalities
Political Alignment, t-2	0.31***	
	(0.08)	
Political Alignment, t-3		0.19**
		(0.09)
FDI Transaction Count, t-1	0.00***	0.00***
	(0.00)	(0.00)
Mayor Ideology, t-1	0.05	0.09
	(0.06)	(0.06)
Mayoral Election, t-1	−0.16	−0.25
	(0.16)	(0.15)
Mayor Second Term, t-1	0.06	0.08
	(0.05)	(0.05)
GDP (Log), t-1	0.57***	0.54***
	(0.03)	(0.03)
Population Density (Log), t-1	0.15***	0.16***
	(0.02)	(0.02)
STEM Workers, % (Log), t-1	0.26***	0.28***
	(0.03)	(0.04)
Manufacturing Workers, % (Log), t-1	−0.39***	−0.39***
	(0.02)	(0.03)
Homicides per 100k (Log), t-1	−0.04	−0.03
	(0.03)	(0.03)
Airport	−0.01	0.03
	(0.05)	(0.05)
Port	0.17**	0.19**
	(0.08)	(0.08)
Intercept	−8.23***	−7.86***
	(0.41)	(0.42)
AIC	24212.44	21453.60
Log Likelihood	−12075.22	−10695.80
Observations	46767	41852
Number of States	26	26
Number of Years	9	8
Variance: States(Intercept)	0.69	0.68
Variance: Years (Intercept)	0.06	0.05

This table presents the results of two multilevel zero-inflated negative binomial models. All models include random intercepts for state and year. $^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

C.3 Alternative Measures of Political Alignment

Table C.3 presents three dichotomous measures of political alignment. In Model 1, *Political Alignment (90%)* takes the value of 1 if the voting recommendation issued by the mayor's party leadership aligns with the voting recommendation of the president at least 90 percent of the time. In Model 2, *Political Alignment (80%)* applies a less strict threshold of 80 percent. The weaker effects suggest that alignment only matters substantively and significantly after a certain thresh-

old. Since 90 and 80 percent are arbitrary thresholds, we opted to use the continuous measure in the main text. In Model 3, we replace alignment with the president with alignment with the House Speaker. This variable indicates the proportion of times that the mayor's party leader-

Table C.3: The Effect of Political Alignment on FDI Transactions (Different Measures of Alignment)

	FDI Transaction Count			
	(1)	(2)	(3)	(4)
	All Transactions, All Municipalities	All Transactions, All Municipalities	All Transactions, All Municipalities	All Transactions, All Municipalities
Political Alignment (90%), t-1	0.09*			
	(0.05)			
Political Alignment (80%), t-1		0.07		
		(0.05)		
Political Alignment (House Speaker), t-1			0.25***	
			(0.09)	
Mayor, Governor, President Copartisans, t-1				0.25*
				(0.13)
FDI Transaction Count, t-1	0.00***	0.00***	0.00***	0.00***
	(0.00)	(0.00)	(0.00)	(0.00)
Mayor Ideology, t-1	0.02	0.02	−0.02	0.04
	(0.05)	(0.05)	(0.06)	(0.05)
Mayoral Election, t-1	−0.19	−0.19	−0.18	−0.19
	(0.16)	(0.15)	(0.15)	(0.15)
Mayor Second Term, t-1	0.06	0.06	0.06	0.05
	(0.05)	(0.05)	(0.05)	(0.05)
GDP (Log), t-1	0.59***	0.59***	0.59***	0.59***
	(0.03)	(0.03)	(0.03)	(0.03)
Population Density (Log), t-1	0.15***	0.15***	0.15***	0.15***
	(0.02)	(0.02)	(0.02)	(0.02)
STEM Workers, % (Log), t-1	0.24***	0.24***	0.24***	0.24***
	(0.03)	(0.03)	(0.03)	(0.03)
Manufacturing Workers, % (Log), t-1	−0.38***	−0.38***	−0.38***	−0.38***
	(0.02)	(0.02)	(0.02)	(0.02)
Homicides per 100k (Log), t-1	−0.04	−0.04	−0.04	−0.04
	(0.03)	(0.03)	(0.02)	(0.03)
Airport	−0.01	−0.01	−0.01	−0.01
	(0.05)	(0.05)	(0.05)	(0.05)
Port	0.18**	0.18**	0.18**	0.18**
	(0.08)	(0.08)	(0.08)	(0.08)
Intercept	−8.36***	−8.36***	−8.51***	−8.37***
	(0.39)	(0.39)	(0.39)	(0.39)
AIC	27107.69	27110.12	27105.68	27104.70
Log Likelihood	−13522.85	−13524.06	−13521.84	−13521.35
Observations	51693	51693	51693	51693
Number of States	26	26	26	26
Number of Years	10	10	10	10
Variance: States (Intercept)	0.70	0.70	0.70	0.70
Variance: Years (Intercept)	0.07	0.06	0.06	0.06

This table presents the results of four multilevel zero-inflated negative binomial models. All models include random intercepts for state and year. $^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

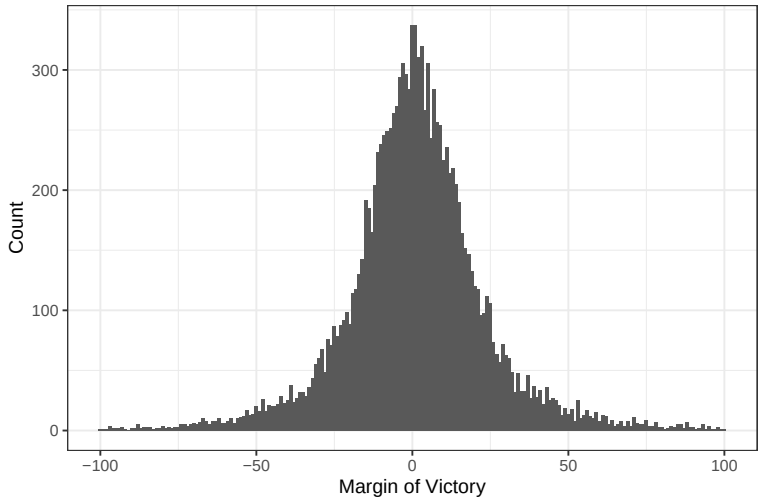
ship followed the voting recommendation of the House Speaker's party. This effect is positive and statistically significant. Finally, in Model 4, *Mayor, Governor, and President Copartisans* takes the value of one if the mayor, governor, and president come from the same party. This "triple alignment" has a positive and significant effect on the outcome.

D Evidence From Close Elections: Continuity Assumption

D.1 Running Variable

First, we plot the running variable — *Margin of Victory* — to confirm that there is no significant discontinuity in the density. This supports the assumption that the treatment is as good as random near the threshold. Note that we have "mass points:" unless a special election occurs (which is rare), the same margin of victory appears four times, corresponding to the four years of a mayor's term. In generating the plot below, we cluster the running variable by municipality and election cycle to avoid artificially inflating the density at specific points.

Figure D.1: Distribution of the Running Variable



This figure shows the distribution of the running variable (*Margin of Victory*), clustered by municipality and election cycle to avoid artificially inflating the density at specific points.

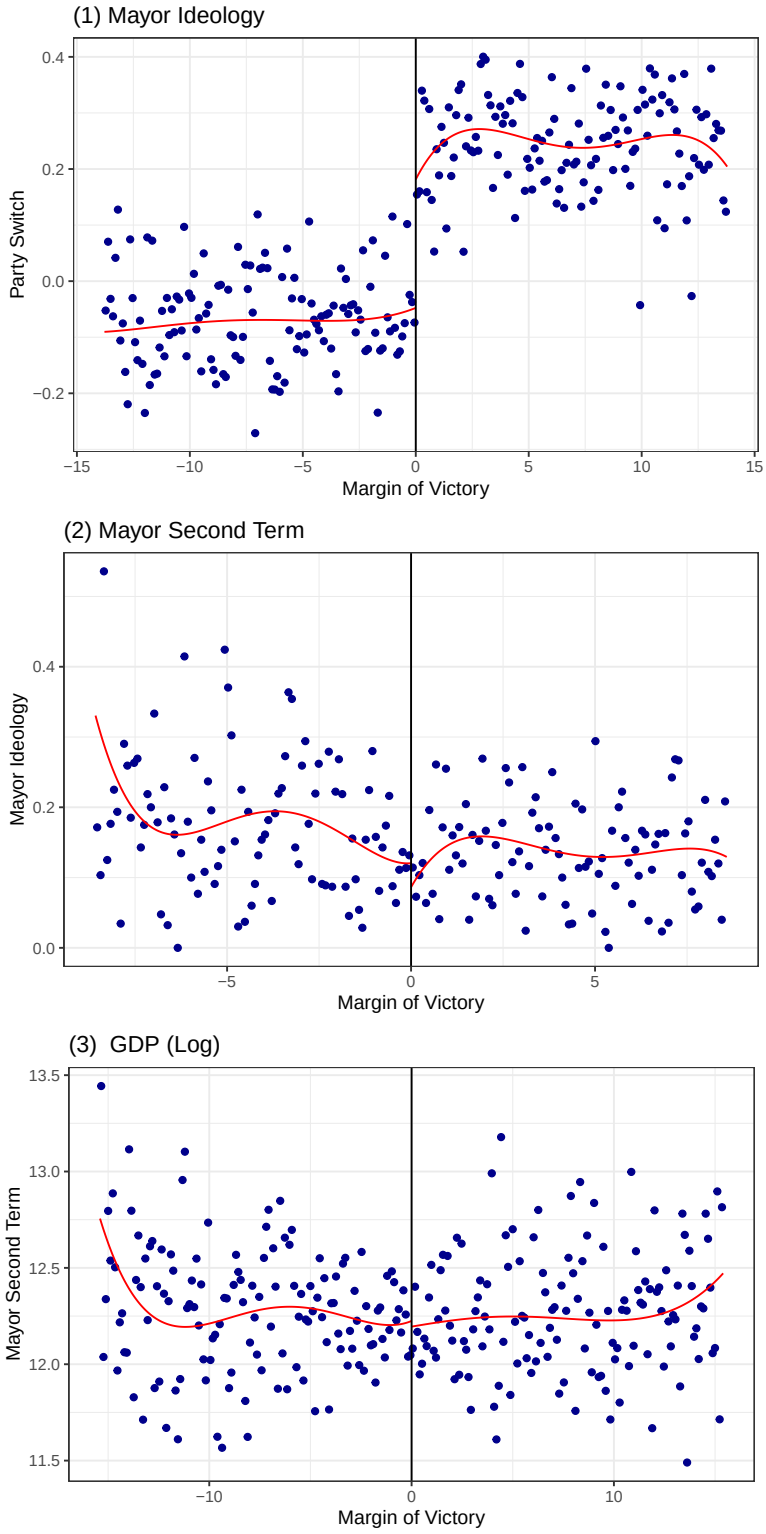
We do not conduct the McCrary discontinuity test (McCrary 2008) because the presence of mass points tends to distort the test's results, leading to inaccurate conclusions about the continuity of the density at the cutoff. Instead, we rely on covariate balance tests to assess whether pre-treatment characteristics are similar around the cutoff. This strategy is more robust to mass points while still providing evidence of no manipulation near the threshold.

D.2 Covariate Balance Tests

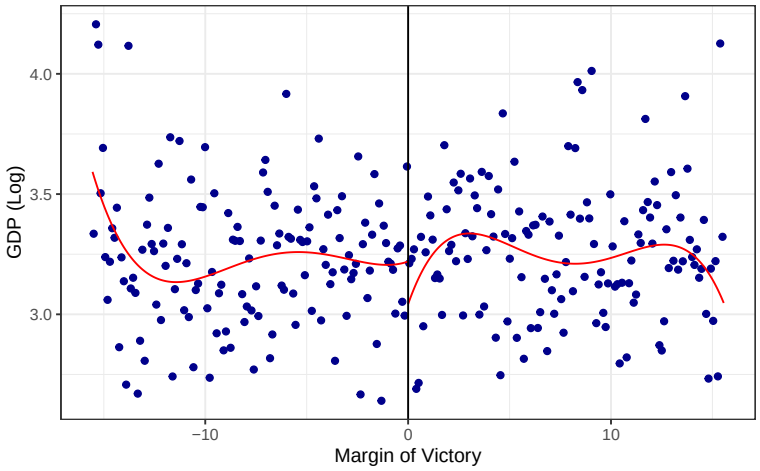
Second, we examine whether the pre-treatment covariates are similar on either side of the threshold. Ideally, these covariates should not change discontinuously at the threshold: the treatment

and control groups should be comparable, and the only change should be the treatment itself.

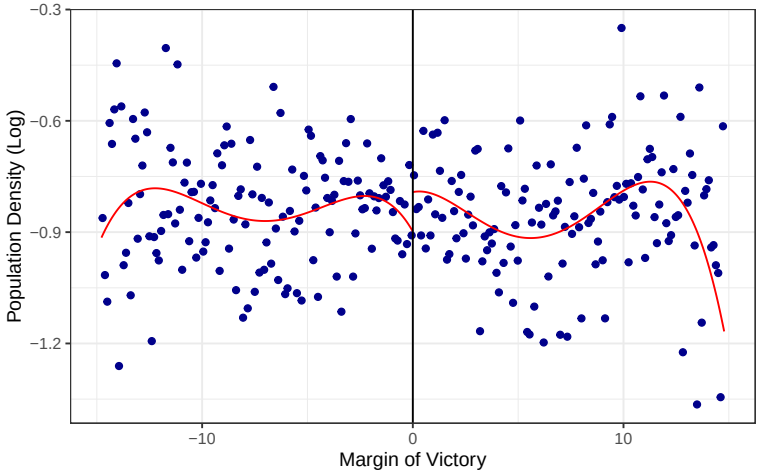
Figure D.2: The Effect of Political Alignment on Pre-Treatment Covariates



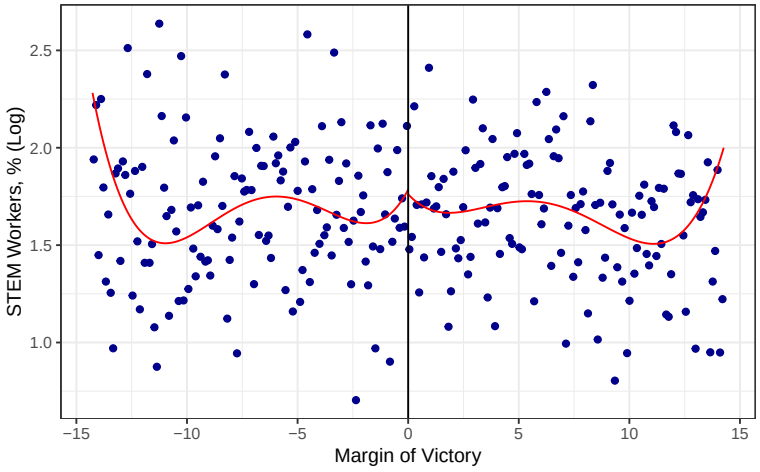
(4) Population Density (Log)

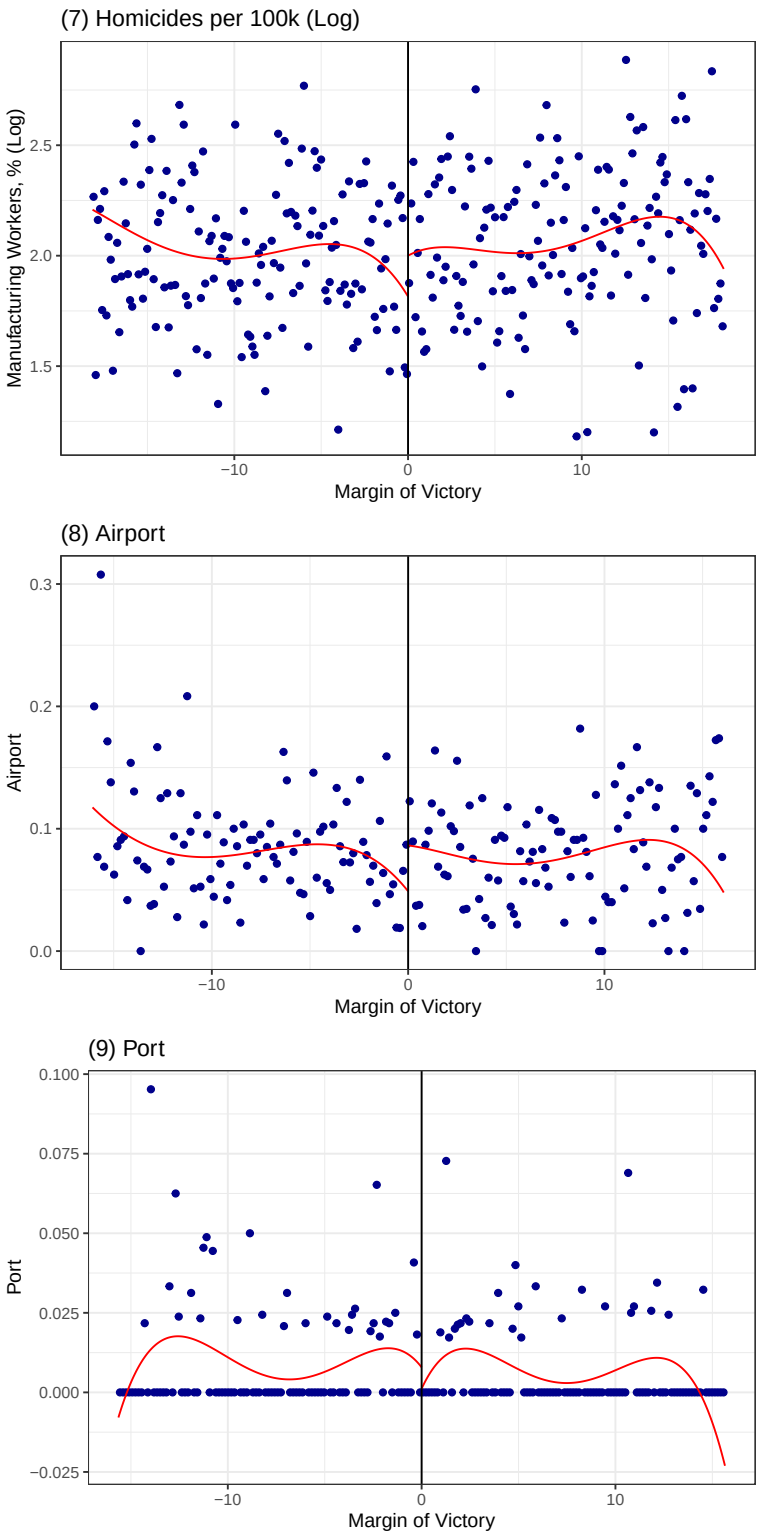


(5) STEM Workers, % (Log)



(6) Manufacturing Workers, % (Log)





Each panel of this figure shows the relationship between the variable in question and the margin of victory for the aligned candidate, using evenly-spaced bins (the blue dots) and local polynomial smoothing (the red line). The figure only includes observations within the optimal bandwidth selected by *rdrobust*, which minimizes the mean squared error (MSE) of the estimated treatment effect at the cutoff.

To test for this, we use the R package *rdrobust* (Calonico et al. 2015) to estimate models with each pre-treatment covariate as a dependent variable, clustering the standard errors by municipality and election cycle.

We begin with a visual inspection of the relationship between *Margin of Victory* and each pre-treatment covariate. These are the same covariates used in the multilevel models, except for *Political Alignment* (the treatment variable) and *Mayoral Election* (which is part of the treatment context). In Figure D.2, each panel only includes observations within the optimal bandwidth selected by *rdrobust*, which is the bandwidth that minimizes the mean squared error (MSE) of the estimated treatment effect at the cutoff. Each panel uses evenly-spaced partitioning and local polynomial smoothing (calculated using a triangular kernel that weighs observations as a function of their distance from the cutoff). We group the two time-invariant variables (*Airport* and *Port)* by municipality and election cycle to avoid distortions.

A visual inspection suggests that most variables are balanced, with one exception: *Mayor Ideology*. As Table D.1 confirms, an aligned mayor who barely wins is significantly more conservative (i.e., has a larger value of *Mayor Ideology*) than an aligned mayor who barely loses ($p = 0.000$). This imbalance could affect the validity of the RDD, as it violates the assumption that pre-treatment characteristics are independent of treatment assignment.

Table D.1: The Effect of Political Alignment on Pre-Treatment Covariates

	Mayor Ideology	Mayor Second Term	GDP (Log)	Population Density (Log)	STEM Workers, % (Log)
	(1)	(2)	(3)	(4)	(5)
Political Alignment	0.30***	0.01	0.00	0.02	0.01
	(0.00)	(0.65)	(1.00)	(0.76)	(0.85)
Bandwidth (MSE)	13.79	8.58	15.40	15.56	14.78
Eff. Observations (Left)	5287	3633	5738	5769	5569
Eff. Observations (Right)	5641	3831	6156	6218	5974

	Manufacturing Workers, % (Log)	Homicides per 100k (Log)	Airport	Port
	(7)	(8)	(9)	(10)
Political Alignment	0.05	0.04	0.01	0.00
	(0.48)	(0.47)	(0.51)	(0.99)
Bandwidth (MSE)	14.27	18.17	16.08	15.65
Eff. Observations (Left)	5396	6262	3924	3862
Eff. Observations (Right)	5796	6864	4151	4080

This table presents the results of nine regression discontinuity models with robust p-values. All models cluster standard errors by municipality and election cycle. $^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

To address this imbalance, our RDD (reported in the main text) adjusts for *Mayor Ideology*. Still, we recognize the limitations of our model. Adjusting for this variable does not fully address the concern that the treatment is not as good as random. Though our models account for observable differences, unobserved confounders correlated with ideology could still pose a problem, hence the importance of using qualitative evidence to ameliorate these concerns.

D.3 Alternative RDD Specifications

Following Alberti et al. (2022), our main models cluster the standard errors by municipality and election cycle, adjusting for one source of imbalance: *Mayor Ideology*. As an alternative, Table D.2 follows the specification of Toral (2024), who includes electoral cycle fixed effects. Models 1 and 3 omit *Mayor Ideology*, whereas Models 2 and 4 include it. Across all models, *Political Alignment* has very similar effect sizes to the main models. However, this effect is only significantly associated with more FDI transactions *in goods and services*.

Table D.2: The Effect of Political Alignment on FDI Transactions, Alternative RDD Specification With Electoral Cycle FE

	FDI Transaction Count			
	(1) All Transactions, All Municipalities, No Covariates	(2) All Transactions, All Municipalities, Covariate-Adjusted	(3) Goods and Services, All Municipalities, No Covariates	(4) Goods and Services, All Municipalities, Covariate-Adjusted
Political Alignment	0.07	0.07	0.09**	0.09**
	(0.14)	(0.13)	(0.01)	(0.01)
Mayor Ideology (Pt. Estim.)		−0.03		−0.01
Bandwidth (MSE)	3.16	3.16	4.23	4.23
Eff. Observations (Left)	1451	1451	1911	1911
Eff. Observations (Right)	1578	1578	2042	2042

This table presents the results of four regression discontinuity models with robust p-values. Models 1 and 2 cluster standard errors by municipality and election cycle, whereas Models 3 and 4 include electoral cycle fixed effects. Models 2 and 4 adjust for the covariate *Mayor Ideology*, which can lead to efficiency gains, though its point estimate has no substantive meaning (Calonico et al. 2019). $^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

D.4 Alternative Bandwidths

When choosing a bandwidth, the challenge is to minimize bias while controlling for variance. The bandwidth should be narrow enough to provide precise estimates (as observations that are too far from the cutoff might not reflect the local treatment effect around the cutoff), but not so narrow that the estimates are sensitive to noise (because they rely on few observations).

The main model uses the bandwidth that minimizes the MSE, which is the default optimal bandwidth selection process employed by *rdrobust* to balance bias and variance. Tables D.3 and D.4 present the results with bandwidths selected using alternative procedures. In each table, Models 1 to 5 use MSE-based bandwidth selectors, whereas Models 6 to 10 use selectors that minimize the Coverage Error Rate (CER). Calonico et al. (2019) describe these selection procedures in more detail. Our results are robust to all MSE-based selectors, but not to CER-based selectors. We attribute this to the fact that CER-based selectors produce much narrower bandwidths that are underpowered: there are just not enough observations to detect an effect.

Table D.3: The Effect of Political Alignment on All FDI Transactions, Alternative Bandwidths

	FDI Transaction Count				
	(1)	(2)	(3)	(4)	(5)
	mserd	mse2	msesum	msecomb1	msecomb2
Political Alignment	0.08*	0.12**	0.14**	0.08*	0.14**
	(0.09)	(0.02)	(0.01)	(0.09)	(0.01)
Mayor Ideology (Pt. Estim.)	0.01	−0.02	0.00	0.01	0.00
Bandwidth (MSE)	3.32	5.35	3.77	3.32	3.77
Eff. Observations (Left)	1534	2354	1712	1534	1712
Eff. Observations (Right)	1654	2819	1857	1654	1857

	FDI Transaction Count				
	(6)	(7)	(8)	(9)	(10)
	cerrd	certwo	cersum	cercomb1	cercomb2
Political Alignment	−0.01	0.08	0.01	−0.01	0.01
	(0.87)	(0.1)	(0.88)	(0.87)	(0.89)
Mayor Ideology (Pt. Estim.)	−0.02	0.01	−0.01	−0.02	−0.01
Bandwidth (MSE)	2.07	3.34	2.35	2.07	2.35
Eff. Observations (Left)	930	1540	1092	930	1092
Eff. Observations (Right)	1047	1856	1168	1047	1168

This table presents the results of 10 regression discontinuity models with robust p-values. All models cluster standard errors by municipality and election cycle. All models adjust for the covariate *Mayor Ideology*, which can lead to efficiency gains, though its point estimate has no substantive meaning (Calonico et al. 2019). Model 1 is the default bandwidth used in the main text. $^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

Table D.4: The Effect of Political Alignment on FDI Transactions in Goods and Services, Alternative Bandwidths

	FDI Transaction Count				
	(1)	(2)	(3)	(4)	(5)
	mserd	mse2	msesum	msecomb1	msecomb2
Political Alignment	0.08**	0.08*	0.10**	0.10**	0.09**
	(0.03)	(0.06)	(0.01)	(0.01)	(0.03)
Mayor Ideology (Pt. Estim.)	0.00	0.00	0.01	0.01	0.00
Bandwidth (MSE)	5.60	5.92	4.62	4.62	5.60
Eff. Observations (Left)	2463	2595	2074	2074	2463
Eff. Observations (Right)	2648	2484	2205	2205	2484

	FDI Transaction Count				
	(6)	(7)	(8)	(9)	(10)
	cerrd	certwo	cersum	cercomb1	cercomb2
Political Alignment	0.05	0.04	0.03	0.03	0.04
	(0.15)	(0.26)	(0.53)	(0.53)	(0.24)
Mayor Ideology (Pt. Estim.)	0.01	0.01	0.01	0.01	0.01
Bandwidth (MSE)	3.49	3.69	2.88	2.88	3.49
Eff. Observations (Left)	1593	1670	1310	1310	1593
Eff. Observations (Right)	1745	1615	1413	1413	1615

This table presents the results of 10 regression discontinuity models with robust p-values. All models cluster standard errors by municipality and election cycle. All models adjust for the covariate *Mayor Ideology*, which can lead to efficiency gains, though its point estimate has no substantive meaning (Calonico et al. 2019). Model 1 is the default bandwidth used in the main text. $^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

E Why Alignment Attracts FDI: Robustness Checks

In E.1, Model 1 examines the effect of *Discretionary Transfers* while excluding *Political Alignment*. Model 2 replaces *Discretionary Transfers* with a narrower type of discretionary transfer used by Brollo and Nannicini (2012): capital transfers, mostly related to the infrastructure sector. These models confirm that the effect of political alignment on FDI is not mediated by discretionary transfers — not even discretionary capital transfers.

Table E.1: The Effect of Discretionary Transfers on FDI Transactions (Excluding Political Alignment or Focusing on Discretionary Capital Transfers)

	FDI Transaction Count			
	(1)	(2)	(3)	(4)
	All Transactions, All Municipalities	All Transactions, All Municipalities	Goods and Services, All Municipalities	Goods and Services, All Municipalities
Discret. Transf. (Log), t-1	−0.02	−0.01		
	(0.01)	(0.01)		
Discret. Capital Transf. (Log), t-1			−0.04***	−0.04***
			(0.01)	(0.01)
Political Alignment, t-1			0.23***	0.22**
			(0.08)	(0.09)
FDI Transaction Count, t-1	0.00***	0.01***	0.00***	0.01***
	(0.00)	(0.00)	(0.00)	(0.00)
Mayor Ideology, t-1	0.03	0.06	0.00	0.04
	(0.05)	(0.06)	(0.05)	(0.06)
Mayoral Election, t-1	−0.18	−0.25	−0.21	−0.28
	(0.15)	(0.19)	(0.16)	(0.19)
Mayor Second Term, t-1	0.06	0.09	0.07	0.10*
	(0.05)	(0.06)	(0.05)	(0.06)
GDP (Log), t-1	0.59***	0.58***	0.59***	0.57***
	(0.03)	(0.03)	(0.03)	(0.03)
Population Density (Log), t-1	0.15***	0.09***	0.14***	0.09***
	(0.02)	(0.02)	(0.02)	(0.02)
STEM Workers, % (Log), t-1	0.24***	0.20***	0.24***	0.20***
	(0.03)	(0.03)	(0.03)	(0.03)
Manufacturing Workers, % (Log), t-1	−0.38***	−0.34***	−0.37***	−0.34***
	(0.02)	(0.03)	(0.02)	(0.03)
Homicides per 100k (Log), t-1	−0.04	−0.06**	−0.04	−0.05*
	(0.03)	(0.03)	(0.03)	(0.03)
Airport	−0.01	−0.05	−0.02	−0.05
	(0.05)	(0.05)	(0.05)	(0.05)
Port	0.18**	0.11	0.17**	0.10
	(0.08)	(0.08)	(0.08)	(0.08)
Intercept	−8.28***	−8.11***	−8.39***	−8.21***
	(0.39)	(0.42)	(0.39)	(0.42)
AIC	27109.41	23015.71	27099.18	23008.28
Log Likelihood	−13523.70	−11476.86	−13516.59	−11471.14
Observations	51691	51691	51691	51691
Number of States	26	26	26	26
Number of Years	10	10	10	10
Variance: States (Intercept)	0.70	0.69	0.69	0.69
Variance: Years (Intercept)	0.06	0.10	0.07	0.10

This table presents the results of four multilevel zero-inflated negative binomial models. All models include random intercepts for state and year. $^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

F Data Sources

All data sources below were last accessed on October 8, 2024.

Airport. Agência Nacional de Aviação Civil.

Discretionary Transfers. Sistema de Informações Contábeis e Fiscais do Setor Público Brasileiro (SICONFI), via Base dos Dados. The analysis aggregates all transfers under the category Transferências de Convênios da União e de suas Entidades, including current as well as capital transfers (which begin with 1 or 2, respectively).

FDI Transaction Count. Calculated using investment records, RDE–IED (Registro Declaratório Eletrônico – Investimento Estrangeiro Direto), Banco Central, and the nationwide registry of corporations, Quadros Societários CNPJ, via Base dos Dados.

Fiscal Management. Índice Firjan de Gestão Fiscal, Firjan.

GDP. Instituto Brasileiro de Geografia e Estatística (IBGE), via Base dos Dados.

Homicides per 100k. Sistema de Informações sobre Mortalidade (SIM), DATASUS, via Base dos Dados. We consider that the cause of death is a homicide when it falls under the following ICD10 categories: X85–Y09, Y87.1, Y35, and Y89.0 (Cícero et al. 2024).

Investment Incentives. Receita Federal. The analysis aggregates all incentives listed under Anexo I — Portaria RFB nº 319/2023.

Manufacturing Workers. Relação Anual de Informações Sociais (RAIS), via Base dos Dados. In the Brazilian classification of sectors, Classificação Nacional de Atividades Econômicas (CNAE), this corresponds to sector C.

Margin of Victory. Calculated using election results, Tribunal Superior Eleitoral, via Base dos Dados.

Mayor Party Ideology. Brazilian Legislative Surveys (see also Zucco and Power 2024).

Mayor Second Term. Calculated using election results, Tribunal Superior Eleitoral, via Base dos Dados.

Mayoral Election. This variable takes the value of 1 for all municipalities in 2012, 2016, and 2020, and for all municipalities and years listed under Eleições Suplementares, Tribunal Superior Eleitoral.

Non-Discretionary Transfers. Fundo de Participação dos Municípios (FPM), Tesouro Nacional.

Political Alignment. Calculated using voting patterns and party leadership recommendations, Dados Abertos da Câmara dos Deputados, via Base dos Dados; party membership records (Filiação Partidária), Tribunal Superior Eleitoral, via Base dos Dados; and election results, Tribunal Superior Eleitoral, via Base dos Dados.

Population Density. Calculated using data total population data, Instituto Brasileiro de Geografia e Estatística (IBGE), via Base dos Dados, as well as total area data retrieved directly from IBGE.

Port. Receita Federal.

STEM Workers. Relação Anual de Informações Sociais (RAIS), via Base dos Dados. These are jobs with the following codes in the official Brazilian job classification (Classificação Brasileira de Ocupações, CBO): 2345, 203, 214, 1237, 1426, 211, 212, 213, and 221. They are also called "pessoal ocupado técnico-científico (POTec)."

Time to Register a Business. Estatísticas CNPJ, REDESIM, Receita Federal. We consider only the first step of registering a business (*Pesquisa Prévia de Viabilidade*), as it is the only step

to happen at the municipal level.

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