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Chrobok, Florian (2024) *Bilateral foreign direct investment and European colonialism.* MPhil(R) thesis

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Bilateral Foreign Direct Investment and European Colonialism

by

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Submitted in Fulfilment of the Requirements for the

Degree of Master of Philosophy in Economics

Adam Smith Business School

College of Social Sciences

University of Glasgow

April 2024

To my beloved family.

Abstract

In the quest to identify key influences on foreign direct investment (FDI) flows, previous studies have often ignored the effects of relational factors that have historically been formed between countries. Hence, this thesis aims to reintegrate history into international business by posing the question: How do the historical colonial ties between European colonisers and their former colonies affect inward foreign direct investment flows from source to destination countries? From both a theoretical and practical standpoint, this question holds significance. The empirical analysis in this study employs a panel dataset on bilateral inward FDI stocks from 191 source countries to 201 host countries, which comprise advanced, emerging, and developing economies. The data cover the period from 2001 to 2012 and were selected solely based on availability. Controlling for standard gravity variables and other determinants of interest, this study finds statistically significant results concerning the effects of historical colonial relationships on inward foreign direct investment. The results show that historical colonial ties and common colonial experiences between source and host countries lead to more aggregate inward FDI and increase the probability that two countries engage in foreign direct investment in the first place. The empirical findings also indicate that a larger share of European settlers during colonial times, historical colonial relationships established by concessionary companies and Christian missionaries from the source country, and a longer period of colonial rule lead to more aggregate inward FDI in the host country. Ordinary least squares (OLS), Tobit, and Heckman sample-selection estimates confirm these findings, while the Poisson pseudo-maximum likelihood (PPML) estimator either fails to produce statistically significant estimates or comes to contradictory conclusions for the influence of common colonial experiences and the period of colonial rule. Despite these minor ambiguities, it is recommended for multinational enterprises (MNEs) to invest in countries that were colonised by their respective home countries, whereas colonised host countries should direct their promotional efforts towards direct investors that are based in former coloniser states.

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Acknowledgements

This thesis would not have been possible without the help and encouragement of a great many people. First and foremost, I would like to express my sincere appreciation and gratitude to my supervisors, Prof. Ronald MacDonald and Prof. Céline Azémar, for their academic guidance, patience, and tremendous support over the past three years.

I am also grateful to Dr Ioana Moldovan, Prof. Luis Angeles, and Prof. Charles Nolan for their insightful comments and suggestions, which have greatly improved the quality of my thesis. Furthermore, I am indebted hugely to the Adam Smith Business School and its faculty members for providing me with an excellent research environment.

Finally, I would like to thank my family, whose unwavering support has been fundamental in bringing this thesis to fruition. My heartfelt thanks go out to my parents, Birgit and Leonhard Chrobok; my grandparents, Renate and Wolfgang Müller; my sister, Franziska Chrobok; and my godfather, Martin Müller. Thank you so much for your unconditional love and support, which have sustained me throughout my academic journey.

Affidavit

I declare that, except where explicit reference is made to the contribution of others, this dissertation is the result of my own work and has not been submitted for any other degree at the University of Glasgow or any other institution.

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Florian Chrobok

Glasgow, 30 April 2024

Bilateral Foreign Direct Investment and European Colonialism

1   Introduction

Jones and Khanna (2006) were among the first to call for the field of international business to move on from the relatively uncontroversial idea that history matters and explore the actual mechanisms of its influence. One way of exploring how history matters is to analyse historical colonial ties, which are country-specific bilateral relationships that have either been created intentionally or have evolved naturally over time (Makino and Tsang, 2011). The historical ties in question create an institutional framework within which relationships between associated countries occur (North, 1990). Makino and Tsang (2011) highlight that previous studies, in the quest to identify key influences on foreign direct investment flows, have often neglected the effects of relational factors that have historically been formed between countries. Hence, this study aims to reintegrate history into international business by posing the question: How do the historical relationships between colonised countries and their former ruling nations affect inward foreign direct investment flows from source to host countries? From both a practical and theoretical viewpoint, this question holds significance. The study aims to unpack the *how* by examining the impact of colonial relationships on foreign direct investment, exploring the heterogeneous influences of European colonisers, and examining the ramifications of a longer or shorter duration of colonial rule on foreign direct investment. Previous studies on colonial relationships and economic transactions have neither explored the topic in comparable depth nor analysed it on a global scale. The question remains, though: Why do these events, which ended a long time ago, still hold significance today? One answer lies in the composition of the political institutions imposed by European colonisers that are relevant even today (Acemoglu et al., 2001). The institutions imposed during colonial times often shaped our own institutions and continue to affect government accountability, democratic competition, the protection of people's property rights, anti-corruption measures, and the rule of law (Mizuno and Okazawa, 2009). In addition, it is important to emphasise that some of the more enduring remnants of

colonialism, such as the prevalent use of the coloniser's native language and the similarities in institutional frameworks and business practices between former colonies and their European colonisers, can mitigate the challenges encountered by multinational enterprises upon market entry and consequently increase the possibilities of investment (Lundan and Jones, 2001).

While the formal institutions in developing countries often reflect the legacies of their former colonisers, it is important to note that a nation's history of colonialism also creates informal institutions that can pose significant challenges for firms based in former colonising countries (Makino and Tsang, 2011). According to Glaister et al. (2020), the transition in foreign direct investment from resource-seeking to market-seeking will aggravate the liability of foreignness associated with colonial relationships (Zaheer, 1995). Understanding this concept provides a more complete overview of the dynamics between source and host countries, and the nature of institutions in this context (Glaister et al., 2020). Institutional legacies may also be related to the liability of foreignness through country-of-origin effects. This occurs when multinational enterprises (MNEs) encounter added difficulties due to the different treatment foreign firms receive from local stakeholders because of their foreignness. The country of origin symbolises the MNE's home country and shares the history of the organisation with the stakeholders in the host country (Mezias, 2002). This reflects the idea that countries, similar to firms, possess brand equity, which can play a significant role in the selection of foreign markets (Moeller et al., 2013; Kim and Chung, 1997). The reputation of the firm might be damaged because of the past actions of its home country. If the perception of the MNE is significantly affected by the country of origin, it is considered an added burden of the liability of foreignness. Even though a single company may not be responsible for the negative reputation of an entire country all by itself, it is possible that other companies with the same country of origin will be negatively affected by this unfavourable perception as well. As a result, the multinational enterprise, its products, brands, and employees, might get stigmatised (Glaister et al., 2020). The image of a country encapsulates consumers' perceptions of product attributes and directly affects their attitudes towards the brand (Han, 1989). Moeller et al. (2013) suggest that the home country serves as a pivotal foundation for the strategic actions pursued by multinational enterprises upon market entry. Hence, the home country plays an important role in determining whether the multinational enterprise has the ability to succeed in a host country environment. More importantly, Moeller et al. (2013) emphasise that firms should anticipate potential resistance from local stakeholders upon their arrival in the host country, especially with regard to their product offerings. In addition, multinational enterprises are encouraged to develop proactive

strategies to counteract the negativism of host country stakeholders. Such resistance can be particularly serious for firms whose country of origin is a former coloniser of the host country in question (Glaister et al., 2020). Lastly, it is important to note that the colonial experiences of colonised countries were not homogeneous but varied among European colonisers. Hence, the nature of colonial practices typically ranged from beneficial to hostile for the indigenous people exposed to them. Such differences in colonial experiences can result in varied impacts on economic transactions between former colonies and their European colonisers, including foreign direct investment (Chowdhury and Maung, 2018).

Few prior studies have analysed historical colonial ties and, in particular, whether the colonial relationship between two nations bears any significance for economic transactions. Makino and Tsang (2011) examined the historical colonial ties between France and Vietnam and their effect on foreign direct investment, while Kedia and Bilgili (2015) explored the link between Russia and former Soviet Republics to understand how institutional differences between host and source countries affect the percentage of ordinary shares acquired in target companies. Chowdhury and Maung (2018) looked into how colonial relationships affect the total number of cross-border mergers and acquisitions from former colonies to their European colonisers. While the papers by Makino and Tsang (2011) and Kedia and Bilgili (2015) concentrate on the colonial relationships between two specific nations, Chowdhury and Maung (2018) consider data from 37 colonised countries, including Australia, Brazil, Chile, Canada, New Zealand, the United States, and ten African nations. Makino and Tsang's (2011) empirical results indicate that historical colonial ties do indeed play a significant role in facilitating bilateral investment flows between countries. Makino and Tsang (2011) argue that colonial relationships lead to more trust and understanding, which reduce transaction costs and perceived risks associated with direct investments abroad. This promotes a beneficial investment environment, where direct investors from European colonisers are more inclined to invest in their former colonies due to familiar legal and cultural frameworks. Kedia and Bilgili (2015) suggest that historical and institutional similarities, which stem from shared colonial pasts, generally allow for more control and larger shares in subsidiaries or associate enterprises. This study emphasises the role of trust and reduced uncertainty in fostering deeper economic ties through FDI activities in regions linked by colonial relationships. The empirical findings by Chowdhury and Maung (2018) reveal that historical colonial ties do indeed have a significant effect on the number of cross-border mergers and acquisitions. Hence, countries that share a colonial past are more likely to engage in cross-border mergers and acquisitions compared to countries without such historical

ties. This suggests that common legal and cultural frameworks play a fundamental role in enhancing the attractiveness of former ruling nations as possible destination countries for foreign direct investment coming from their former colonies (Glaister et al., 2020).

The empirical framework in this study employs a panel dataset on bilateral inward FDI stocks from 191 source countries to 201 host countries, which comprise advanced, emerging, and developing economies. The data cover the period from 2001 to 2012 and were selected solely based on availability. Overall, the dataset records 140 colonial relationships, which account for 2.1 percent of the entire sample of country pairs in this study. George et al. (2016) point out that scholars in various fields have repeatedly attributed the ongoing difficulties in developing countries to their colonial pasts. George et al. (2016) also suggest that the enduring effects of colonised countries' institutional legacies have not been researched enough. Previous studies on inward foreign direct investment do not specifically refer to colonial relationships as a key determinant of foreign direct investment. Controlling for standard gravity variables and other determinants of interest, this thesis finds statistically significant results concerning the effects of historical colonial relationships on inward foreign direct investment. The results show that historical colonial ties and common colonial experiences between source and host countries lead to more aggregate inward FDI and increase the probability that two countries engage in foreign direct investment in the first place. The empirical findings also indicate that a larger share of European settlers during colonial times, historical colonial relationships established by concessionary companies and Christian missionaries from the source country, and a longer period of colonial rule lead to more aggregate inward FDI in the host country. Ordinary least squares (OLS), Tobit, and Heckman sample-selection estimates confirm these findings, while the Poisson pseudo-maximum likelihood (PPML) estimator either fails to produce statistically significant estimates or comes to contradictory conclusions for the effects of common colonial experiences and the period of colonial rule on foreign direct investment. Despite these minor ambiguities, it is recommended for MNEs to invest in countries that were colonised by their respective home countries, while colonised countries should direct their promotional efforts towards direct investors that are based in former coloniser states. Given the diverse nature of colonial experiences, it is important to consider the complexity of colonial relationships when analysing their influence as a key determinant of foreign direct investment.

The remainder of this thesis is organised as follows: Section 2 outlines some of the empirical and theoretical research on multinational enterprises and foreign direct investment. Section 3 provides a brief overview of colonialism, discussing the three pillars of European colonialism,

Marxist and postcolonial theories of imperialism, as well as colonialism and decolonisation in the present. Section 4 introduces the data, describes model specifications, and explains the estimation strategies used in this study. Section 5 presents the research results and develops appropriate policy recommendations for source and host countries. Section 6 concludes.

2   Multinational Enterprises and Foreign Direct Investment

Multinational enterprises (MNEs) are pivotal players in today's globalised economies and can be defined as firms that own a significant equity share of another company operating in a foreign country. According to the Organisation for Economic Co-operation and Development (OECD) as well as the International Monetary Fund (IMF), a firm should be classified as a subsidiary if more than 50 percent of its ordinary shares are owned by a foreign investor. This gives the shareholder voting power and the right to appoint or remove a majority of the members of this enterprise's administrative, management, or supervisory body. On the other hand, a firm should be classified as an associate enterprise if between 10 and 50 percent of its ordinary shares are held by foreign investors. Compared to national firms, multinational enterprises typically have larger financial resources, more advanced production technologies, and better access to talented graduates and experienced professionals. This, combined with intangible assets such as patents, trademarks, and goodwill, allows multinational enterprises to take advantage of their bargaining power – predominantly in less-developed countries where those assets might be scarce – and circumvent national regulations or policies. Hence, multinational enterprises tend to exploit economic opportunities more easily than national firms, which is demonstrated by their ability to mass-produce standardised products and thus achieve economies of scale. This improves MNEs' product standards, enhances their market power, and contributes to the creation of national wealth (Navaretti and Venables, 2004).

Because it is not generally possible to measure the business operations of individual firms due to data access restrictions, it has become common practice to use data on foreign direct investment (FDI) flows, which can be obtained from the balance-of-payment statistics of both source and host countries, as well as selected industrial sectors (Navaretti and Venables, 2004). Foreign direct investment flows primarily consist of equity capital, reinvested earnings, and intercompany debt. Equity capital comprises equity in branches, voting and non-voting shares in subsidiaries and associate enterprises, as well as other capital contributions such as the provision of machinery or other capital equipment, raw materials, and technical know-how. Reinvested earnings consist of the direct investor's share, in proportion to equity held, of

earnings not distributed as dividends by subsidiaries or associate enterprises and earnings of branches not remitted to the direct investor during the reporting period (Patterson et al., 2004). Finally, intercompany debt covers the borrowing and lending of funds, including debt securities and trade credits, between direct investors and direct investment enterprises, as well as between direct investment enterprises that have the same direct investor (Navaretti and Venables, 2004). According to the International Monetary Fund (IMF), a direct investment relationship is established when the direct investor has acquired 10 percent or more of the ordinary shares or voting power of an enterprise abroad. Subsequent transactions between the direct investor and the direct investment enterprise are factored in as well but may not necessarily lead to complete control over the company in question (Patterson et al., 2004). Unlike portfolio investments, which are easily reversible and do not involve active management roles, direct investors generally favour long-term partnerships that often stem from a strong interest in the host country and thus give the direct investor considerable influence on the management of the direct investment enterprise. Hence, in order to create, acquire, or expand associate enterprises or subsidiaries in foreign countries, multinational enterprises undertake direct investments abroad. The total direct investment capital in possession of non-residents in any given country each year is commonly referred to as the stock of foreign direct investment (Navaretti and Venables, 2004).

For the most part, scholars have described foreign direct investment as a support factor for economic development and societal modernisation, particularly in developing and emerging economies, as well as Eastern European countries in transition (Gheribi and Voytovych, 2018). From a macro standpoint, foreign direct investment is widely regarded as a stepping stone for higher productivity, less unemployment, higher trading activity, as well as greater access to international markets and sources of financing (Fontagné, 1999; Denisia, 2010). Blomström et al. (1992) support the idea that foreign direct investment enhances the competitiveness of local companies and found empirical evidence for their argument in Mexico and Indonesia. Findlay (1978) and Borensztein et al. (1998) point out the importance of technology spillovers for economic growth and the positive impacts they could have on the improvement of managerial skills and the transfer of knowledge (Caves, 1996). However, the effects of foreign direct investment on economic growth vary significantly depending on the regulatory framework and the receptive capacity of the host country (Rodrik et al., 2004). Effective governance and transparent legal systems can enhance the positive effects of foreign direct investment, particularly by fighting corrupt actions and ensuring fair competition (Kaufmann et al., 2009).

Furthermore, the benefits of foreign direct investment are often greater in sectors where knowledge transfer and integration into global supply chains can lead to higher productivity and innovation (Alfaro et al., 2004). The educational and technological capabilities of the local workforce play a crucial role in maximising the benefits derived from foreign direct investment. Countries with higher levels of education and technical skills are generally better positioned to utilise advanced technologies introduced by multinational enterprises, which allows them to leverage these investments to obtain greater economic gains (Nunnenkamp, 2001). However, due to the danger of market dominance, foreign direct investment may also have a negative effect on recipient countries' economic development as it could result in local companies outsourcing their business operations to other countries (Hanson, 2001; Görg and Greenaway, 2004). A less diverse corporate environment would bear the risk of limited economic development due to the presence of monopoly structures. While foreign direct investment can act as a catalyst for economic development and societal modernisation, its implications are heavily influenced by local conditions such as regulatory frameworks, corporate governance, and the level of education within the local workforce. Understanding these dynamics is crucial for policymakers aiming to optimise the economic benefits of foreign direct investment.

Since the late 1960s, foreign direct investment has become increasingly popular in economic research, which has led to several theories examining this phenomenon from the perspective of both investor and host economies. Vernon's (1966) product life-cycle (PLC) theory was originally developed to explain direct investment flows from U.S. companies into the manufacturing sector of countries located in Western Europe. During the 1950s and 1960s, the demand for U.S. manufactured products in Europe increased significantly and thus led to a rise in American exports, followed by technology spillovers (Denisia, 2010). Vernon's (1966) four-stage paradigm, which comprises innovation, growth, maturity, and decline, describes how firms produce, price, and promote newly developed products that are later distributed in domestic and foreign markets. According to the PLC theory, firms initially export production surpluses before they build production plants overseas. Therefore, product innovations are typically developed for the domestic market and progress through various stages in which production shifts to other developed countries and, finally, to developing countries as well (Paul and Feliciano-Cestero, 2021). In other words, multinational enterprises are willing to take risks by investing in countries with lower institutional standards at one stage of the product life-cycle in exchange for more developed institutions or easier regulations at another stage of the life-cycle (Contractor et al., 2020). Vernon (1966) also commented on the danger of foreign

competitors replicating the product features of U.S. companies and argued that the firms in question were practically forced to enter the markets of competitors and set up production facilities in order to maintain their market shares in post-war Western Europe. The significance of technological advantages in this particular case, however, has been proven to be somewhat ambiguous, as foreign direct investment also occurred when American firms did not have the advantage of technology over European competitors (Denisia, 2010).

Similar to the PLC theory, the internalisation theory is typically used to explain the growth of multinational enterprises and their incentives to enter foreign markets via direct investments. Hymer (1976) discovered that MNEs arise when market imperfections such as incomplete or imperfect information, high barriers to entry, or prices set by price makers – rather than supply and demand – reduce competition in final product markets (Denisia, 2010). Thus, market failure and firm-specific advantages over local companies are two key requirements for MNEs to engage in foreign direct investment, whereas perfect market competition would discourage firms from conducting operational expansions abroad (Kindleberger, 1969). In the real world, however, markets are typically not perfectly competitive, which is shown by the sharp rise in FDI inflows between 1986 and 2000, exceeding the growth of exports and world GDP (Navaretti and Venables, 2004). Despite their seemingly overwhelming advantages over local companies, multinational enterprises are also expected to face some adjustment costs when they enter a foreign market via direct investments. Hymer (1976) identified information costs, exchange rate risk, and discriminatory treatment from local government authorities, suppliers, and consumers as the most significant challenges that firms may have to overcome when they expand their business operations to other countries (Eden and Miller, 2004). Buckley and Casson (1976) concluded that MNEs typically organise their internal activities with the intention to create firm-specific advantages, which are later exploited for the good of the firm, so they do not have to rely on the location properties found in the host country (Verbeke and Kano, 2016). Therefore, foreign direct investment only happens if the benefits of exploiting firm-specific advantages outweigh the costs that MNEs would incur from moving their business operations abroad. Hennart (1982, 1986) developed the concept of internalisation further by distinguishing between vertical and horizontal FDI activities. Vertical FDI occurs when a company invests in a foreign business that is part of its supply chain to control the production process. Horizontal foreign direct investment, on the other hand, refers to a company investing in a foreign business that operates in the same industry, thus creating a similar company abroad to directly produce and market its products. This has encouraged recent studies to draw more on internalisation

theory as a means to explain foreign direct investment in the context of regionalisation and global value chain disaggregation (Paul and Feliciano-Cestero, 2021). Nonetheless, despite its extensive application in foreign direct investment research, internalisation theory also received some criticism for its rather one-dimensional approach to explaining foreign direct investment flows. Dunning (1980, 1988, 2000) later addressed this limitation in his eclectic paradigm by including both ownership and location advantages as additional decision factors.

As mentioned in the previous paragraph, Dunning's (1980, 1988, 2000) eclectic paradigm comprises ownership, location, and internalisation advantages to explain how companies can leverage their resources in order to be more competitive in foreign markets (Paul and Feliciano-Cestero, 2021). Ownership advantages comprise mainly intangible assets, which are exclusive possessions of the company in question. These usually include privileged access to markets and financial capital, technology advantages, ownership of patents, copyrights and trademarks, as well as the required know-how to establish subsidiaries or associate enterprises in places where economies of learning, scale, and scope can flourish. Hence, in order to successfully enter a foreign market, the firm must have ownership of its specific advantages, which ideally outweigh any setup costs that the firm will incur from moving its business operations abroad, so it can generate higher marginal profitability or lower marginal costs than other competitors. Location advantages are key factors to determine which foreign markets are suitable for the business activities of multinational enterprises. Location advantages generally comprise economic benefits, political advantages, and social advantages. These may include lower production and transportation costs, better telecommunication systems, greater market size, governmental stability, a higher degree of national security and education, as well as cultural similarities between the source and host nation. The importance of strong location advantages is pointed out by Delevic and Heim (2017), who found that home country deficiencies can be compensated by the host country's location advantages. Assuming that the first two parameters are satisfied, the company in question should find it financially profitable to leverage these advantages in partnership with at least one additional element outside its country of origin (Dunning, 1980, 1988). The third element of the eclectic paradigm presents a structure for evaluating the different methods a firm can utilise to capitalise on its firm-specific advantages, ranging from selling goods and services to potential partnerships with other companies. The greater the advantages of cross-border market internalisation, the more inclined the firm will be to engage in foreign production instead of merely granting this right to other companies through licensing agreements. The eclectic paradigm demonstrates that ownership, location, and internalisation

parameters vary from firm to firm and reflect the economic, political, and social characteristics of the host nation. Therefore, the objectives and strategies of firms, as well as the magnitude and nature of production, will depend on the challenges and opportunities presented by the investor and the host country involved in the direct investment relationship (Denisia, 2010).

The resource-based view (RBV) is an organisational framework that has been used in foreign direct investment research mainly with regard to outward FDI from developing countries. It is intended to explain how companies can obtain competitive advantages while expanding their business operations to other countries and gained immense popularity in the 1980s and early 1990s after the influential works published by Wernerfelt (1984), Barney (1991), and Ghoshal (1987). The RBV proposes that the unique resources and capabilities of a firm are central to its corporate strategy and performance (Barney, 1991). Similar to Dunning's (1980, 1988, 2000) eclectic paradigm, this approach distinguishes between tangible and intangible resources and considers the latter as promising sources of sustainable competitive advantages (Wernerfelt, 1984). These resources, which may include proprietary technologies, skilled personnel, patent rights, and brand recognition, are non-substitutable and difficult to imitate. Furthermore, the RBV framework helps scholars understand the strategic choices firms make when they decide to enter foreign markets. By leveraging their firm-specific resources, firms can better manage the challenges associated with new and often more competitive environments. This resource-based perspective is also crucial in explaining why some firms succeed in their international ventures while others do not (Barney, 1991). In applying the resource-based view to outward foreign direct investment from developing countries, researchers like Cook et al. (2012), Gaur et al. (2018), and Lin (2016) have identified several core competencies that these firms exploit in order to compete globally. For instance, firms may utilise their specialised market knowledge as a resource while expanding their business operations to culturally similar economies or take advantage of their cost-efficient processes to offer more competitive prices in foreign markets. The RBV has also been used in combination with institutional-based views and network theories to provide more elaborate insights into how internal resources interact with external conditions in terms of foreign direct investment strategies (Peng, 2001; Tallman et al., 2004).

In recent years, both the linkage-leverage-learning (LLL) model and the springboard theory have seen a surge in popularity due to their effectiveness in explaining the particular determinants and incentives of outward FDI stemming from emerging market multinational enterprises. The LLL model by Mathews (2002, 2006) is widely regarded as an important extension of Dunning's (1980, 1988, 2000) eclectic paradigm and explains how emerging market MNEs from countries

in South-East Asia have managed to establish themselves in more developed markets. Mathews (2002) argues that when seeking to acquire new capabilities, foreign direct investment requires a different perspective than that used for exploiting existing ones. When companies are looking to gain new skills, technologies, or processes that they currently do not possess, foreign direct investment should focus on creating linkages with corporate entities that can provide these new capabilities. This aligns with the learning aspect of the LLL model. Conversely, if the objective of foreign direct investment is to utilise the firm's existing strengths in new markets, the approach is different. Here, the focus is on exploiting the existing assets to maximise returns rather than seeking to acquire new skills and knowledge. Following Hobdari et al. (2017), emerging market MNEs have the potential to fully develop their capabilities and thus expand globally. However, multinational enterprises that engage in outward FDI from emerging market economies usually make late entries into already developed markets. Such firms use various catch-up strategies or leapfrogging patterns while going international. Although the linkage-leverage-learning model has been applied repeatedly to study the expansions of Asian firms, particularly those located in China (Ge and Ding, 2009), it has also received some criticism for its supposedly unconvincing modifications compared to Dunning's (1980, 1988, 2000) eclectic paradigm (Narula, 2006).

Luo and Tung's (2007) springboard theory explains why and how firms from emerging market economies systematically and repeatedly utilise international expansion as a means to acquire strategic assets needed to compete more effectively against MNEs from developed countries and to avoid institutional and market constraints they would otherwise face in their domestic markets. Critical resources of interest for the firms in question are usually acquired from more established MNEs in an attempt to overcome their latecomer disadvantages and compensate for their competitive weaknesses in foreign economies. Luo and Tung (2018) also developed a general theory of springboard multinational enterprises, which employs critical amalgamation, ambidexterity, and adaptation advantages to distinguish between MNEs that require so-called springboard acquisitions and more established MNEs from advanced economies. Moreover, Luo and Tung (2018) highlight the need to analyse acquisitions of strategic springboard assets in the context of increasing competitiveness in global markets. This trend can impede firms' ambitions to catch up and leapfrog their way to the top, which makes springboard acquisitions even more important for emerging market multinational enterprises that aspire to expand overseas.

Multinational enterprises operating in countries with distinct institutional environments often face various pressures, which can influence the firm's competitive strategies (Martinsons, 1993) and human resource practices (Rosenzweig and Singh, 1991). Institutional theory explains the

role of cultural, normative, and regulatory frameworks in shaping organisational actions. Scott (2013) identified three pillars of institutional theory, which can help scholars understand the variety of organisational behaviours across different markets. For example, regulatory pressures involve laws and regulations, while normative pressures stem from societal expectations, and cultural-cognitive elements are shaped by shared beliefs and meanings. This multifaceted view helps to explain why multinational enterprises may adopt different strategies in different parts of the world, which are not implemented solely based on market logic but also in response to institutional demands (DiMaggio and Powell, 1983). Moreover, institutional theory is not only crucial for understanding market entry modes but also for explaining possible forms of adaption in foreign markets. As firms enter new institutional environments, they often have to balance between adapting to local expectations and maintaining global standards. This balancing act is critical, especially when entering markets with stringent regulatory environments or significant cultural differences (Kostova and Roth, 2002). Hence, institutional theory supports the notion that the organisational structures and behaviours of firms are largely shaped and legitimised by the external environments in which they operate. Several studies have employed institutional theory in pursuit of determining the most appropriate organisational forms for market entries: international joint ventures vs. wholly-owned subsidiaries (Li and Meyer, 2009; Roy and Oliver, 2009). Meyer (2004) highlights the importance of institutional theory when deciding upon the most suitable market entry forms for firms that are based in emerging market economies. Other researchers (Cui and Jiang, 2012; Deng, 2013) have applied institutional theory to explain how institutional constraints, for example, state interference, can impede the business operations of emerging market multinational enterprises (Paul and Feliciano-Cestero, 2021).

3   A Brief Overview of Colonialism

There is a broad consensus among historians and social scientists that colonialism is best defined as the combination of territorial, juridical, cultural, political, economic, and epistemic domination of one group of people by another group of people. European colonialism is a subset of colonialism and refers to the various forms of intergroup domination that European powers inflicted on non-European people from the late 1400s to the mid- to late 1900s. The European powers involved in this process included Britain, France, Spain, Portugal, Belgium, Italy, Germany, Denmark, Norway, Sweden, Russia, and the Netherlands. Throughout modern history, these European countries have managed to expand their control over most of Africa, the Americas, Asia, Oceania, and the Middle East. As with almost any multidimensional

phenomenon, there is limited transferability of the characteristics of one form of European colonialism to another. This is because of the heterogeneous colonial practices and social imaginaries that emerged from and within the colonial systems of European powers. Conflicts and power struggles between European countries as well as colonial subjects over territories, markets, epistemologies, and sources of labour shaped the patterns of European colonialism. The methods and practices of colonial domination, law, appropriation, and containment varied greatly and evolved over time in each respective colonial territory. However, despite these differences, there were common overarching tendencies within the fabric of European colonialisms. These included (a) the initial invasion and restructuring of colonial markets, territories, and cultures by concessionary companies and Christian missionaries; (b) colonial enrichment through legalised territorial domination, extraction of natural resources, forced labour, and taxation; and (c) the propagation of racialised, patriarchal, and heteronormative ideologies, combined with a widespread acceptance of white supremacy, which together provided the ideological foundation for European colonialism (Murrey, 2020).

3.1   European Colonialism

Early colonial endeavours heavily relied on European missionaries, explorers, and concessionary companies. Their writings and rhetoric often showed exaggerated, inaccurate, or misconceived views of indigenous non-European people. Before the formal onset of colonialism in regions like Africa, the Americas, and Asia, concessionary companies laid the groundwork. They conducted geographical explorations, established trade networks, and gave rise to forced labour systems, which laid the foundation for economies centred on resource extraction. Private concessionary companies from Great Britain, France, Belgium, Germany, Spain, and the Netherlands enforced coerced labour regimes and aggressive trade tactics in order to seize vast areas of land and its valuable resources. The formation of resource-driven states served as a catalyst for subsequent colonial endeavours (around 1400-1800) in Africa. These activities generally occurred under the authority of trade monopolies endorsed by their respective European monarchs, who banned foreign involvement through tight regulatory controls (Murrey, 2020).

European trading firms laid the groundwork for the dynamics, influences, territorial claims, and subjugations associated with state-sponsored colonialism. This included efforts from the British, Dutch, French, Portuguese, and Spanish, who established a vast network of slave forts and trade routes along Africa's Atlantic coastline. The Guyanese historian Walter Rodney documented the disruption and replacement of precolonial trade networks in his influential book 'How Europe

Underdeveloped Africa' (1972). Contrary to the common view that colonialism brought about modernisation and infrastructural improvement in colonised countries, Rodney (1972) suggests that Africa experienced substantial social and economic advancements until the 15th century. This growth came to a halt because of European slavery in many parts of West and Central Africa, along with the destabilisation of pre-existing intra-African trade networks by European explorers. Thus, the deliberate stunting of African development fostered European colonialism; a phenomenon known in the field of political economy as *uneven geographical development*.

Figure 1: Pre-Industrial Colonialism
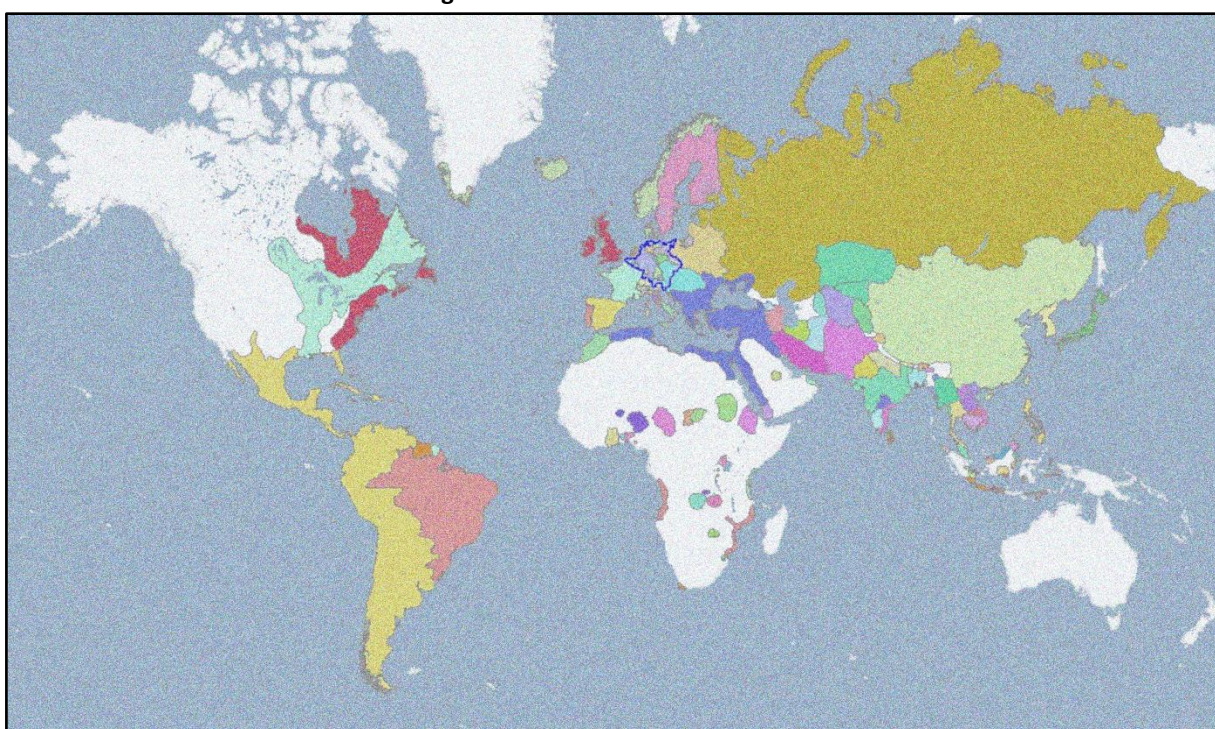
Note: this world map shows countries' domestic and foreign territories in 1763. **Source:** the world map was created with GeaCron's World History Maps & Timelines application.

Alongside the often aggressive methods of resource acquisition applied by private companies, European Christian missionaries were primarily driven by their objective to civilise indigenous people through spiritual conversion. This quest for civilisation underpinned the European claims of benevolent colonialism – the idea that colonial activities served both the colonisers and the colonial subjects. Apart from sharing their religious beliefs, these missionaries also established and operated primary schools that fostered colonial cultural values under the guise of religious enlightenment and intellectual growth. While the nature and scope of European missionary activities varied greatly and cannot be entirely captured here, it is out of the question that they often disrupted indigenous knowledge systems, which led to the marginalisation, suppression, or even criminalisation of non-Western belief systems, educational systems, and epistemologies (Murrey, 2020). Social scientists point out the significance of European appropriations of land

and examine the specific procedures employed by European colonialists to establish overseas territories. After the so-called *Scramble for Africa* (1884-1885) and the 1884 Berlin Conference, where Western European countries convened to make plans for the colonial future of Africa, many African communities saw a rise in European territorial domination and exploitation. This led to the forced merging of once separate African territories. The borders set by the colonial rulers did not consider the unique identities of these territories and combined various African communities under a single colonial nation-state administration. This era, often referred to as the peak of European imperialism, spanned from 1884 to approximately 1990 (Craven, 2015).
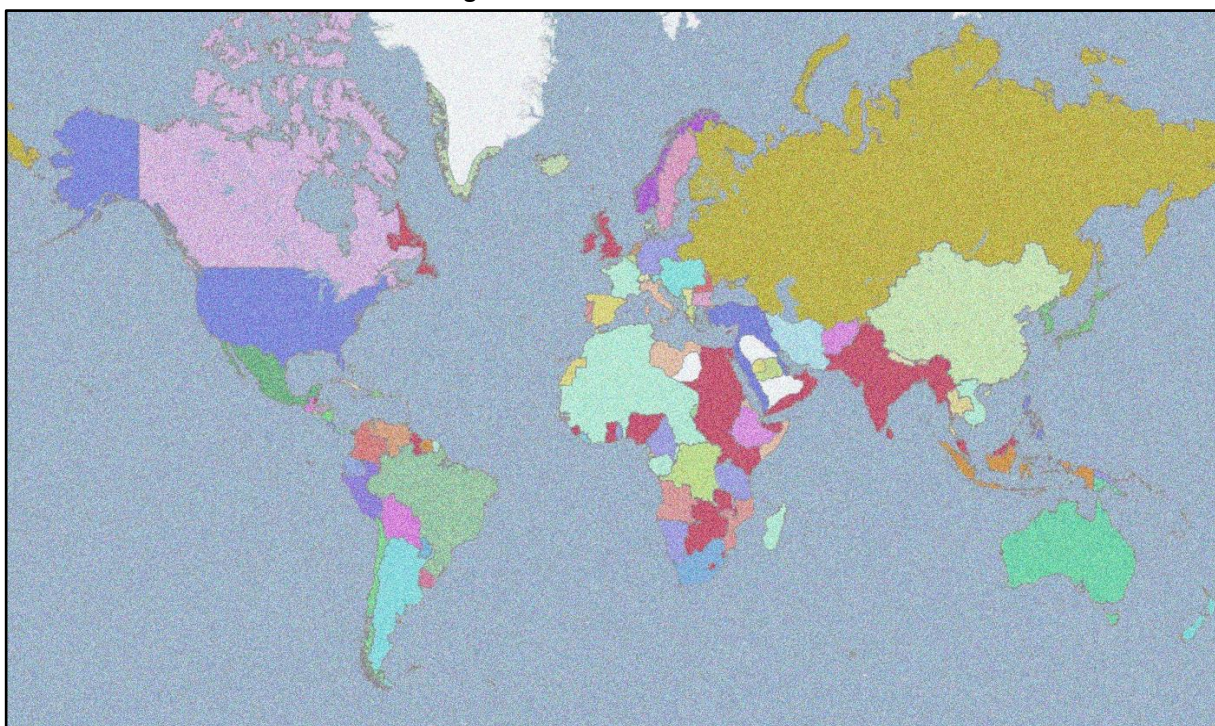
Figure 2: Industrial Colonialism

Note: this world map shows countries' domestic and foreign territories in 1913. **Source:** the world map was created with GeaCron's World History Maps & Timelines application.

European powers legitimised their colonial actions of looting and usurpation by imposing legal frameworks. In his influential work 'Citizen and Subject: Contemporary Africa and the Legacy of Late Colonialism' (1996), Mahmood Mamdani proposes that Europe's endeavour in Africa was characterised by two forces: the impact on the market and the imposition of civil laws. Mamdani (1996) further explains how European powers manipulated indigenous traditions by endorsing certain customary practices while sidelining others. Notably, the British recognised the strategic advantages of delegating colonial violence to native authorities under the guise of preserving customary cultures. Such strategies used by the colonisers are widely known as *divide and rule*. This refers to the intentional amplification, creation, or exploitation of internal disputes and rifts among the indigenous population to enhance colonial powers' overarching exploitation. Native

landlords or indigenous leaders, spanning regions from India to Kenya, were specifically chosen to manage cultivation and land use at the community level (Murrey, 2020). Fanon (1961) argues that for those under colonial rule, land was very important. European colonisers, recognising its significance, prioritised the domination of these lands. For instance, French colonies were often metaphorically described as France's personal backyard or hunting grounds, which emphasises their territorial behaviour. In colonial Australia, lands that had always been home to Aboriginal people were falsely labelled as unoccupied. Hence, colonialism promoted conflicting narratives to justify the ignored existence of countless indigenous communities. Under European colonial administrative control, land tenure systems were restructured so that all land was effectively colonial land on which indigenous people were mere tenants. Furthermore, native inhabitants often faced eviction under the pretext of economic development and state progress.

Settler colonialism represents a distinct form of colonisation where the colonisers appropriate land for the purpose of occupation and capital accumulation. This form of colonialism entailed large-scale displacements and resettlements of indigenous communities, which transformed local geographies not only through physical interferences in the environment but also through socio-economic changes (Murrey, 2020). Canadian historian Allan Greer points out that these geographical transformations included the construction of fences, the clearing of forests, and the maintenance of survey lines that separated private properties (Greer, 2012). By declaring mountain and forest areas to be part of a *commons*, European settlers effectively laid claim to the collective resources found in those areas, such as fish, game, timber, and wild flora (Greer, 2012). European settlers often used these *commons* for the grazing of privately owned cattle and livestock, which contributed to the degradation of the natural environment. Greer (2012) describes the European imposition of the *commons* in settler colonies as a crucial element of colonial dispossession, one which usually preceded formal settlement. In his paper 'Commons and Enclosure in the Colonisation of North America' (2012), Greer refers to the resultant great *enclosure movement* as a *multi-species assault on the native commons*, accomplished by the grazing of European-owned livestock across the continent. This not only advanced colonialism but also resulted in a *colonial enclosure movement* that left little room for indigenous people (Murrey, 2020). The environmental consequences of these varied and rapid shifts in land use under European colonialism were profound. Koch et al. (2019) document substantial climatic shifts, such as a marked cooling of the Earth's temperature by 0.15°C during the 15th century, which occurred because of the steep decline in population during the Spanish and Portuguese colonisation of the Americas. This period, which is known as the *Great Dying*, saw the death of

90 percent of the indigenous population, or 56 million people, between 1492 and 1600 due to disease, land loss, malnutrition, and other factors (Koch et al., 2019). The massive reduction in human activity led to the reforestation of approximately 55.8 mega-hectares, which prompted a marked carbon dioxide uptake (Murrey, 2020). In addition, the imposition of monocropping and plantation farming by European colonisers across Africa and large parts of South-East Asia resulted in significant biodiversity loss and new land use tensions, as indigenous communities were forced from their lands to make way for colonial projects. Colonial powers often engaged in the targeted destruction of indigenous agriculture and water sources to suppress potential uprisings against themselves (Murrey, 2020). For example, French and Spanish colonialists in the Sahara poisoned wells, killed livestock, and destroyed drainage canals in order to suppress the Sahrawian resistance led by Cheikh Ainin (Stephan and Mundy, 2006).

From the early 1500s onward, enslaved Africans were forcibly transported to the Americas and the Caribbean via the so-called Middle Passage, an often harrowing journey characterised by cramped ship quarters, little food and water, and no real sanitation (McKittrick, 2011). Between 1444 and 1867, around 12.5 million Africans were taken captive and enslaved. It is estimated that 40 percent of these enslaved Africans were later forced to labour on Brazilian sugarcane plantations. During this period, transatlantic slavery emerged as a racially motivated colonial practice in response to the increasing number of fatalities among the indigenous population in the Americas and the Caribbean due to diseases, conflicts, and systematic genocides (Murrey, 2020). Following the abolishment of slavery in the Caribbean and Americas, various forms of forced labour continued to be at the centre of European colonial domination and exploitation. While the specifics of such labour systems varied, they often shared characteristics of unpaid and coerced work. For instance, some systems demanded that every capable individual had to deliver a specific amount of goods every two weeks under guarded surveillance and the threat of violence. A notable example of this can be found in the Congo Free State (now known as the Democratic Republic of the Congo or Congo-Kinshasa) during Belgian colonial rule between 1895 and 1908. In this period, forced labour was used for rubber tapping and ivory harvesting. In his influential book 'King Leopold's Ghost: A Story of Greed, Terror, and Heroism in Colonial Africa' (1998), Adam Hochschild estimates that around 10 million people, which was half of the population at the time, perished due to the direct and/or indirect implications of forced labour. Not meeting the rubber quota could lead to one's arrest or the detention of family members. Furthermore, workers were subject to considerable forms of physical violence for the delivery of inadequate rubber yields, including beating, burning to death, and dismemberment.

In various European colonial territories, inhabitants were forced to work a certain number of days per year or per agricultural season. An example of this is the *corvée* system in French-ruled Central and West Africa, where residents provided unpaid labour as a substitute for taxes. In the Upper Volta, now Burkina Faso, the French implemented the so-called *prestations en travail*, which required individuals to labour on cotton plantations for a certain number of days per week. Similarly, in other European colonial regimes like Dutch-ruled Java, locals had to devote the crops from a certain proportion of their tilled land. For major infrastructure projects, such as deforestation or the building of dams and railways, colonisers frequently created elaborate labour mechanisms that often involved migration. In Angola and Mozambique, the Portuguese implemented a system known as *chibalo*, or forced migrant labour. Similarly, the French colonial Congo-Ocean Railway, a 512-km railroad connecting Brazzaville with Pointe-Noire in what is now the Republic of the Congo (also known as Congo-Brazzaville or simply Congo), was built using coerced labour. Such forced labour systems benefited the colonial rulers and associated companies at the cost of significantly harming the colonised population's quality of life. Forced labour diverted efforts from essential food production, which emphasises the intensity of other necessary labour activities. With people preoccupied with uncompensated work and unable to farm, fish, shepherd, hunt, or gather, food production decreased, raising the risk of hunger and undernourishment (Murrey, 2020).

The concept of colonial imaginaries is rooted in the racist, patriarchal, and heteronormative ideologies that historically shaped European colonial endeavours. Edward W. Said's notion of imagined geographies, as articulated in his seminal work 'Orientalism' (1978), highlights how European powers looked at colonised regions through a distorted lens, which depicted these territories and their populations as inferior and backward (Murrey, 2020). These manipulated perceptions were essential to justify the exploitation and domination of colonised people and their lands. Bartlett's analysis of the *mentality of conquest* shows how these imaginaries were actively used to rationalise European expansion from the High Middle Ages onward, including actions such as the colonisation of Ireland and the Crusades (Bartlett, 1993). The systematic *othering* of colonised people was crucial to uphold colonial dominance. This process involved the demonisation and stigmatisation of non-European cultures as barbaric and uncivilised – a rhetoric often found in British colonial narratives about the Irish during the 1500s (Leerssen, 1996). Such rhetoric was not merely descriptive but functional, as it cemented the coloniser's superiority and the colonised people's subordination within a rigid Eurocentric hierarchy. This hierarchy was maintained through cultural production, political discourse and actions, as well

as the management and containment of knowledge (Grosfoguel, 2007). Anti-colonial theorist and philosopher Aimé Césaire critically analysed how colonial powers employed a rhetoric of objectification towards colonised people, which he described as *thingification* (Césaire, 1955). This dehumanising process was integral to justifying and masking the inherently violent nature of colonial actions and presented them as benign or even benevolent aspects of the *civilising mission* (Anzaldúa, 1987). The *civilising mission*, typically propagated as a moral obligation of European powers, purportedly aimed at bringing enlightenment and progress to the so-called dark corners of the world but, in reality, created a brutal regime of economic exploitation and cultural destruction. Decolonial scholar Ramón Grosfoguel suggests that the link between the enlightenment tradition of philosophical reasoning and colonial conquest reflects a pervasive *logic of elimination*, which encompassed both genocide and epistemicide – the destruction of indigenous knowledge systems (Grosfoguel, 2007). This process was crucial for sustaining the colonial order, where European epistemologies were considered superior and thus legitimised ongoing colonial domination and exploitation.

According to Ayandele (1970), the concept of white supremacy was an inherent part of colonial epistemic logics and not just an added factor. In his book 'Race and the Colonising Mission: Their Implications for the Framing of Blackness and African Personhood, 1800-1960' (2011), Waibinte E. Wariboko argues that European colonial acts were deeply intertwined with white supremacy, prejudices against black people, and discrimination against indigenous communities. Racialised *othering* and *imagined geographies* existed long before the term race gained popularity, which emerged in the 1800s as a means to classify the natural world. By the end of the 19th century, the concept of race began to be misused as a pseudo-scientific foundation to form political and hierarchical structures. This occurred during the same period as European countries intensified their colonisation of the African continent. The use of racial hierarchies and racism, alongside colonial expansionism, were crucial elements of European modernity and capitalism. European colonialism significantly influenced and transformed the social structures of non-Western and indigenous communities, changing their domestic dynamics, including gender roles. Oyěwùmí (1997) highlights that in the regions now known as Benin, Nigeria, and Togo, the Yorùbá people did not traditionally structure their society based on gender. Amadiume (1987) describes similar social structures in precolonial West Africa. However, after the arrival of European colonialists, patriarchal norms were imposed. The colonial imposition of rigid male-female classifications led to many societal changes, generally placing women in roles that did not reflect their traditional standings. This resulted in the institutional and legal subordination of women (Lugones, 2007).

Figure 3: Independence of African Nations
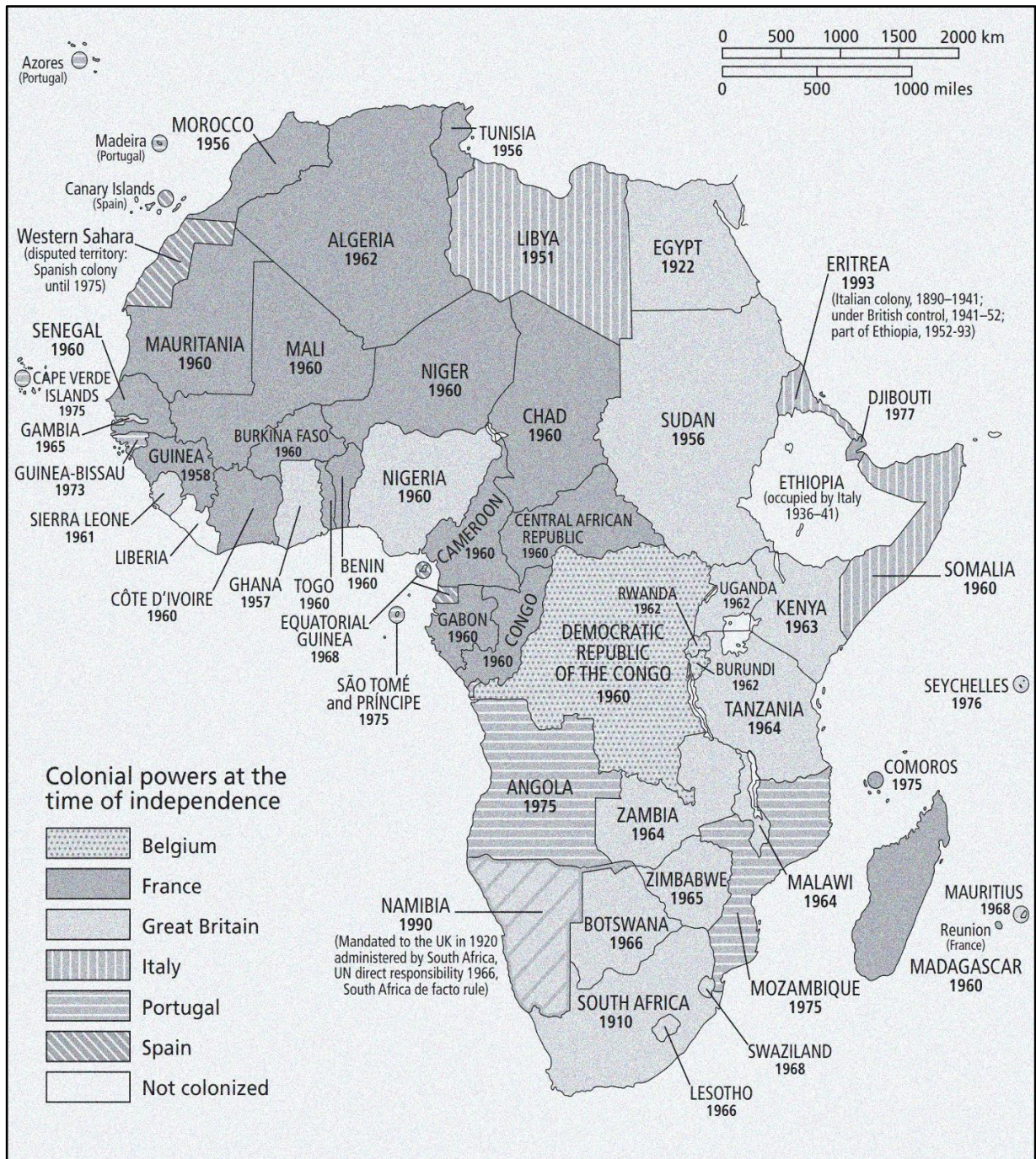
Note: this map of Africa shows countries' affiliations at the time of independence (Smith and Jeppesen, 2017:3).

The analysis of colonial encounters between European colonisers and indigenous populations reveals a complex interplay of resistance, collaboration, and strategic violence. Historians like Toyin Falola and Waibinte E. Wariboko have delved deep into these dynamics and provided nuanced insights into how African societies interacted with European colonial powers. In his influential book 'Colonialism and Violence in Nigeria' (2009), Falola illustrates the multifaceted role of violence in colonial relationships. Falola (2009) categorises violence into three principal forms – damage, control, and humiliation – which were used by colonial powers to establish and maintain their colonial dominance. These acts of violence were not only physical but also

psychological, as they aimed to undermine the social fabric of indigenous communities to gain easier control (Falola, 2009). Wariboko's (2014) research complements Falola's (2009) findings by examining the specific responses of different communities within the Eastern Niger Delta in the late 19th century. In his seminal work 'Elem Kalabari of the Niger Delta' (2014), Wariboko explains how the Elem Kalabari people chose a path of collaboration with British colonial and corporate agents in order to receive potentially beneficial treatment. On the other hand, their neighbours – the Bonny, Opobo, and Nembe-Brass – opted for resistance, which highlights the diverse strategies adopted by African tribes in response to European colonisation. Wariboko (2014) points out that these decisions were deeply rooted in pre-existing social structures and political institutions, which shaped how each community perceived and reacted to the threats and opportunities presented by colonialism. Frantz Fanon's analysis of colonial violence offers a broader theoretical framework to understand these interactions. In his book 'The Wretched of the Earth' (1961), Fanon elaborates on the paradoxical nature of colonial oppression, which required a delicate balance between exploiting colonised communities for their labour and suppressing their potential for insurrection. Fanon (1961) argues that the material motivations to sustain a functional labour force often conflicted with the political objective to destroy any forms of resistance. This dynamic is evident in the large number of resistance forms, ranging from everyday acts of sabotage and non-cooperation to organised rebellions such as those led by the Union des Populations du Cameroun (UPC) and the Mau Mau in Kenya. The pursuit of independence by the UPC ultimately resulted in a brutal guerrilla war against French colonial forces, marked by severe repression and mass casualties, which highlights the extreme levels of violence associated with colonialism (Deltombe et al., 2016). In Kenya, the Mau Mau revolt emerged in response to exploitative land and labour policies, which led to a long and violent struggle against British colonialists who implemented mass detentions and systemic violence in order to eradicate this uprising (Anderson, 2005). These instances illustrate Fanon's (1961) observations regarding the inherent contradictions within colonial systems, where economic motives clashed with oppressive governance and thus laid the foundation for decolonisation.

The post-World War II era, influenced by the geopolitical shifts of the Cold War, brought new challenges to colonial strategies. European powers began to recognise the unsustainability of overt colonial domination and often applied a controlled process of decolonisation that would allow them to retain economic and political influence through the installation of sympathetic postcolonial leaders (Fanon, 1961). However, this approach often led to neocolonial structures that continued to affect newly independent nations (Murrey, 2020).

3.2 Marxist and Postcolonial Theories of Imperialism

The intellectual landscape of theories surrounding colonialism and imperialism has been profoundly shaped by both Marxist and postcolonial perspectives. These theories offer valuable insights into the mechanisms, effects, and legacies of colonial dominance. Marxist theories primarily interpret imperialism through the lens of economic exploitation and global capitalist expansion, while postcolonial theories concentrate on cultural hegemony and identity politics after the end of colonial rule. John A. Hobson's theory of imperialism, articulated in his seminal work 'Imperialism: A Study' (1902), provides a critical economic analysis of the forces driving imperial expansion at the turn of the 20th century. Hobson (1902) argues that the underlying cause of imperialism was the overaccumulation of capital and the underconsumption of goods within industrialised nations. Furthermore, he suggests that domestic markets became saturated due to the unequal distribution of income, which reduced consumption and led to excess capital that was moved overseas to generate higher returns. This capital, according to Hobson (1902), was not primarily invested in colonial territories to meet the needs of the local populations, but rather to secure profitable outlets for products and investments. Hobson's (1902) theory of imperialism diverges from other contemporary theories by emphasising the socio-economic factors within capitalist societies rather than the geopolitical or purely economic motives typically highlighted in imperialist endeavours. Hobson (1902) argues that the push for imperialism was not a natural expansion of national interests, but a specific strategy pursued by capitalist elites to maintain high rates of profit through the exploitation of overseas markets and their resources. This theory was particularly influential in the development of Marxist interpretations of imperialism. Russian revolutionary and political theorist Vladimir I. Lenin later expanded on Hobson's (1902) ideas and described the relationship between capitalism and imperialism in more detail (Lenin, 1917). Hobson (1902) also elaborates on the role of capitalist elites and touches on the political dimensions of imperialism. In that regard, Hobson (1902) argues that capitalist elites purposefully manipulated government officials and pushed them towards overseas adventures in order to benefit economically and divert attention from domestic issues such as economic inequality. This manipulation of the domestic ruling class, according to Hobson (1902), undermined democratic processes and led to the formation of a state that serves the interests of wealthy industrialists and financiers rather than the general population. Hobson's (1902) critique of imperialism also considers ethical and humanitarian aspects, arguing that imperialist policies were morally indefensible and economically inefficient from a broader societal perspective.

Hobson (1902) concludes that imperialism exacerbated social tensions and contributed to economic disparities in both the home country and the colony, which ultimately led to a less stable global economic environment. In academia, Hobson's (1902) theory of imperialism is widely regarded as a fundamental analysis of the economic aspects of capitalist expansionism and remains a vital part of the discourse on imperialism. However, critics argue that Hobson (1902) failed to fully account for the nationalistic and strategic motivations behind imperialism (Gallagher and Robinson, 1953).

Vladimir I. Lenin's theory of imperialism, articulated in his influential work 'Imperialism, the Highest Stage of Capitalism' (1917), represents a crucial contribution to Marxism because it interprets imperialism as the final stage of capitalism before the socialist revolution. Lenin's (1917) theory of imperialism is rooted in the observations of the economic transformations of his time, such as the monopolisation of industries and the export of capital, which Lenin (1917) views as the two most important elements of imperialism. According to Lenin (1917), capitalism had evolved from a competitive to a monopolistic stage, with large corporations and banks dominating the economies of industrialised nations, which eventually led to the creation of multinational monopolies that gained economic and political control across the globe. Lenin (1917) further argues that the quest for new markets and the need to identify profitable investment outlets for surplus capital inevitably pushed advanced capitalist countries to extend their economic and territorial control over weaker nations. This process, according to Lenin (1917), resulted in the division of the world among capitalist monopolies and powerful nation-states, which went on to compete for colonial influence and thus heightened geopolitical tensions that resulted in conflicts such as World War I (Brewer, 1990). According to Lenin (1917), this imperialist competition among Western powers was driven by their economic interests, as each of them sought greater control over natural resources and overseas markets to secure outlets for their accumulated capital and goods (Brewer, 1990). Lenin's (1917) theory of imperialism significantly extended Karl Marx's analysis of capitalism by explaining how the internal contradictions of capitalism led to its expansion on a global scale. Lenin (1917) suggests that imperialism was an inevitable consequence of capitalism due to the necessity for industrialised nations to find new markets for their surplus production, which could no longer be absorbed by domestic markets alone (Callinicos, 2009). This perspective implies that imperialism was inherently exploitative, entailing both economic exploitation and political dominance, which perpetuated inequality between countries and within them. Critics of Lenin's (1917) interpretation of imperialism have argued that it oversimplifies the complex motives

behind imperialism and does not account for the nuanced interactions between national and economic interests (Kolko, 1968). Furthermore, some have suggested that the economic focus in Lenin's (1917) theory of imperialism underestimates the role of non-economic factors, such as culture and ideology (Fieldhouse, 1967). Despite these criticisms, Lenin's (1917) theory of imperialism remains influential in the study of international relations because it offers a framework for understanding the economic dimensions of geopolitical dynamics (Mommsen, 1981; Harvey, 2005). Furthermore, it provides a critical perspective on the relationships between advanced and developing countries, particularly in the context of globalisation, where similar patterns of economic domination and dependency continue to exist (Callinicos, 2009).

Thorstein B. Veblen's theory of imperialism is an integral component of his broader critique of capitalism and its socio-economic implications. Veblen (1917) describes imperialism as a direct consequence of dominant economic entities pursuing profit and capital-accumulating practices in capitalist societies. Unlike Marxist interpretations, which primarily attribute imperialism to the direct need of capital for new markets, Veblen's (1917) perspective is shaped by his understanding of the institutional framework of capitalism and its evolutionary change driven by personal interests and the leisure class. Veblen (1917) argues that imperialism is the manifestation of certain tendencies in capitalist societies, particularly those related to aggressive nationalism and the pursuit of profit without necessarily contributing to productive economic activities. Veblen (1917) suggests that this economic transition encouraged nations to extend their control over others in order to secure economic gains without corresponding productive investments. This was accomplished by the predatory instincts of what he calls the leisure class. This class, according to Veblen (1917), not only exploited the domestic working class but also pursued external exploitations through imperial conquests to protect their financial interests. Furthermore, Veblen's (1899) theory of imperialism is closely linked to his theory of conspicuous consumption, where the leisure class demonstrates its wealth and power not only through lavish lifestyles but also through the exercise of control over other nations. This behaviour reinforces their status at home and helps them to secure their economic interests abroad (Veblen, 1899). In other words, imperialist policies are a means to maintain social order and hierarchies within capitalist societies, while ensuring that the economic structures that benefit the leisure class are perpetuated. Veblen's views on imperialism are closely connected to his previous work, 'The Theory of Business Enterprise' (1904), where he explores the economic motivations behind imperialism, arguing that business interests got increasingly detached from national interests and the well-being of the general population.

According to Veblen (1904), business enterprises pursue overseas expansion to maximise their profits, which often leads to conflicts that the state must manage or resolve through military intervention. This relationship between business enterprises and the state emphasises Veblen's (1904) critique of capitalism as inherently prone to conflict both internally and internationally. Veblen's (1917) theory of imperialism has been influential but also subject to criticism. Some scholars have argued that his theories rely too much on socio-cultural explanations and do not sufficiently account for the economic dimensions of imperialism (Dorfman, 1934). Others have found his integration of psychology into economic analysis pioneering, as it offers a comprehensive framework that predates and inspired some of the critical theories of later thinkers like Antonio F. Gramsci (1929-1935) and the Frankfurt School (Tilman, 1992).

Joseph A. Schumpeter's theory of imperialism is a profound critique of the socio-economic forces driving imperialist expansion at the turn of the 20th century, markedly diverging from the Marxist interpretations that were prevalent at the time. Schumpeter (1951) argues that imperialism is an atavistic impulse stemming from the feudal structures and the warrior mentality of pre-capitalist societies. Unlike the Marxist interpretations that view imperialism as a direct consequence of capitalism, Schumpeter (1951) suggests that such expansionist tendencies are remnants of a pre-capitalist past, which capitalist societies inherited rather than inherently generated. In his seminal work 'Imperialism and Social Classes' (1951), Schumpeter argues that the modern capitalist state, which is driven by the rational pursuit of profit, is inherently anti-imperialist because war and territorial acquisitions disrupt the flow of international trade and the stability required for economic growth. Schumpeter (1951) believes that the capitalist ruling class, which is primarily interested in economic efficiency, should oppose imperialist endeavours because they cost a lot and bear significant risk. This perspective challenges the notion, which is often articulated by Lenin (1917) and other Marxist theorists, that imperialism is a necessary stage of capitalist development and mitigates the problem of overproduction by developing new markets. Schumpeter's (1951) analysis further elaborates on the role of political elites and the state. He argues that while the economic interests of the capitalist ruling class do not favour imperialism, political and military elites might still pursue imperialist policies in order to fulfil their own interests while using nationalist ideologies to secure the support of the people for their political agendas (Schumpeter, 1951). This aligns with Schumpeter's (1951) broader sociological theory, which suggests that the persistence of outdated social structures and ideologies can significantly impact contemporary policies (Kruger, 1955). Moreover, Schumpeter (1951) emphasises the irrationality of imperialism,

arguing that it was often pursued without clear economic or strategic benefits and instead followed historical habits and the vested interests of a ruling class that had not yet been fully replaced by capitalist modernity. This perspective suggests that imperialism is not an inevitable stage of economic development but a manifestation of the enduring influences of pre-capitalist ideologies within modern states (Kruger, 1955). Therefore, Schumpeter's (1951) analysis is a valuable contribution to the discourse on imperialism, as it challenges the economic interpretations of Marxist theorists and highlights the complex interplay between economic and non-economic factors in shaping imperialist policies (Mommsen, 1981).

Drawing from dependency theory, Andreas G. Frank offers a critical perspective on the global economic order and its historical roots in colonialism. Frank's (1966) analysis centres on the structural imbalances created by historical processes of capitalist expansion, which, according to his seminal work 'The Development of Underdevelopment' (1966), led to a polarised world economy that is divided into *metropoles* and *satellites*. This dichotomy essentially describes the metropoles as European colonial powers that accumulated capital at the expense of their satellites – colonised regions forced into peripheral economic roles that stunted their development and perpetuated their dependency. Frank's (1967) perspective diverges from classical economic theories that interpret underdevelopment as a natural stage in a linear progression towards modernity. Instead, Frank (1967) argues that underdevelopment is actively produced by the very nature of the capitalist system, which enriches the countries in the core while impoverishing the countries in the periphery. In this context, Frank (1967) refers to colonial policies and practices that imposed extractive economic structures on former colonies. These structures were designed to transfer natural resources from the periphery to the core, which created a cycle of economic exploitation and dependency that persisted even after formal colonial ties were severed (Love, 1996). Moreover, Frank (1969) challenged the prevailing modernisation theories of the 1950s and 1960s, which often suggested that underdeveloped nations could achieve development through increased integration into the global market system – a system fundamentally shaped by and for the interests of the developed world. According to Frank (1969), this approach ignores the exploitative mechanisms of capitalism that benefit the developed nations at the expense of the developing ones. Frank (1969) suggests that true economic development for colonised countries requires a radical restructuring of international economic relations, potentially even a complete disengagement from the prevailing capitalist system to break the cycle of dependency. Critics argue that Frank's (1966, 1967, 1969) analysis oversimplifies the complex interactions between metropoles and satellites and sometimes

ignores the internal factors contributing to underdevelopment (Wallerstein, 1974). However, his work has also contributed to a broader understanding of the historical dimensions of global inequality and influenced various studies in dependency theory (Dos Santos, 1970).

Frantz O. Fanon, a prominent figure in postcolonial studies and critical theory, developed a nuanced theory of imperialism that explores the psychological and cultural dimensions of colonial oppression. His seminal works 'Black Skin, White Masks' (1952) and 'The Wretched of the Earth' (1961) offer a profound analysis of the dehumanising effects of colonisation on both the coloniser and the colonised. Fanon (1961) argues that imperialism is not merely a system of economic exploitation but also a form of psychological warfare that instils an inferiority complex in colonised communities through the use of cultural domination and racial discrimination. Central to Fanon's (1961) theory is the idea that colonised individuals are exposed to a dual process of alienation, which affects their own cultural identities and the potential to envision themselves as agents of their own history. According to Fanon (1961), the coloniser imposes a Eurocentric world view, which he calls *cultural racism*, that devalues precolonial history and culture, and thus legitimises the colonial order as a civilising mission (Gordon, 2000). This process leads to a fractured identity, which is a key theme in Fanon's 'Black Skin, White Masks' (1952) where he discusses the psychological mechanisms that compelled colonised individuals to reject their own culture and see the coloniser's culture as superior. Fanon (1961) also explores the potential for resistance and liberation through his concept of violent revolt, which he deems a cathartic process necessary to dismantle colonial structures. Unlike other postcolonial theorists who advocate for non-violent resistance, Fanon (1961) argues that decolonisation is always a violent phenomenon because the colonial system itself was built on violence and the denial of the humanity of the colonised (Cherki, 2006). This perspective is particularly evident in Fanon's (1961) analysis of the Algerian struggle for independence. Moreover, Fanon's (1961) ideas on liberation go beyond the physical overthrow of colonial powers and include the regeneration of indigenous cultural values and practices that were suppressed or distorted under colonial rule. This is part of Fanon's (1961) theory that the creation of a new national culture, which he calls *national consciousness*, is crucial for genuine independence and the psychological recovery of colonised communities.

Edward W. Said's theory of orientalism, which he articulates in his book 'Orientalism' (1978), revolutionised the academic discourse surrounding the Western study and depiction of Eastern societies. Said's (1978) theory is based on the argument that the Western perception of the East as other is not merely a passive reflection of reality but an active construct that serves to justify

imperial and colonial dominance. Said (1978) argues that orientalism is a discourse through which the West systematically produces knowledge about the East, which is inherently ideological and embedded with the power dynamics of the coloniser and the colonised. Said (1978) distinguishes between *latent* and *manifest* orientalism. The former refers to the underlying, often unspoken, assumptions about Eastern inferiority and Western superiority, whereas the latter involves the visible articulations of these assumptions in literature, academia, and politics. By analysing literary texts and political rhetoric, Said (1978) illustrates how these orientalist discourses have shaped Western perceptions and treatment of Eastern cultures, often portraying them as exotic, backward, uncivilised, and at times even dangerous. Furthermore, Said's (1978) critique extends to the institutions that perpetuate orientalist perceptions, including universities, museums, and various media outlets, which, he argues, participate in a much broader *cultural imperialism* that shapes the collective identity of the East in ways that benefit the West. This creates a form of dichotomy where the East is continually seen through a lens that emphasises its difference from the West and thus serves the purpose of othering, which is an essential process for justifying unequal power relationships (Said, 1978). Orientalism has had profound implications not just for academic studies but also for postcolonial theory and the self-perception of former colonies. It challenges the objective nature of knowledge and questions the role and motives of Western scholars in representing Eastern societies (Macfie, 2002). Critics label Said's (1978) theory of orientalism as deterministic, arguing that it overlooks the complexities within Western scholarship and simplifies the motivations of scholars who engage with Eastern studies (Lewis, 1982). Despite such criticisms, Said's (1978) work remains a relevant cornerstone in postcolonial theory and serves as a foundation for numerous studies that explore how similar dynamics of power and representation operate in other contexts, such as in representations of gender, race, and the Global South (Varisco, 2017).

Homi K. Bhabha's concept of hybridity, which is integral to postcolonial theory, addresses the complex interplay between the coloniser and the colonised, which creates new cultural forms and identities that defy traditional boundaries. Introduced in his influential work 'The Location of Culture' (1994), Bhabha's theory of hybridity refers to the creation of new cultural identities that emerge from the combination of different cultures and histories, particularly in colonised societies. This concept challenges the binary classifications typically found in discussions of colonial relationships, such as us vs. them or coloniser vs. colonised. Instead, Bhabha (1994) suggests that cultural production is inherently hybrid and involves a mutual exchange of local

and foreign elements that create new transcultural forms. Bhabha's (1994) theory of hybridity is rooted in his interpretation of psychoanalytic theories, particularly those of Jacques Lacan (1977) and the semiotic theory of Mikhail Bakhtin (1981), which describes language as a tool for negotiating and contesting cultural identities (Rutherford, 1990). Bhabha (1994) argues that colonial encounters are marked by what he calls the *third space* – a unique realm where diverse cultural elements intersect and new identities and meanings are constantly negotiated and formed. This space is neither the domain of the coloniser nor the colonised, but a state in between that fosters the creation of hybrid forms and practices. Bhabha's (1994) theory of hybridity has significant implications for understanding postcolonial identities, as it suggests that these new identities are not constructed in opposition to the identities of the coloniser but through a complex process of appropriation and transformation. Hybridity, therefore, destabilises the authority of original cultural norms and creates spaces for alternative cultural identities and practices that challenge hegemonic power structures (Young, 1995). However, critics have argued that while the concept of hybridity offers a useful framework for analysing cultural interactions, it may also obscure the continuing realities of power inequalities and the material conditions of marginalised communities (Loomba, 2005). Despite these critiques, Bhabha's (1994) concept of hybridity remains a crucial contribution to postcolonial theory, as it helps scholars understand the ongoing processes of cultural negotiation in an increasingly interconnected world (Ashcroft et al., 2007).

3.3   Colonialism in the Present

Social scientists, including human geographers, have put a lot of effort into understanding the nuanced implications of colonial durability and the present-day manifestations of colonialism. This refers to the notion, advanced by postcolonial theorists, that colonialism did not end with the African independence movements of the 1940s, 1960s, or thereafter, but rather evolved and continues to exist. There is substantial consensus within the critical humanities and social sciences that colonialism, in some forms, has persisted and that the influence of colonialism continues to shape and inform international relations, politics, economics, culture, geography, and territoriality. Present-day colonialism can be found in the 61 countries recognised by the United Nations as colonies or overseas territories. Nations like New Caledonia, Tokelau, Guam, Anguilla, Aruba, St. Helena, the Cayman Islands, and others are either non-fully autonomous states, self-governing dependencies, or remain governed by colonial powers. Particularly in an international nation-state system directed by the interests of hegemonic states, postcolonial

territories – especially archipelagos and small island states – occasionally negotiate for partial sovereignty to secure economic remedies or support rather than full political independence from their former colonisers (Murrey, 2020). Colonialism in the present may also embody the formal occupation of one nation by another. As pointed out in Derek Gregory's 'The Colonial Present' (2004), modern colonialism is evident in the current imperial strategies of the United States and Britain in Afghanistan, Iraq, and Palestine. Present-day colonialism also captures those less conspicuous remnants, practices, rationales, and structures of colonialism. Hence, colonialism remains a concept useful for understanding the perpetuation of racial hierarchies, male-dominated relationships, geographical disparities, and economic inequalities. As such, colonialism is not just a historical artefact but a persistent force in the modern world. Leading social theorists like Manu Vimalassery, Juliana Hu Pegues, and Alyosha Goldstein argue that settler colonialism should be perceived as a continual process of dispossession and racialised oppression rather than merely a historical epoch. In this, they draw inspiration from Patrick Wolfe's 'Settler Colonialism and the Elimination of the Native' (2006), where he defines settler colonialism as an enduring system of unsuccessful invasion. This perspective challenges the traditional approach of treating colonial events as isolated instances instead of viewing them as part of a continuous framework (Murrey, 2020).

The continuity of economic and political elements from the colonial era into the postcolonial era has been highlighted in the organisational form of the state and the distribution of state power. Following the formal process of decolonisation, several critical scholars and politicians quickly noticed the failures of decolonisation to deliver improved economic relations, social well-being, and political autonomy. Ghana's first president, Kwame Nkrumah, introduced the term *neocolonialism* in his book 'Neo-Colonialism, the Last Stage of Imperialism' (1965) only eight years after Ghana became an independent country in 1957. Nkrumah and other African presidents such as Patrice Lumumba, the first Prime Minister of the Democratic Republic of Congo, and Léon M'ba, Gabon's first president, used the term *neocolonialism* to highlight the continuous domination of African societies by European financial institutions, legal systems, extractive interests, and multinational enterprises. Nkrumah's criticism largely centred on the lack of political independence and sovereignty for postcolonial nation-states. On top of that, Claude Ake argued in his book 'Democracy and Development in Africa' (1996) that African post-colonies maintained forms of colonial governance that were arbitrary, permanently hostile, and habitually violent. In many postcolonial societies, former colonisers also retained at least some level of commercial favouritism, political influence, military presence, and cultural or

educational hegemony. Politicians who resisted neocolonial political structures and economic relations with European countries were often threatened, ideologically sabotaged, or killed during the postcolonial and Cold War period. Therefore, decolonisation was often criticised as a mere ceremonial transfer of power that encouraged internal colonialism while the racially biased global economy largely persisted. As highlighted by Mamdani (1996) and others, some of the unchanged features included the propensity to uphold the sovereignty of colonial law rather than the sovereignty of people and the continuation of political impunity. Although the formal process of decolonisation improved the outward appearance of colonial exploitation, many of its core aspects persisted. In particular, the political economy of ecological extraction remained a primary logic of wealth accumulation in postcolonial societies (Murrey, 2020).

Alongside critiques regarding the superficiality of decolonisation by those working within the academic frameworks of political economy, postcolonial scholars thoroughly examined the enduring influence of colonial power. *Colonial duress*, as described by Laura Ann Stoler in her extensive works on postcolonial anthropology, refers to the ongoing and recursive forms of colonial thinking that continue to exist in contemporary societies and appear in various forms of social and political inequalities (Stoler, 2016). This duress is not merely a remnant but an ongoing recurrence of colonial structures and beliefs that continuously adapt and evolve over time. The phenomenon of recursion is crucial in the context of colonialism, as it indicates a cyclical return to colonial forms of thinking and acting, which reinstate systems of oppression. These recursions often materialise through contemporary policies and attitudes concerning security, identity, and immigration, reflecting deeply rooted racial hierarchies and xenophobic tendencies (Stoler, 2016). The *colonial boomerang*, a term revitalised by Césaire (1955) and Abourahme (2018), further elaborates on how colonial practices that were initially employed in former colonial territories eventually return to modify practices of governance and social control within Western societies themselves. The *boomerang effect* is evident in the adoption of surveillance and control technologies that were once tested in colonial territories but are now part of urban policing and border control in many countries of the Global North. Political theorist Achille Mbembe greatly enhanced our understanding of these dynamics by coining the term *necropolitics*. This concept describes a governance model that wields power through the control of death, building upon Michel Foucault's theory of biopolitics, which examines how power over life has transformed from merely repressive means to more subtle strategies of control (Foucault, 1976; Mbembe, 2003). In the postcolonial context, *necropolitics* helps critical theorists to examine the persistent colonial influence on current geopolitical practices,

particularly those related to immigration and citizenship, where the state's power to dictate who may stay and who must leave reflects the enduring echoes of colonial rule. However, the impact of colonial legacies is not only political but also cultural. Stuart Hall suggests that the notion that colonialism was merely a distant phenomenon, geographically separated from the European mainland, is flawed. Instead, Hall (1996) advocates for a thorough investigation of the cultural mergers and transformations across and between former colonies and their ruling nations through postcolonial methods. Furthermore, the intellectual project of postcolonial historian Dipesh Chakrabarty to *provincialise* Europe discredits the notion that Euro-American modernity is the result of an organic, singular, and universal construct. Instead, Chakrabarty (2007) portrays European modernity and its transition to capitalism as particularised histories that are bound by space and time (Murrey, 2020). In synthesising these findings, it becomes clear that the recurring cycles of *colonial duress* and *boomerang effects* are crucial features of the global sociopolitical landscape and continue to influence models of governance, cultural identity, and power dynamics. Nonetheless, to fully comprehend these recurring patterns, it is important to critically analyse how historical colonial legacies continuously influence today's world, thereby prompting a re-evaluation of past narratives and a rethinking of contemporary politics and cultural strategies (Mbembe, 2003; Stoler, 2016).

In the scholarly exploration of postcolonial studies, the *colonial matrix of power* has emerged as a critical framework for understanding the enduring legacies of colonialism. This concept, developed by decolonial thinkers such as Walter Mignolo and Catherine Walsh, proposes that modernity cannot be disentangled from coloniality, which they describe as the *other side* of modern progress (Mignolo, 2000; Walsh, 2007). The *colonial matrix of power* is understood as a pervasive system of territorial, economic, political, social, and epistemological domination that began with the colonisation of the Americas and continues to affect the globalised world of today. Aníbal Quijano introduced the term *coloniality of power* to describe how European colonialism culminated in a racial and cultural classification of the world that underpinned the development of global capitalism. This system not only segregated societies racially but also concentrated power and knowledge in the hands of European colonisers, thereby disregarding non-Western knowledge systems and cultures (Quijano, 2000). Mignolo (2000) develops this idea further by pointing out the mutual dependency of modernity and coloniality, arguing that every aspect of modern progress – from economic growth to technological innovation – has been predicated on colonial exploitation and the subjugation of colonial subjects. The *colonial matrix of power* extends beyond historical colonisation, affecting contemporary political and

economic relations. According to Grosfoguel (2007), this matrix operates through an economic form of coloniality that enforces the capitalist exploitation of former colonies and a political form of coloniality that perpetuates the continued dominance of Western interests in a global governance context. These structures are intertwined with *epistemic coloniality*, a term that Rolando Vázquez introduced to describe the hegemony of Western epistemologies in defining knowledge and truth at the expense of subaltern perspectives, which are often disregarded and marginalised (Grosfoguel, 2007; Vázquez, 2012). The pervasiveness of the *colonial matrix of power* is such that it infiltrates the socio-cultural dimensions of society, affecting identity construction, cultural production, and even personal relations. Walsh (2007) suggests that this matrix not only affects economic and political outcomes but also conditions the cultural and psychological landscapes of societies, leading to a normalisation of coloniality within everyday practices and consciousness. The *colonial matrix of power* is a crucial concept for decolonial scholars in revealing the hidden mechanisms of coloniality that preserved colonial legacies. By challenging the universality of Western modernity, decolonial scholars demand a pluriversal perspective on knowledge and development – one that recognises the legitimacy and value of diverse knowing and being (Mignolo, 2000). Therefore, the analysis of the *colonial matrix of power* is not only a critique of both historical and contemporary forms of domination but also a fundamental rethinking of global relations and epistemologies (Murrey, 2020).

3.4   Decolonisation in the Present

In a contemporary context, decolonisation reflects a transformative process to dismantle the persistent forms of colonisation, neocolonialism, imperialism, and coloniality. This continuous struggle entails various interconnected movements, including efforts to decolonise academia. Such academic movements leverage critical theories to challenge and disrupt the deep-seated coloniality of knowledge and being. As a result, they reflect a much greater effort to challenge and transform the colonial foundations of modernity. This critical debate embodies not only a fight against physical colonial legacies but also an intellectual pursuit to reclaim and redefine epistemic sovereignty (Murrey, 2020).

The decolonisation of knowledge systems within universities requires a comprehensive reassessment and restructuring of the epistemic frameworks that have traditionally favoured Eurocentric norms. This movement, revitalised in the early 21st century, draws momentum from global anti-racist movements such as *#BlackLivesMatter*, which criticises the societal and institutional perception that black people are somehow expendable or less valuable than other

ethnicities (Taylor, 2016). This wave of critical awareness is reflected in student-led movements such as *#RhodesMustFall* and *#FeesMustFall*, which highlight the university's role as a colonial instrument that perpetuates racialised domination and creates an exclusionary space for the production of expert knowledge (Mbembe, 2016). Critical theorist Achille Mbembe calls this phase of epistemic decolonisation the *end of the age of innocence* and concludes that no knowledge is apolitical or innocent (Mbembe, 2016). The *colonisation of the mind*, as articulated by Ngũgĩ wa Thiong'o in his book 'Decolonising the Mind' (1986), is another important element within the process of decolonising academia because it challenges the dominance of colonial languages and their impacts on shaping knowledge systems and community dynamics in postcolonial societies. Such colonial dominance not only inflicts epistemic trauma but also perpetuates social inequalities and mental colonisation, which South African intellectual and activist Steve Biko famously described as the *most powerful weapon of the oppressor* (Biko, 1978). Hence, decolonisation demands a comprehensive re-evaluation of academic disciplines and their methodologies to ensure they reflect multiple perspectives (Smith, 2012). Political geographer Patricia O. Daley advocates for a critical examination of geography and other academic disciplines that have historically promoted colonial systems, proposing a reorientation towards more inclusive and non-exploitative methodologies (Daley, 2018). This includes embracing the idea of *pluriversity*, which envisages the university as a space where knowledge serves a diverse range of communities and contributes to holistic well-being rather than the marginalisation of non-Western knowledge systems (Grosfoguel, 2013). In practice, the decolonisation of academia requires epistemic disobedience, which is a form of resistance against colonial epistemologies (Mignolo, 2010). This entails engagement with scholarly practices that reject Eurocentric methodologies and instead prioritise methods that foster self-determination and healing (Smith, 2012). Such efforts are important not only for addressing historical injustice but also for creating a learning environment that is truly inclusive and diverse (Fricker, 2007).

While initially envisioned as a transformative process to dismantle the enduring remnants of colonial structures and ideologies, decolonisation has turned into a frequently contested idea that presents various challenges within academia and other domains (Smith, 2012). Tuck and Yang (2012) criticise the metaphorical use of decolonisation, arguing that its appropriation by academic and corporate entities ultimately weakened its original purpose. In other words, the transformation of decolonisation into a self-serving rhetoric failed to address the issues it was meant to solve in the first place, such as land rights and environmental justice (Tuck and Yang,

2012). This implies that while decolonisation seeks to address cases of historical injustice and the persistent legacies of colonialism, its implementation can become entangled in superficial changes that do not necessarily challenge underlying power struggles (Smith, 2012; Tuck and Yang, 2012). In academic fields like geography, decolonisation encounters significant obstacles due to its historical connections with colonial dominance and militarism. According to Noxolo et al. (2012), the colonial underpinnings that continue to dictate how geography is taught and studied make it significantly more difficult to induce meaningful changes in academic content and standards. Hence, for decolonisation to be genuine, it must go beyond superficial content updates and instead fundamentally re-examine the foundational principles and narratives that shape the curriculum (Hall, 2016; Noxolo et al., 2012). Moreover, Fanon's (1961) critique that decolonisation is inherently a *project of chaos* reflects the disruption it aims to bring to more established structures and the resistance it frequently encounters from entrenched interests (Fanon, 1961). This resistance is not only institutional but also conceptual, where the framing of decolonisation as merely an academic or rhetorical exercise undermines its ability to make actual changes (Hall, 2016). Additionally, the use of decolonial language by hegemonic actors within the academic world poses a considerable threat to its integrity. These individuals may use the language of decolonisation to maintain their status and authority, while perpetuating the very coloniality they claim to dismantle (Shahjahan, 2015). This is evident in the frequent convening of conferences and seminars on decolonisation by major academic bodies that fail to address deeper systemic inequalities (Noxolo et al., 2012). In light of these critiques, there is a growing consensus among decolonial scholars that more radical approaches are needed. Such approaches should emphasise the material conditions – such as land ownership, resource allocation, and economic disparities – that have been shaped by historical and ongoing forms of colonial practices (Coulthard, 2014). According to Coulthard (2014), decolonisation should not be confined to theoretical discussions in superficial academic settings but rather address the actual experiences and difficulties of those who are directly impacted by the remnants of colonial systems. Hence, decolonisation must move beyond rhetorical flourishes and actively address the root causes of colonial oppression and injustice (Coulthard, 2014).

Although a minority, colonial apologists hold considerable influence in academic and political circles, advocating views that are widely regarded as contentious or revisionist concerning the history and impact of colonialism. Colonial apologists argue that colonialism brought various benefits to colonised countries, such as improved infrastructure, economic systems, and legal frameworks (Bhambra, 2014). Many of them contend that these alleged benefits might even

outweigh the negative consequences of colonial rule and thus make recolonisation beneficial for postcolonial societies today (Loomba, 2015). Moreover, some colonial apologists suggest that the extent of colonial violence is exaggerated and can be justified because of precolonial indigenous violence (Smith, 2012). Their arguments, however, are widely criticised for relying on speculative forms of blindness, which are rooted in the imagined geographies of colonial racisms and the coloniality of being (Mignolo, 2011). Vázquez (2017) refers to the ideological dismissal of coloniality as the *denial of the denial*, where the refusal to recognise the racism and violence intrinsic to colonialism and capitalist expansion represents an active production of ignorance. This case of *agnotology* is strategically used to spread misinformation and thus obscure the actual understanding of colonial legacies (Proctor and Schiebinger, 2008). Slater (2019) highlights the importance of *agnotology* as a conceptual tool for political geographers to identify how ignorance is systematically fostered. Such strategies may involve overstating the number of colonial apologists or their influence in order to sabotage decades of colonial research detailing the destruction and violence of European colonialism (Fanon, 1961). At the centre of colonial apology lies the notion that European colonialism was a benevolent project of modernisation, which was financed by taxpayers in the colonising countries, rather than a project driven by exploitation and subjugation (Kipling, 1899). Some colonial apologists argue that colonised regions were inherently impoverished prior to colonial rule and thus challenge the baseline against which colonial impacts are assessed (Young, 2001). These scholars often dismiss the theory of *uneven geographical development*, which shows how inequalities were embedded in colonial relationships and continue to affect global economic structures today (Harvey, 2019). Instead, colonial apologists argue that colonialism was a global phenomenon that resulted in both positive and negative outcomes (Wolf, 1982). Moreover, contemporary articles written by colonial apologists occasionally promote new forms of colonisation. Such articles often cite isolated statements from native or indigenous people who are said to hold the opinion that *things were better during colonialism* (Murrey, 2020). This method typically lacks historical contextualisation and misinterprets people's critiques of the exacerbation of social and economic inequalities in contemporary societies (Grosfoguel, 2007). Hence, while colonial apologists define European colonialism as a historical epoch that ended with formal decolonisation, they also remain blind to the ongoing effects of colonial practices manifested through neocolonialism, colonial duress, and the coloniality of being (Quijano, 2000).

Decolonial scholars seek to redefine and expand the epistemological boundaries traditionally governed by Eurocentric ontologies and advocate for a *pluriversal* approach to understanding

our social and natural worlds (Ndlovu-Gatsheni, 2018). This pursuit is not only academic; it is an active, ethically driven approach that challenges conventional terminologies in the social sciences, such as gender, nation-state, territory, and culture, and demands a reconsideration of these terms through a decolonial lens (Mignolo and Walsh, 2018). Decoloniality insists on the existence of multiple worlds and ways of being, which requires scholars to develop other methods of expression, knowledge, and collective thinking (Murrey, 2020). This transition in creative processes leads to a fundamental reconstruction of analytical frameworks that have been followed for far too long (Grosfoguel, 2011). Indigenous approaches contribute to this discourse by promoting a collective knowledge production that eschews individual claims to expertise or mastery, and thus fosters a collaborative intellectual environment that opposes colonial hierarchies of knowledge (Smith, 2012). Such approaches advocate for convivial and decolonial knowledge that embraces the coexistence and entanglement of diverse epistemes and employs intellectual practices that transcend binary thinking (Escobar, 2017). Decolonial studies need more than the mere addition of new components to existing frameworks; they require a fundamentally new vocabulary that can articulate these complex realities (Murrey, 2020). By engaging with decolonial alternatives, scholars contribute to the ongoing critique and reconceptualisation of knowledge that is both politically and ethically oriented. In other words, decoloniality is a notion that supports the acknowledgement of identity as a mode of identities-*in*-politics, not identity-politics, and serves as a method to avoid oversimplification or nostalgia (Ndlovu-Gatsheni, 2018). This ontological movement is not only about changing how we think but also about transforming how we coexist in the world. Hence, decoloniality provides scholars with an alternative way of forming new epistemologies that can challenge and enrich our understanding of the world today (Murrey, 2020).

4 Empirical Framework

This study investigates the effects of colonialism on bilateral inward foreign direct investment by analysing the historical colonial ties between source and host countries. Gravity models, which are often used to examine direct investment flows between countries, have produced strong empirical results on multiple occasions. Previous studies on equity capital (Portes and Rey, 2005), foreign direct investment (Donaubauer et al., 2020), foreign portfolio investment (Hattari and Rajan, 2011), and international mergers and acquisitions (Head and Ries, 2008) have used the gravity model repeatedly. The following subsections introduce the data, describe gravity model specifications, and explain the estimation strategies applied in this study.

4.1   Data and Model Specifications

The gravity model allows for the analysis of source and host country determinants of foreign direct investment levels. The traditional gravity model is based on the concept of Newton's law of gravitational force. As a consequence, economic flows are directly proportional to the mass of economic activity in source country i and host country j, but inversely proportional to the geographical distance separating them. This yields the following equation:

$$X_{ij} = \frac{M_i M_j}{D_{ij}} \tag{1}$$

The traditional gravity model suggests that economic flows, X_{ij}, are directly proportional to the income of source countries, M_i, and destination countries, M_j, but inversely proportional to the distance, D_{ij}, separating them. However, according to Anderson and van Wincoop (2003), the standard gravity model has the imperfection of omitting multilateral resistance factors. Such resistance factors may include capital controls, differences in business practices, information costs, trade or monetary treaties, taxes, and language barriers. A theoretically consistent gravity model accounts for the elasticity of substitution of traded goods, meaning the relative trade costs between trading partners, and all the bilateral trade costs between source and destination countries. These bilateral trade costs vary across country pairs and can change over time as well. In equilibrium, bilateral trade costs depend on the relative price points in importer and exporter countries, which in turn are reliant on other trade barriers or the multinational resistance factors of other countries (Anderson and van Wincoop, 2003).

The omission of multilateral resistance terms produces a bias, which makes it necessary to incorporate fixed effects that capture various unobservable effects influencing the relationship between source and host countries. Hence, for an accurate estimation of the theoretically consistent gravity model, it is advised to apply source country, host country, and time fixed effects, taking into account the specific characteristics of the sample countries. The presence of multilateral resistance highlights the importance of accounting for heteroskedasticity. However, it is not just the bilateral costs that influence trade between countries. The trade costs of each country with all other countries also play an important role. The theoretically consistent gravity model accounts for these multilateral resistance terms. Following Anderson and van Wincoop (2003), the theoretically consistent gravity model can be written as follows:

$$X_{ijt} = G_t M_{it} M_{jt} \theta_{ijt} \tag{2}$$

In equation (2), X_{ijt} denotes an economic transaction from source country i to destination country j in year t. M_{it} and M_{jt} represent attributes of source and host countries in a particular year t, while G_t indicates year-specific factors determining the economic transaction in question. Discrepancies in the intensity of X_{ijt} enter through θ_{ijt}. Head et al. (2010) refer to M_{it} and M_{jt} as *monadic* effects and θ_{ijt} as the *dyadic* effect. The latter is comprised of factors affecting costs between country pairs and can be divided into observed, D_{ijt}, and unobserved, ε_{ijt}, bilateral cost determinants. The log of the *dyadic* term is approximated as a linear combination of the two cost determinants.

$$\theta_{ijt} = \lambda D_{ijt} + \varepsilon_{ijt} \tag{3}$$

According to Head et al. (2010), the most commonly used approach is to take the log of equation (2) and obtain a linear combination of determinants that affect economic flows between source country i and host country j. Taking the log of the traditional gravity model equation yields:

$$ln\, X_{ijt} = ln\, G_t + ln\, M_{it} + ln\, M_{jt} + ln\, \theta_{ijt} \tag{4}$$

This analysis seeks to investigate the effects of colonialism on bilateral inward foreign direct investment by examining the historical colonial ties between source and host countries. In equation (5), FDI_{ijt} represents inward bilateral foreign direct investment stocks in U.S. Dollars from source country i to host country j. GDP_{it} and GDP_{jt} are GDP per capita levels of source country i and host country j in year t. GDP serves as an indicator of economic health for both source and destination countries, reflecting potential productivity and the purchasing power of consumers. Its effect on foreign direct investment is expected to be ambiguous. Source country GDP is anticipated to have a beneficial effect on inward FDI as economies with substantial incomes are generally more capable to engage in extensive FDI activities. On the flip side, lower GDP would indicate restricted domestic markets, prompting companies to seek expansion opportunities in new markets (Hattari and Rajan, 2009). A restrictive domestic market with limited profitability avenues might drive firms to explore new market horizons (Jongwanich et al., 2013). Hence, the magnitude and proximity of potential markets emerge as vital factors in determining the decision of source countries to engage in foreign direct investment or trade with specific host countries. However, some companies invest in less-developed countries to take advantage of factor price differentials such as wages, potentially leading to a negative relationship between host country GDP and inward foreign direct investment (Stone and Jeon, 2000). On the other hand, a positive effect could suggest that larger host countries tend to

attract more investment due to the availability of more acquisition targets, particularly in the context of mergers and acquisitions (Dailami et al., 2012), or the prospective demand from consumers (Bénassy-Quéré et al., 2007). Thus, when FDI is driven by market-seeking motives, the coefficient of the source GDP variable is expected to be positive. In contrast, when FDI is vertical and motivated by cost reduction strategies, the relationship between host country GDP and inward FDI is anticipated to be negative.

$$
\begin{aligned}
ln\,FDI_{ijt} = \alpha &+ \sigma\,ln\,GDP_{it} + \upsilon\,ln\,GDP_{jt} + \delta\,ln\,Dist_{ij} + \gamma\,Contiguity_{ij} \\
&+ \varphi\,ComLang_{ij} + \upsilon\,ln\,Trade_{ijt} + X'_{jt}\psi + \eta_i + \kappa_j + \omega_t + \varepsilon_{ijt}
\end{aligned}
\tag{5}
$$

$Dist_{ij}$ refers to the geographical distance between source country i and host country j, encapsulating the various time-invariant bilateral attributes associated with transaction costs (Portes and Rey, 2005). The expected direction of influence for this variable depends on the underlying reason for foreign direct investment. A greater distance can discourage companies from investing overseas due to the increased costs associated with monitoring and operating in a foreign market. As the geographical distance between business operations expands, the subsequent transaction costs are expected to increase.

Although the geographical distance between source and host countries is often used as a proxy for information and transaction costs, it does not sufficiently represent these costs. Aggarwal et al. (2012) argues that there are other costs, which are improperly accounted for by the distance variable. This has led to the extension of the gravity model to encompass additional elements related to investment agreements, political risks, institutions, and property rights. Differences in culture between countries, which can be attributed to factors such as language and historical colonial ties, may create information asymmetries and increase the costs associated with forming contracts. This is anticipated to complicate the process of conducting business operations (Di Giovanni, 2005). As a result, a considerable cultural divide can adversely affect inward FDI, particularly when there is a big difference in business practices and operational environments between the countries involved. Contrary to the approach taken by Donaubauer et al. (2020), which relies solely on country-pair and time effects, this analysis incorporates bilateral time-invariant variables that focus on the similarities between country pairs in terms of language, contiguity, and historical colonial ties. Therefore, this analysis includes dummy variables that are equal to one if two countries share the same language, $ComLang_{ij}$, or border, $Contiguity_{ij}$, and equal to zero otherwise. A common border might also indicate whether foreign direct investment is vertical or horizontal. A positive outcome

highlights the advantage of proximity as it reduces the costs of re-exports. Conversely, a negative effect would indicate that the foreign direct investment referred to in this study is more of a horizontal nature (Chenaf-Nicet and Rougier, 2016).

$Trade_{ijt}$ represents the annual trade volume between source country *i* and host country *j* in millions of U.S. Dollars. As with the two previous dummy variables, this variable seeks to describe how familiarity between country pairs can lower the mutual risk perception and thus soften the challenges faced by multinational enterprises upon market entry (Jongwanich et al., 2013). For that reason, extensive preexisting trade relations between source and host countries are expected to have a positive effect on inward foreign direct investment. X_{jt} is a vector of other variables that influence inward foreign direct investment in the host country. These include corporate tax rate, human capital, and resource dependence. Tax_{jt} represents the average corporate tax rate in host country *j*. Taxation of corporate income has an unambiguous effect on the earnings of multinational enterprises that have invested in the host country and thus should be treated as a key factor for investment decisions abroad. In other words, the level of corporate tax rates might influence firms' decisions to enter foreign markets via direct investments. Hence, it can be concluded that host countries with lower corporate tax rates are more appealing to direct investors than countries with higher tax rates (Di Giovanni, 2005). Emerging market economies have applied this strategy repeatedly and lowered their corporate tax rate in order to attract multinational enterprises (Arbatli, 2011). Another important aspect that direct investors take into account when they decide whether or not to enter a foreign market is human capital. Better educated employees tend to produce better work results, which attracts new clients, and are more inclined to contribute to the firm's internal research & development process (Akin and Vlad, 2011). Therefore, human capital, proxied by the average years of schooling in the host country, $Schooling_{jt}$, is expected to have a positive effect on inward foreign direct investment. Lastly, in order to reflect a host country's dependence on natural resources and how it might influence direct investment decisions by multinational enterprises, this study also incorporates a resource dependence variable, $Oilrent_{jt}$, which is proxied by oil rents as a share of GDP. Asiedu (2013) suggests that multinational enterprises are more inclined to settle in countries whose economies are well diversified and thus more resistant towards external shocks. Furthermore, resource booms typically result in an appreciation of the local currency. This makes the country's exports less competitive in the global market and subsequently crowds out investments in sectors that trade in non-natural resources. If this crowding out effect surpasses a one-for-one rate, it could potentially cause an

overall reduction in foreign direct investment inflows. Another aspect is that natural resources, especially oil, are known for their cyclical periods of boom and bust, which cause heightened fluctuations in the exchange rate (Sachs and Warner, 1995). Hence, a negative relationship between natural resources and foreign direct investment is expected to be the result.

$$ln\,FDI_{ijt} = \alpha + \sigma\,ln\,GDP_{it} + \upsilon\,ln\,GDP_{jt} + \delta\,ln\,Dist_{ij} + \gamma Contiguity_{ij}$$
$$+ \varphi ComLang_{ij} + \upsilon\,ln\,Trade_{ijt} + X'_{jt}\psi + \partial Colony_{ij} + \mu ComCol_{ij} \qquad (6)$$
$$+ \eta_i + \kappa_j + \omega_t + \varepsilon_{ijt}$$

The first variable of interest, $Colony_{ij}$, captures a historical colonial relationship between source country *i* and host country *j* with a dummy variable that seeks to explore whether inward FDI is greater where there existed a historical colonial tie. Thus, in equation (6), this analysis employs the historical colonial relationship dummy, which is equal to one if there was such as colonial relationship and equal to zero otherwise. Given that colonial experiences were heterogeneous and often ranged from being favourable to being hostile for the indigenous people exposed to them, it is ambiguous whether historical colonial relationships between country pairs have a beneficial or negative effect on inward foreign direct investment. As with the dummy variables indicating a common language or common border between country pairs, $ComCol_{ij}$ is equal to one if two countries were colonised by the same coloniser and equal to zero otherwise. The idea behind this variable is that two countries, which were colonised by the same coloniser and now find themselves in a direct investment relationship, may have had similar colonial experiences due to the colonial practices imposed on them by the same European power. Thus, it is possible that both countries were exposed to the same belief systems, educational systems, and ontologies, which later resulted in similar legal systems, institutional structures, and business practices. Consequently, a positive effect on inward FDI can be expected.

$$ln\,FDI_{ijt} = \alpha + \sigma\,ln\,GDP_{it} + \upsilon\,ln\,GDP_{jt} + \delta\,ln\,Dist_{ij} + \gamma Contiguity_{ij}$$
$$+ \varphi ComLang_{ij} + \upsilon\,ln\,Trade_{ijt} + X'_{jt}\psi + \partial Settle_{j} + \mu ComCol_{ij} \qquad (7)$$
$$+ \eta_i + \kappa_j + \omega_t + \varepsilon_{ijt}$$

Another variable of interest is $Settle_j$, which indicates the percentage of European settlers in host country *j* during colonial times (Angeles, 2007). Settler colonialism refers to the act of replacing one group of people with another group of people, which was usually accomplished through methods such as resettlement, enslavement, or extermination of the indigenous population in a specific territory. Throughout this process, European colonisers typically

brought their own belief systems, legal frameworks, institutions, cultures, and social norms with them (Murrey, 2020). Similar to the previous dummy variable on common colonial experiences, a higher percentage of European settlers during colonial times is expected to have a positive effect on foreign direct investment.

$$\ln FDI_{ijt} = \alpha + \sigma \ln GDP_{it} + \upsilon \ln GDP_{jt} + \delta \ln Dist_{ij} + \gamma Contiguity_{ij}$$
$$+ \varphi ComLang_{ij} + \upsilon \ln Trade_{ijt} + X'_{jt}\psi + \partial Coloniser_i + \beta Coloniser_j \qquad (8)$$
$$+ \mu ComCol_{ij} + \eta_i + \kappa_j + \omega_t + \varepsilon_{ijt}$$

Equation (8) includes two more bilateral variables, $Coloniser_i$ and $Coloniser_j$, that are equal to one if in a colonial relationship either the source or the host country is the coloniser and equal to zero otherwise. The purpose of examining these two variables is to understand how the direction of colonisation could influence the effect on inward foreign direct investment. The question remains: is the impact of historical colonial ties on inward FDI bigger when the colonial relationship was initiated by the source or the host country? The answer to this question would allow one to determine which of the two countries in a former colonial relationship should be the recipient of foreign direct investment to achieve the highest possible outcome.

$$\ln FDI_{ijt} = \alpha + \sigma \ln GDP_{it} + \upsilon \ln GDP_{jt} + \delta \ln Dist_{ij} + \gamma Contiguity_{ij}$$
$$+ \varphi ComLang_{ij} + \upsilon \ln Trade_{ijt} + X'_{jt}\psi + \partial Pre1858_{ij} + \beta Post1858_{ij} \qquad (9)$$
$$+ \mu ComCol_{ij} + \eta_i + \kappa_j + \omega_t + \varepsilon_{ijt}$$

In a further step, this study takes a look at the period during which colonies were established. $Pre1858_{ij}$ and $Post1858_{ij}$ are equal to zero if a given colonial relationship was formed before or after the year 1858 and equal to zero otherwise. This study employs the year 1858 as cut-off year because in 1858 the control over India was transferred from the British East India Company to the Crown. As the interests involved in colonial exploitation widened, from the merchant to the industrial sector as a whole, the rule over colonies shifted from private to public (European state) hands. Another example is the transfer of the East Indies (today Indonesia) to the Dutch Crown in the 1870s (Omvedt, 1973). Therefore, these two dummy variables examine whether changes in colonial interests regarding exploitation and changes in the ownership of overseas territories hold any importance regarding the effect on inward foreign direct investment.

Equation (10) explores the colonial relationship between source and host countries in more detail by analysing specific European colonisers (Glaister et al., 2020). The country dummies GBR_{ij}, FRA_{ij}, ESP_{ij}, PRT_{ij}, and NLD_{ij} are denoted as one if the former coloniser in a given country pair, which also happens to be a former colonial relationship, is either Britain, France,

Spain, Portugal, or the Netherlands, and zero otherwise. Country dummies for Germany, Italy, and Belgium are not included in this gravity model because their historical colonial ties are not represented by corresponding country pairs in the dataset or were omitted due to collinearity.

$$
\begin{aligned}
ln\,FDI_{ijt} = {}& \alpha + \sigma\,ln\,GDP_{it} + \upsilon\,ln\,GDP_{jt} + \delta\,ln\,Dist_{ij} + \gamma Contiguity_{ij} \\
& + \varphi ComLang_{ij} + v\,ln\,Trade_{ijt} + X'_{jt}\psi + \partial GBR_{ij} + \beta FRA_{ij} + \tau ESP_{ij} \\
& + \zeta PRT_{ij} + \xi NLD_{ij} + \mu ComCol_{ij} + \eta_i + \kappa_j + \omega_t + \varepsilon_{ijt}
\end{aligned}
\tag{10}
$$

Finally, the period of colonial rule variable, $ColRule_{ij}$, indicates the time period during which either the source or the destination country was under the control of the other country in years. Since historical colonial ties between countries often ranged from being favourable to being hostile for the native people exposed to them, it is uncertain whether or not a longer period of colonial rule would have a beneficial or negative effect on inward foreign direct investment. A longer period of colonisation might be more favourable than a shorter one because it would enable the coloniser to establish adequate institutions such as educational facilities and infrastructure. Grier (1999) reported that the length of colonisation is positively correlated with economic growth in Africa (1961-1990). On the flip side, the nature of the colonial experience may result in animosity towards the coloniser by the colonised, such that historical colonial ties do not always produce positive economic relations (Makino and Tsang, 2011). Significant social and economic costs, such as labour exploitation and resource depletion, may persist long after the conflict has been resolved (Alfaro et al., 2008).

$$
\begin{aligned}
ln\,FDI_{ijt} = {}& \alpha + \sigma\,ln\,GDP_{it} + \upsilon\,ln\,GDP_{jt} + \delta\,ln\,Dist_{ij} + \gamma Contiguity_{ij} \\
& + \varphi ComLang_{ij} + v\,ln\,Trade_{ijt} + X'_{jt}\psi + \partial ColRule_{ij} + \mu ComCol_{ij} \\
& + \eta_i + \kappa_j + \omega_t + \varepsilon_{ijt}
\end{aligned}
\tag{11}
$$

Equation (12) adds the variable representing the period of colonial rule to the country dummies explained earlier in this section to determine how $ColRule_{ij}$ behaves in the presence of colonial relationship variables. η_is denote source country fixed effects, κ_js are host country fixed effects, and ω_ts indicates time fixed effects. ε_{ijt} is the usual error term.

$$
\begin{aligned}
ln\,FDI_{ijt} = {}& \alpha + \sigma\,ln\,GDP_{it} + \upsilon\,ln\,GDP_{jt} + \delta\,ln\,Dist_{ij} + \gamma Contiguity_{ij} \\
& + \varphi ComLang_{ij} + v\,ln\,Trade_{ijt} + X'_{jt}\psi + \partial GBR_{ij} + \beta FRA_{ij} + \tau ESP_{ij} \\
& + \zeta PRT_{ij} + \xi NLD_{ij} + \varkappa ColRule_{ij} + \mu ComCol_{ij} + \eta_i + \kappa_j + \omega_t + \varepsilon_{ijt}
\end{aligned}
\tag{12}
$$

As is explained in section 3.2, the Heckman selection model requires at least one additional variable that affects the probability that two countries engage in foreign direct investment, but not the volume of direct investment conditional on the existence of an investment relationship.

Following Helpman et al. (2008), this study employs two binary variables that equal one if the sum of the number of days and legal procedures to form a new business is above the median for both the source and host country, or if the cost (as a share of income per capita) of forming a new business is above the median in source country i and destination country j, and equal to zero otherwise. Descriptive statistics for all variables can be found in the table below.

Table 1: Descriptive Statistics

Variable	Mean	Min.	Max.	Std. Dev.	Obs.
FDI	2301.792	-12850.94	592273.2	16222.06	59,124
ln(FDI)	4.503691	-9.21034	13.29172	2.883544	38,852
ln GDP $_{Source}$	9.460376	4.717849	12.13235	1.43494	76,874
ln GDP $_{Host}$	8.785824	4.507927	11.69876	1.497506	78,073
ln Distance	8.331858	4.01288	9.901043	0.9933188	78,180
Common Border	0.0511128	0	1	0.2202292	78,180
Common Language	0.1680737	0	1	0.3739341	78,180
ln Trade	17.74517	0	26.64615	3.467518	70,722
ln Tax	3.237681	2.197225	4.007333	0.3517079	70,507
Human Capital	9.06949	1.1	14	2.847692	75,163
Resource Dependence	3.429832	0	66.71276	9.012352	76,512
Colonial Relationship	0.0219505	0	1	0.1465227	76,536
Common Coloniser	0.1763876	0	1	0.3811521	76,536
European Settlement	8.319067	0	98.6	20.38661	65,616
Former Coloniser $_{Source}$	0.0172468	0	1	0.1301905	76,536
Former Coloniser $_{Host}$	0.0053308	0	1	0.0728181	76,536
Est. before 1858	0.0147382	0	1	0.1205037	76,536
Est. after 1858	0.0079962	0	1	0.089064	76,536
Britain	0.0064283	0	1	0.0799194	76,536
France	0.002979	0	1	0.0544991	76,536
Spain	0.0028222	0	1	0.0530497	76,536
Portugal	0.0018815	0	1	0.0433353	76,536
Netherlands	0.0012543	0	1	0.0353943	76,536
Period of Colonial Rule	4.573599	0	750	39.67922	78,180
Regulation Costs	0.3045152	0	1	0.4602047	78,180
Legal Procedures and Days	0.4996291	0	1	0.5000031	78,180

4.2 Estimation Strategies

Razin and Sadka (2007) argue that the initial setup costs linked to foreign direct investment create two distinct margins. The extensive margin explores whether the firm should undertake a new investment in the first place, whereas the intensive margin determines the appropriate magnitude of the investment abroad. Hence, values registered as zero in the dataset either represent actual zero entries or investment volumes that fall below a threshold higher than zero. In addition, the dataset may include missing observations that may or may not represent true zeros (Anderson, 2011). This results in many zeros and missing values among the actual observed foreign direct investment flows between country pairs. With 216 sample countries used in this analysis, the dataset should contain as many as 46,440 country pairs. However, the

actual number of country pairs with observed direct investment flows is typically much lower. This makes the selection of country pairs endogenous (Razin and Sadka, 2007).

The choice of the most appropriate estimation approach largely depends on the underlying reason for zero entries in the dependent variable. Anderson (2011) explains the occurrence of zero entries in the data as zeros representing very minimal foreign direct investment flows as a consequence of inaccurate reporting practices or zeros reflecting the investment decisions of multinational enterprises in a given year. Since firms are expected to incur fixed setup costs when they enter a foreign market, zero observations do indeed offer meaningful information regarding the investment decisions of multinational enterprises. Hence, only enterprises in source country i whose firm-specific advantages are significant enough to outweigh the fixed setup costs they encounter abroad will enter a new market in host country j. If entry into a given host country j is too costly, though, it is possible that no firm from source country i will be able to cover the fixed setup costs upon market entry. This generates zero entries in the dependent variable (Anderson, 2011).

Several corrective measures have been proposed to account for the incidence of zero entries in the dependent variable. In the case of truncation, all country-pair observations with zero entries are discarded from the dataset. This is only possible if zero entries represent random missing data or rounding errors (Head and Mayer, 2014). The rationale behind this method is that these entries provide no useful information and thus can be discarded. Anderson (2011) argues that removing these zero entries is justified because they lack any economic relevance compared to the non-zero observations. However, estimating the log-linear specification of the gravity model using ordinary least squares may produce inconsistent results. Given that the log of zero is undefined and many of the country pairs have missing values, using the log-linear specification of the gravity model reduces the sample size and thus induces a selection bias (Head and Mayer, 2014). As a consequence, the estimated sample is no longer randomly selected from the population and will consist solely of country pairs with positive entries of foreign direct investment flows. Santos Silva and Tenreyro (2006) provide empirical evidence that the estimation of the log-linear specification of the gravity model produces inconsistent estimates in the presence of heteroskedasticity.

On the other hand, if these entries were registered as zeros by mistake, the large number of zero observations in the data would likely yield biased estimation results. Should these entries instead represent actual zero foreign direct investment data or errors coming from rounding

due to very minimal volumes of foreign direct investment activity, their omission would result in the exclusion of relevant information and thus produce inconsistent estimates. These values might reflect unobserved trade costs, which are accounted for by the geographical distance between country pairs, the host country's remoteness, or its limited market size (Head and Mayer, 2014). Similarly, according to Guo and Pan (2015), the omission of zero entries would disregard the extensive margin and the impact of fixed setup costs.

Alternatively, it has been suggested to add a small constant to entries of inward FDI prior to taking the log of the dependent variable in order to prevent the zero observations from being excluded from the data. However, this method is widely regarded as inappropriate as it might deviate from a true depiction of the actual values and tends to produce inconsistent estimates (Head and Mayer, 2014). Razin and Sadka (2007) argue that Tobit estimators are consistent if the incidence of zero entries is due to measurement errors. Thus, all foreign direct investment flows below a certain level are not recorded because of measurement errors. Previous studies have applied a left-censored Tobit estimation approach with 'zero' as the lower bound (Eaton and Tamura, 1994; Santos Silva and Tenreyro, 2006). While this might be a valid explanation for the occurrence of zero entries, it is also seen as incomplete and biased as it does not take into account the possibility that some country pairs do indeed have no direct investment relationship in a given year (Anderson, 2011). Santos Silva and Tenreyro (2006) support the notion that log-linear and Tobit estimation models are not appropriate estimation tools as they produce inconsistent estimates under heteroskedasticity.

The Heckman sample-selection model is commonly used to overcome the limitations of the OLS and Tobit estimators. It offers another method of dealing with zero observations, thereby allowing the inclusion of all country-pair information. The Heckman sample-selection model not only factors in measurement errors and market entry costs leading to zero values but also perceives foreign direct investment as a two-step process. This two-step process involves an investment decision, called the selection equation, followed by the outcome equation, which determines the appropriate investment volume. Helpman et al. (2008) applied this model to analyse the selection decision for direct investments abroad. The outcome equation describes the link between foreign direct investment and a group of determinants, while the selection equation includes the full set of variables from the original gravity model and preferably one additional variable that impacts the probability of two countries engaging in an investment relationship but not the investment volume itself. The challenge with this approach is to find appropriate instruments for the selection equation that meet the conditions laid out above

(Anderson, 2011). Helpman et al. (2008) employed two binary regulation cost variables that equal one if the sum of the number of days and legal procedures to form a new business is above the median in both source country *i* and host country *j*, or if the cost of forming a new business (as a share of income per capita) is above the median in both source country *i* and host country *j*, and zero otherwise. Although the use of regulation cost variables satisfies the conditions imposed on the instruments used in the selection equation, they also significantly reduce the number of usable observations in the data. This is due to the limited availability of data in emerging and developing economies. Therefore, it is desirable to identify at least one other variable that satisfies the instrument requirements and can be used for estimation with all sample countries. According to Helpman et al. (2008), the *common religion* variable is a suitable instrument for this purpose.

The third alternative is to estimate the gravity model in levels using a different estimation approach. As outlined earlier in this section, estimating the log-linear gravity model with OLS results in inconsistent estimates. With a lot of zero observations in the data, the disturbance term has a considerable mass at very small values, which violates the normality assumption (Anderson, 2011). The most appropriate and effective method to apply in this scenario is the Poisson pseudo-maximum likelihood (PPML) estimator, proposed by Santos Silva and Tenreyro (2006). This method can be used on the levels of foreign direct investment and allows for the inclusion of zero FDI entries rather than excluding them. Modelling the disturbance term as generated by the PPML estimator is considered better and results in smaller estimates than those obtained through ordinary least squares. This approach considers zero observations in the dependent variable and is scale-invariant. Even in the presence of heteroskedasticity, the Poisson pseudo-maximum likelihood (PPML) estimator produces more consistent estimates than ordinary least squares, regardless of the distribution of the data. Conversely, estimating the log-linearised gravity model with ordinary least squares would eliminate all zero entries from the dataset and induce a selection bias (Anderson, 2011).

Similar to the Poisson pseudo-maximum likelihood estimator, the Heckman selection model provides an alternative way of retaining zero entries in the data. However, the literature does not give any definite guidance on which approach should be used in applied research. Each estimation method has its own set of advantages and disadvantages. For example, while the PPML estimator deals well with heteroskedasticity, the Heckman selection model lacks this capability. Moreover, fixed effects Poisson pseudo-maximum likelihood (PPML) models are well understood and have desirable statistical properties, while fixed effects Probit models generally

suffer from the incidental parameters problem, leading to biased and inconsistent estimates. However, the empirical extent of this problem is still unclear. On the other hand, the Heckman sample-selection model allows for separate data generating processes for zero and non-zero data observations, while the PPML estimator assumes that all data entries are drawn from the same distribution. Hence, researchers are advised to present both the PPML and Heckman sample-selection estimates in an effort to demonstrate that their results are robust to the use of different estimators (Shepherd, 2013).

Given that not all country pairs have data reported for every single year, the dataset used in this analysis contains a large number of zeros and missing values. Although both the Heckman sample-selection model and PPML estimator can incorporate zeros in the dependent variable, Head and Mayer (2014) showed through simulations that the PPML estimator is the superior method for managing zero FDI entries. Following Coeurdacier et al. (2009) and Donaubauer et al. (2020), this analysis uses the Poisson pseudo-maximum likelihood estimator as the primary estimation method. This estimator is best suited for the study's needs due to its robustness to different patterns of heteroskedasticity and its ability to incorporate zero observations in the dependent variable. Furthermore, it effectively addresses possible measurement errors and firm heterogeneity in decisions to engage in investment activities abroad. However, given the importance of robust estimation results, this analysis will also use OLS, Tobit, and Heckman sample-selection models, despite their previously discussed imperfections and challenges.

5   Empirical Findings

This section presents the empirical findings from the regression analysis that examines the effects of colonialism on bilateral inward foreign direct investment. Following Santos Silva and Tenreyro (2006) and Helpman et al. (2008), this study employs ordinary least squares, Tobit, Heckman sample-selection, and Poisson pseudo-maximum likelihood (PPML) estimators. The OLS estimates, however, are merely used as benchmark results for the far superior Heckman sample-selection and PPML estimates. All gravity model estimations in this analysis use robust standard errors and allow for the correlation of error terms within country pairs. In order to remove the bias of misspecification that arises due to the exclusion of multilateral resistance terms, all estimations are carried out controlling for country and time fixed effects. Finally, this analysis also controls for country-pair fixed effects to remove unobserved heterogeneity that may arise from omitting variables relevant to inward foreign direct investment at country-pair level (Anderson and van Wincoop, 2003).

5.1   Main Results

The following two tables present the main results of this analysis. Table 2 shows regression results that have been obtained by applying the OLS and Tobit model estimation approaches, while table 3 presents the Heckman sample-selection and PPML estimation results. All four estimation strategies have been employed using country, time, and country-pair fixed effects. Given the nature of the PPML estimator, the dependent variable, inward FDI stocks, is not log-linearised. The OLS, Tobit, and Heckman estimators, on the other hand, use the log-linearised version of inward FDI stocks to accommodate the dependent variable in the traditional gravity model. Columns (1) to (3) present the OLS estimates, while columns (4) to (6) show the Tobit estimation results. As for the Tobit model, zero has been chosen as the cut-off value, which makes it a left-censored model. Columns (3) and (6) do not present regression coefficients for the control variables *Distance*, *Common Border*, and *Common Language* since country-pair fixed effects omit all time-invariant variables. The same is true for the variables of interest, *Colonial Relationship* and *Common Coloniser*. Without exception, all control variables show significant effects on inward FDI stocks and carry the sign that makes the most sense for them economically. Given the results below, it appears that *GDP per capita*, both in the source and destination country, has a significant and positive impact on inward FDI. This suggests that source economies with high incomes have greater ability and tend to participate in more foreign direct investment activities (Hattari and Rajan, 2009). With regard to the host country, it means that larger host economies tend to attract more investment since they offer bigger consumer markets and more possibilities for multinational enterprises to undertake mergers and acquisitions (Dailami et al., 2012). The latter also indicates that this is primarily market-seeking FDI and thus not motivated by reducing costs.

The geographical *distance* between the source and host country as well as the corporate *tax* rate in the host country are two well-known control variables to describe investment costs. Greater geographical distance between two countries raises transaction and transportation costs and thus makes business operations more expensive (Portes and Rey, 2005). Countries with lower corporate tax rates are more attractive for direct investments and thus are more likely to be selected by multinational enterprises. Both variables have a significantly negative effect on the dependent variable, which confirms the findings by Portes and Rey (2005) and Arbatli (2011). Cultural similarities between two countries are often described with the dummies *Contiguity* and *Common Language*. Countries that are in close proximity to one another and share the same language also tend to have similar institutional structures, values,

and business practices. All three aspects can soften the challenges faced by multinational enterprises upon market entry and thereby increase the possibilities of investment (Jongwanich et al., 2013). The results in table 2 confirm this notion. Extensive trade relations between the investor and host country are another aspect that can positively contribute to FDI activities. In the case of such previous relations between the two countries in question, both parties might already be familiar with each other, which would lower the mutual risk perception (Jongwanich et al., 2013). The estimates of the *Trade* variable in table 2, which represents the annual trade volume between two countries in millions of U.S. Dollars, confirm this as well.

Table 2: Foreign Direct Investment and European Colonialism

	ln(FDI)	ln(FDI)	ln(FDI)	ln(FDI)	ln(FDI)	ln(FDI)
	(1)	(2)	(3)	(4)	(5)	(6)
ln GDP $_{Source}$	0.300***	0.321***	0.325***	0.354***	0.375***	0.367***
	(0.0783)	(0.0780)	(0.0786)	(0.0582)	(0.0580)	(0.0585)
ln GDP $_{Host}$	0.449***	0.453***	0.455***	0.457***	0.461***	0.462***
	(0.0731)	(0.0730)	(0.0734)	(0.0623)	(0.0621)	(0.0633)
ln Distance	-0.893***	-0.902***		-0.907***	-0.918***	
	(0.0412)	(0.0427)		(0.0171)	(0.0173)	
Common Border	0.563***	0.551***		0.561***	0.547***	
	(0.1151)	(0.1179)		(0.0465)	(0.0464)	
Common Language	0.681***	0.468***		0.693***	0.485***	
	(0.0960)	(0.1080)		(0.0357)	(0.0394)	
ln Trade	0.200***	0.189***	0.195***	0.207***	0.196***	0.188***
	(0.0183)	(0.0184)	(0.0188)	(0.0074)	(0.0075)	(0.0065)
ln Tax	-0.377***	-0.380***	-0.378***	-0.394***	-0.396***	-0.385***
	(0.1020)	(0.1020)	(0.1028)	(0.0923)	(0.0920)	(0.0870)
Human Capital	0.198***	0.195***	0.201***	0.192***	0.189***	0.193***
	(0.0381)	(0.0380)	(0.0385)	(0.0369)	(0.0368)	(0.0372)
Resource Dependence	-0.014**	-0.013**	-0.014**	-0.013**	-0.013*	-0.015*
	(0.0057)	(0.0057)	(0.0584)	(0.0069)	(0.0069)	(0.0071)
Colonial Relationship		0.952***			0.952***	
		(0.1875)			(0.0630)	
Common Coloniser		0.236**			0.222***	
		(0.1115)			(0.0402)	
Observations	32,867	32,867	31,456	32,867	32,867	31,456
Estimator	OLS	OLS	OLS	Tobit	Tobit	Tobit
Country FE	Yes	Yes		Yes	Yes	
Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Country-Pair FE			Yes			Yes

Note: Statistical significance is denoted by ***(p<0.01), **(p<0.05), *(p<0.1). Robust standard errors are in parentheses. Observations are clustered within country pairs.

Another important aspect that direct investors take into account when they decide whether or not to enter a foreign market is *human capital*. Higher-educated workers tend to produce better work results, which attracts new clients, and are more likely to contribute to the firm's internal research & development process (Akin and Vlad, 2011). The estimates in table 2 show that human capital, proxied by the average years of schooling, has a significantly positive effect on inward foreign direct investment. In order to reflect a host country's dependence on natural

resources and how this might influence direct investment decisions, this model also includes a *Resource Dependence* variable, which is proxied by oil rents as a share of GDP. Asiedu (2013) concludes that multinational enterprises prefer to settle in countries whose economies are well diversified and thus more resistant in case of a macroeconomic shock. In addition, resource booms typically result in an appreciation of the local currency. This makes the country's exports less competitive in the global market and subsequently crowds out investments in sectors that trade in non-natural resources. If this crowding-out effect surpasses a one-for-one rate, it could potentially cause an overall reduction in foreign direct investment. Another aspect is that natural resources, especially oil, are known for their cyclical periods of boom and bust, which cause heightened fluctuations in the exchange rate (Sachs and Warner, 1995). The statistically significant and negative effect on inward FDI confirms the previous expectations and highlights the importance of a diversified economy.

Two variables of interest in this study are *Colonial Relationship* and *Common Coloniser*. Both are dummy variables that are equal to one if two countries have been in a colonial relationship or shared the same coloniser and equal to zero otherwise. The estimates in columns (2) and (5) suggest that historical colonial ties do indeed have a statistically significant positive effect on inward FDI. Both the OLS and Tobit model estimators predict that a historical colonial relationship between two countries increases the stock of foreign direct investment in the host country by 159.08 percent. As for the effect of sharing the same coloniser, the OLS estimator presents a 26.61 percent increase in FDI stocks, while the Tobit model estimator predicts a 24.85 percent rise in inward FDI. It is, however, important to keep in mind that both OLS and Tobit model estimates can be severely biased given their limitations in the presence of too many zeros and missing values (Anderson, 2011).

Hence, table 3 presents the same estimations using the Heckman sample-selection estimator in columns (7) to (9) and the PPML estimator in columns (10) to (12). Both estimators are widely regarded as viable options to overcome the limitations of the OLS and Tobit model estimator. Furthermore, all six gravity model estimations take significantly more observations into consideration given both estimators' ability to retain zero entries in the data. As described in section 4.2, the Heckman selection model requires at least one additional variable that affects the probability that two countries engage in foreign direct investment, but not the volume of investment conditional on the existence of an investment relationship. Following Helpman et al. (2008), this study employs two binary variables that equal one if the sum of the number of

days and legal procedures to form a business is above the median for both the source country *i* and destination country *j*, or if the cost (as a share of income per capita) of forming a business is above the median in source country *i* and destination country *j*, and zero otherwise. The results of the corresponding Probit models are in table E, in the appendix, and indicate that a historical colonial relationship between two countries increases the probability that those two countries engage in foreign direct investment by 38.54 percent (column 2).

Table 3: Alternative Gravity Model Estimators

	ln(FDI)	ln(FDI)	ln(FDI)	FDI	FDI	FDI
	(7)	(8)	(9)	(10)	(11)	(12)
ln GDP $_{Source}$	0.321***	0.342***	0.432***	0.375**	0.359***	0.544***
	(0.0782)	(0.0778)	(0.0738)	(0.1455)	(0.1300)	(0.1062)
ln GDP $_{Host}$	0.489***	0.491***	0.532***	0.407***	0.408***	0.572***
	(0.0730)	(0.0729)	(0.0674)	(0.1284)	(0.1254)	(0.1036)
ln Distance	-0.912***	-0.920***		-0.312***	-0.472***	
	(0.0412)	(0.0429)		(0.0716)	(0.0694)	
Common Border	0.566***	0.554***		0.595***	0.376**	
	(0.1155)	(0.1182)		(0.2001)	(0.1695)	
Common Language	0.698***	0.480***		0.498***	0.723***	
	(0.0965)	(0.1086)		(0.1588)	(0.1230)	
ln Trade	0.207***	0.195***	0.178**	0.267***	0.275***	0.00412
	(0.0186)	(0.0187)	(0.0156)	(0.0836)	(0.0822)	(0.0125)
ln Tax	-0.383***	-0.385***	-0.367***	0.1455	0.1525	0.10245
	(0.1014)	(0.1013)	(0.0967)	(0.1242)	(0.1244)	(0.1189)
Human Capital	0.197***	0.193***	0.187***	0.135***	0.131***	0.129***
	(0.0380)	(0.0378)	(0.0365)	(0.0504)	(0.0503)	(0.0494)
Resource Dependence	-0.013**	-0.013**	-0.015**	-0.021***	-0.021***	-0.024***
	(0.0056)	(0.0056)	(0.0057)	(0.0046)	(0.0046)	(0.0046)
Colonial Relationship		0.968***			-0.0993	
		(0.1883)			(0.1640)	
Common Coloniser		0.245**			-1.384***	
		(0.1117)			(0.1964)	
Observations	63,011	63,011	60,233	48,372	48,372	46,240
Estimator	Heckman	Heckman	Heckman	PPML	PPML	PPML
Country FE	Yes	Yes		Yes	Yes	
Time FE	Yes	Yes	Yes	Yes	Yes	Yes
Country-Pair FE			Yes			Yes

Note: Statistical significance is denoted by ***(p<0.01), **(p<0.05), *(p<0.1). Robust standard errors are in parentheses. Observations are clustered within country pairs.

As for the effect of sharing the same coloniser, the probability of engaging in a direct investment relationship increases by 10.23 percent (column 2). The regression coefficients of the control variables in table 3 coincide with the results in table 2 and thus do not require further mentioning. This is true for all, but the corporate tax variable, estimated with the PPML estimator, which also happens to be statistically insignificant. For guidance concerning the interpretation of the control variables in table 3, please refer to the explanations made earlier in this section. As for the two variables of interest in this study, *Colonial Relationship* and *Common Coloniser*, the Heckman sample-selection model and PPML estimator have come to

mixed results. While the Heckman estimation approach presents a statistically significant positive effect of historical colonial ties on inward FDI, namely 163.26 percent, the PPML estimator did not find any statistically significant connection to the dependent variable. Furthermore, the Heckman selection model predicts a 27.76 percent rise in inward FDI stocks in the host country if two colonised countries do indeed share the same coloniser. The PPML estimator, on the other hand, found a statistically significant negative effect on inward foreign direct investment, which exceeds all other coefficient estimates by quite some margin. Overall, the regression results obtained through OLS, Tobit, and Heckman sample-selection estimation suggest that historical colonial ties and common colonial experiences raise the stock of foreign direct investment in the host country and increase the probability that two nations engage in foreign direct investment in the first place. The Poisson pseudo-maximum likelihood estimator, as highlighted by Santos Silva and Tenreyro (2006), largely contradicts these findings or does not find any statistically significant connection between colonial relationships and foreign direct investment whatsoever.

5.2   Robustness

The following regression results allow for a much closer look at the link between colonialism and inward foreign direct investment while employing the same estimation strategies as in the previous section. Except for very few exceptions, the estimation results for the control variables in this section match the ones presented in tables 2 and 3. Host and source countries with higher incomes continue to attract multinational enterprises, while investment costs such as higher corporate income taxes or a greater geographical distance between two countries discourage direct investors to enter a foreign market. As in section 5.1, the effect of corporate taxes on inward FDI in the destination country is statistically insignificant when estimated with the PPML estimator (table 7). Cultural similarities between the source and host country, represented by a common border and common language, extensive trade relations, and better educated employees increase the possibilities of investment. However, a strong dependence on natural resources, which represents a lack of economic diversity in the host country, tends to have a slightly off-putting effect on direct investors. These regression results hold true for all estimators employed in this analysis and coincide with the results of prior studies. Moreover, the gravity model estimations presented in tables 4 to 7 no longer use country-pair fixed effects as this would result in the omission of all variables of interest. One of these variables of interest is *European Settlement*, which indicates the per-centage of European settlers during colonial times (Angeles, 2007). This form of colonialism describes the process of replacing one group of

	ln(FDI) (1)	ln(FDI) (2)	ln(FDI) (3)	ln(FDI) (4)	ln(FDI) (5)	ln(FDI) (6)
ln GDP Source	0.282***	0.319***	0.321***	0.329***	0.315***	0.329***
	(0.0812)	(0.0780)	(0.0779)	(0.0780)	(0.0781)	(0.0779)
ln GDP Host	0.456***	0.454***	0.454***	0.452***	0.449***	0.452***
	(0.0774)	(0.0730)	(0.0730)	(0.0730)	(0.0730)	(0.0730)
ln Distance	-0.916***	-0.902***	-0.904***	-0.921***	-0.895***	-0.919***
	(0.0420)	(0.0426)	(0.0426)	(0.0420)	(0.0423)	(0.0420)
Common Border	0.568***	0.553***	0.531***	0.590***	0.519***	0.568***
	(0.1221)	(0.1175)	(0.1187)	(0.1158)	(0.1188)	(0.1165)
Common Language	0.579***	0.456***	0.483***	0.386***	0.533***	0.389***
	(0.1101)	(0.1074)	(0.1074)	0.1099)	(0.1048)	(0.1100)
ln Trade	0.188***	0.188***	0.189***	0.189***	0.192***	0.188***
	(0.0188)	(0.1836)	(0.0183)	(0.0182)	(0.0184)	(0.0182)
ln Tax	-0.317***	-0.379***	-0.380***	-0.371***	-0.385***	-0.374***
	(0.1068)	(0.1020)	(0.1019)	(0.1020)	(0.1019)	(0.1020)
Human Capital	0.188***	0.196***	0.195***	0.195***	0.196***	0.195***
	(0.0395)	(0.0379)	(0.0380)	(0.0379)	(0.0380)	(0.0379)
Resource Dependence	-0.003	-0.013**	-0.013**	-0.013**	-0.013**	-0.013**
	(0.0100)	(0.0057)	(0.0057)	(0.0057)	(0.0057)	(0.0057)
European Settlement	0.079*					
	(0.0421)					
Common Coloniser	0.228*	0.244**	0.231**	0.256**	0.198*	0.259**
	(0.1209)	(0.1113)	(0.1113)	(0.1127)	(0.1100)	(0.1128)
Former Coloniser Source		1.133***				
		(0.1713)				
Former Coloniser Host		0.599				
		(0.3857)				
Est. before 1858			1.133***			
			(0.2227)			
Est. after 1858			0.101			
			(0.2332)			
Britain				0.586*		0.400
				(0.3434)		(0.3491)
France				1.338***		1.206***
				(0.3173)		(0.3257)
Spain				2.624***		2.305***
				(0.3986)		(0.4832)
Portugal				2.341***		1.914***
				(0.3553)		(0.5162)
Netherlands				0.039		-0.127
				(0.4566)		(0.4447)
Period of Colonial Rule					0.0028***	0.0010
					(0.0009)	(0.0009)
Observations	29,670	32,867	32,867	32,867	32,867	32,867
Source FE	Yes	Yes	Yes	Yes	Yes	Yes
Host FE	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes

Note: Statistical significance is denoted by ***(p<0.01), **(p<0.05), *(p<0.1). Robust standard errors are in parentheses. Observations are clustered within country pairs.

people with another group of people and was often accomplished by resettling, enslaving, or exterminating the native population of a territory. During this process, the settlers typically brought their own believe systems, legal systems, institutions, cultures, and social norms with them (Murrey, 2020). Hence, a positive effect on inward FDI is what this study expects to obtain

	ln(FDI)	ln(FDI)	ln(FDI)	ln(FDI)	ln(FDI)	ln(FDI)
	(7)	(8)	(9)	(10)	(11)	(12)
ln GDP Source	0.335***	0.373***	0.375***	0.383***	0.368***	0.383***
	(0.0592)	(0.0580)	(0.0580)	(0.0579)	(0.0580)	(0.0579)
ln GDP Host	0.469***	0.462***	0.462***	0.461***	0.457***	0.461***
	(0.0642)	(0.0621)	(0.0621)	(0.0620)	(0.0621)	(0.0619)
ln Distance	-0.931***	-0.918***	-0.920***	-0.937***	-0.911***	-0.935***
	(0.0177)	(0.0173)	(0.0173)	(0.0174)	(0.0173)	(0.0174)
Common Border	0.570***	0.550***	0.527***	0.587***	0.515***	0.565***
	(0.0477)	(0.0464)	(0.0465)	(0.0464)	(0.0466)	(0.0467)
Common Language	0.593***	0.473***	0.500***	0.402***	0.550***	0.404***
	(0.0397)	(0.0394)	(0.0391)	(0.0405)	(0.0385)	(0.0405)
ln Trade	0.194***	0.195***	0.197***	0.196***	0.199***	0.195***
	(0.0078)	(0.0075)	(0.0075)	(0.0075)	(0.0075)	(0.0075)
ln Tax	-0.333***	-0.390***	-0.396***	-0.387***	-0.401***	-0.390***
	(0.0998)	(0.0919)	(0.0919)	(0.0918)	(0.0920)	(0.0917)
Human Capital	0.180***	0.190***	0.190***	0.189***	0.190***	0.189***
	(0.0377)	(0.0368)	(0.0369)	(0.0367)	(0.0368)	(0.0367)
Resource Dependence	-0.0024	-0.013*	-0.013*	-0.013*	-0.013*	-0.013*
	(0.0167)	(0.0069)	(0.0069)	(0.0069)	(0.0069)	(0.0069)
European Settlement	0.079***					
	(0.0230)					
Common Coloniser	0.212***	0.230***	0.216***	0.242***	0.183***	0.245***
	(0.0423)	(0.0402)	(0.0402)	(0.0405)	(0.0400)	(0.0405)
Former Coloniser Source		1.130***				
		(0.0718)				
Former Coloniser Host		0.604***				
		(0.1171)				
Est. before 1858			1.133***			
			(0.0703)			
Est. after 1858			0.0993			
			(0.1083)			
Britain				0.590***		0.404***
				(0.1121)		(0.1203)
France				1.330***		1.198***
				(0.1789)		(0.1815)
Spain				2.623***		2.303***
				(0.1721)		(0.1876)
Portugal				2.372***		1.946***
				(0.2422)		(0.2618)
Netherlands				0.0547		-0.1118
				(0.2315)		(0.2347)
Period of Colonial Rule					0.0028***	0.001***
					(0.0002)	(0.0002)
Observations	29,670	32,867	32,867	32,867	32,867	32,867
Source FE	Yes	Yes	Yes	Yes	Yes	Yes
Host FE	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes

Note: Statistical significance is denoted by ***(p<0.01), **(p<0.05), *(p<0.1). Robust standard errors are in parentheses. Observations are clustered within country pairs.

from this variable. The dummy variables *Former Coloniser (source)* and *Former Coloniser (host)* are equal to one if in a colonial relationship the source or the host country is the coloniser and equal to zero otherwise. The rationale behind these two variables is that the direction of colonisation might matter for the final effect on inward foreign direct investment. The question

Table 6: Alternative Measures of Colonialism – Heckman Selection Model

	ln(FDI) (13)	ln(FDI) (14)	ln(FDI) (15)	ln(FDI) (16)	ln(FDI) (17)	ln(FDI) (18)
ln GDP $_{Source}$	0.298***	0.339***	0.341***	0.351***	0.333***	0.349***
	(0.0810)	(0.0779)	(0.0778)	(0.0778)	(0.0781)	(0,0778)
ln GDP $_{Host}$	0.486***	0.492***	0.492***	0.493***	0.484***	0.490***
	(0.0771)	(0.0729)	(0.0729)	(0.0729)	(0.0730)	(0.0729)
ln Distance	-0.929***	-0.920***	-0.922***	-0.941***	-0.912***	-0.937***
	(0.0421)	(0.0428)	(0.0427)	(0.0421)	(0.0424)	(0.0420)
Common Border	0.570***	0.556***	0.534***	0.594***	0.521***	0.571***
	(0.1222)	(0.1179)	(0.1191)	(0.1162)	(0.1191)	(0.1168)
Common Language	0.587***	0.468***	0.495***	0.397***	0.544***	0.399***
	(0.1108)	(0.1079)	(0.1079)	(0.1104)	(0.1052)	(0.1104)
ln Trade	0.193***	0.194***	0.196***	0.195***	0.198***	0.194***
	(0.0190)	(0.0186)	(0.0186)	(0.0185)	(0.0187)	(0.1014)
ln Tax	-0.308***	-0.385***	-0.385***	-0.377***	-0.389***	-0.379***
	(0.1060)	(0.1013)	(0.1013)	(0.1014)	(0.1013)	(0.0377)
Human Capital	0.188***	0.195***	0.195***	0.194***	0.196***	0.194***
	(0.0393)	(0.0378)	(0.0378)	(0.0377)	(0.0378)	(0.0377)
Resource Dependence	-0.002	-0.013**	-0.013**	-0.013**	-0.013**	-0.013**
	(0.0099)	(0.0056)	(0.0056)	(0.0056)	(0.0056)	(0.0056)
European Settlement	0.079*					
	(0.0421)					
Common Coloniser	0.234*	0.252**	0.239**	0.265**	0.205*	0.268**
	(0.1210)	(0.1115)	(0.1115)	(0.1130)	(0.1102)	(0.1131)
Former Coloniser $_{Source}$		1.150***				
		(0.1710)				
Former Coloniser $_{Host}$		0.618				
		(0.3866)				
Est. before 1858			1.154***			
			(0.2235)			
Est. after 1858			0.104			
			(0.2333)			
Britain				0.611*		0.415
				(0.3437)		(0.3493)
France				1.364***		1.224***
				(0.3209)		(0.3291)
Spain				2.641***		2.308***
				(0.3939)		(0.4810)
Portugal				2.410***		1.962***
				(0.3577)		(0.5198)
Netherlands				0.030		-0.145
				(0.4594)		(0.4459)
Period of Colonial Rule					0.0029***	0.0011
					(0.0009)	(0.0009)
Observations	56,032	63,011	63,011	63,011	63,011	63,011
Source FE	Yes	Yes	Yes	Yes	Yes	Yes
Host FE	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes

Note: Statistical significance is denoted by ***(p<0.01), **(p<0.05), *(p<0.1). Robust standard errors are in parentheses. Observations are clustered within country pairs.

remains: is the expected positive effect of historical colonial ties on inward FDI bigger when the colonial relationship was initiated by the source or host country? The answer to this question would allow one to determine which of the two countries in an ex-colonial relationship should be the recipient of foreign direct investment to achieve the highest possible outcome. Next, this

Table 7: Alternative Measures of Colonialism – PPML Estimation

	FDI	FDI	FDI	FDI	FDI	FDI
	(19)	(20)	(21)	(22)	(23)	(24)
ln GDP $_{Source}$	0.364***	0.357***	0.358***	0.354***	0.362***	0.365***
	(0.1302)	(0.1300)	(0.1299)	(0.1282)	(0.1294)	(0.1301)
ln GDP $_{Host}$	0.413***	0.407***	0.408***	0.401***	0.407***	0.406***
	(0.1257)	(0.1255)	(0.1253)	(0.1255)	(0.1250)	(0.1252)
ln Distance	-0.479***	-0.470***	-0.471***	-0.447***	-0.463***	-0.455***
	(0.0714)	(0.0694)	(0.0694)	(0.0694)	(0.0688)	(0.0690)
Common Border	0.386**	0.3791**	0.377**	0.437**	0.439**	0.511***
	(0.1718)	(0.1700)	(0.1697)	(0.1719)	(0.1699)	(0.1720)
Common Language	0.701***	0.720***	0.723***	0.725***	0.727***	0.702***
	(0.1226)	(0.1221)	(0.1223)	(0.1162)	(0.1194)	(0.1163)
ln Trade	0.264***	0.275***	0.276***	0.280***	0.278***	0.279***
	(0.0839)	(0.0821)	(0.0822)	(0.0818)	(0.0820)	(0.0819)
ln Tax	0.1504	0.1513	0.1527	0.1477	0.1519	0.1526
	(0.1288)	(0.1248)	(0.1243)	(0.1248)	(0.1250)	(0.1248)
Human Capital	0.126**	0.131***	0.131***	0.129**	0.131***	0.130***
	(0.0508)	(0.0503)	(0.0503)	(0.0502)	(0.0502)	(0.0500)
Resource Dependence	-0.019*	-0.021***	-0.021***	-0.021***	-0.021***	-0.021***
	(0.0097)	(0.0046)	(0.0046)	(0.0046)	(0.0046)	(0.0046)
European Settlement	0					
	(omitted)					
Common Coloniser	-1.373***	-1.373***	-1.383***	-1.391***	-1.429***	-1.399***
	(0.1978)	(0.1957)	(0.1962)	(0.1879)	(0.1891)	(0.1835)
Former Coloniser $_{Source}$		0.0201				
		(0.1936)				
Former Coloniser $_{Host}$		-0.34043				
		(0.2446)				
Est. before 1858			-0.0989			
			(0.1742)			
Est. after 1858			-0.3016			
			(0.3787)			
Britain				-0.550*		-0.0052
				(0.2952)		(0.3412)
France				0.409**		0.864***
				(0.2014)		(0.2599)
Spain				0.2780		0.8135
				(0.4941)		(0.5498)
Portugal				1.433***		2.145***
				(0.4619)		(0.5389)
Netherlands				-0.2201		-0.0257
				(0.2049)		(0.1978)
Period of Colonial Rule					-0.0011**	-0.001***
					(0.00059)	(0.0006)
Observations	43,587	48,372	48,372	48,372	48,372	48,372
Source FE	Yes	Yes	Yes	Yes	Yes	Yes
Host FE	Yes	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes

Note: Statistical significance is denoted by ***(p<0.01), **(p<0.05), *(p<0.1). Robust standard errors are in parentheses. Observations are clustered within country pairs.

study takes a look at the period during which colonies were established. *Est. before 1858* and *Est. after 1858* are equal to one if a given colonial relationship was formed before or after 1858 and equal to zero otherwise. This study uses the year 1858 as cut-off year because in 1858 the control over India was transferred from the British East India Company to the Crown. As the

interests involved in colonial exploitation widened, from the merchant to the industrial sector as a whole, rule over colonies shifted from private to public (European state) hands. Another example is the transfer of the East Indies (Indonesia) to the Dutch Crown in the 1870s (Omvedt, 1973). Therefore, these two variables examine whether changing colonial intentions and owners of colonies hold importance regarding the effect on inward foreign direct investment. The following five dummy variables are country-specific variables, which are equal to one of the coloniser in a given country pair is either *Britain*, *France*, *Portugal*, *Spain*, or the *Netherlands* and equal to zero otherwise. This study employs these five countries because they were the largest European colonial powers, from the official onset of colonialism in 1492, with the discovery of the Americas, to the unofficial end in 1997, with the return of Hong Kong to Mainland China. Since colonial experiences were not homogeneous across the board, this group of variables will examine whether the heterogeneous nature of European colonialism can also be detected in its effect on inward foreign direct investment.

Finally, the *Period of Colonial Rule* variable indicates the time period during which either the source or host country was under the control of the other country in years. Since historical colonial ties between countries often ranged from being favourable to being hostile for the indigenous people exposed to them, it is uncertain whether or not a longer period of colonial rule would have a positive or negative effect on inward foreign direct investment. However, given that *Colonial Relationship* has shown statistically significant positive effects on inward FDI, the same can be expected for the *Period of Colonial Rule* variable.

Regarding the robustness results in this section, the trend from the previous section holds true. While estimates obtained with OLS, Tobit, and Heckman sample-selection estimators continue to produce statistically significant positive estimates, the PPML estimator either struggles to achieve statistically significant results or presents statistically significant negative effects for key variables such as Common Coloniser and Period of Colonial Rule. The OLS, Tobit model, and Heckman sample-selection estimator predict an 8.22 percent rise in inward FDI stocks if the host country's population had had a one-unit higher percentage of European settlers during colonial times. The results for the Common Coloniser variable are in line with the regression results in section 5.1. OLS, Tobit, and Heckman sample-selection estimates average a 26.28 percent rise in inward FDI stocks if the source and host country in a country pair share the same coloniser. The PPML estimator, on the other hand, found statistically significant negative effects on inward foreign direct investment, which exceed all other estimates by quite some margin. With regard to the dummy variables Former Coloniser (source) and Est. before 1858, the OLS,

Tobit model, and Heckman sample-selection estimator average a 211.93 percent and 212.68 percent increase in aggregate inward foreign direct investment, respectively. Therefore, a colonial relationship formed by the source country produces a bigger increase in inward FDI stocks than a colonial relationship developed by the host country in a country pair. As for the country-specific colonial effects on inward FDI, the OLS, Tobit model, and Heckman sample selection estimator find statistically significant and positive estimates for Britian, France, Spain, and Portugal, with Spain and Portugal showing particularly big coefficient estimates. This is in line with the strongly significant (1 percent sig. level) and positive effect of Est. before 1858 on inward FDI stocks since Spanish and Portuguese colonies were established before 1858. The PPML estimator, on the other hand, finds a statistically significant (10 percent sig. level) negative effect of British colonialism and a statistically significant (1 percent sig. level) positive effect of Portuguese colonialism on inward FDI. Finally, the estimates regarding the Period of Colonial Rule show ambiguous results as well. While the OLS, Tobit model, and Heckman sample-selection estimator average a 0.2836 percent increase in aggregate inward foreign direct investment for one additional year of colonial rule, the PPML estimator predicts a 0.1099 percent decrease in FDI stocks. In conclusion, it can be said that the overwhelming majority of statistically significant effects are positive, although this is predominantly the case for the OLS, Tobit, and Heckman sample-selection estimators. The PPML estimator, on the other hand, did not find many statistically significant effects of colonialism on inward FDI stocks but drew attention with its negative estimates on common colonisers and the period of colonial rule.

6   Conclusion

This analysis investigated the effects of historical colonial ties on inward foreign direct investment. The empirical framework in this study employed a panel dataset on bilateral inward FDI stocks from 191 source countries to 201 host countries, which comprised advanced, emerging, and developing economies. The data covered the period from 2001 to 2012 and had been selected solely based on availability. As in Coeurdacier et al. (2009) and Donaubauer et al. (2020), this study employed augmented gravity models to address the research objectives laid out earlier. Controlling for standard gravity variables and other determinants, this chapter found statistically significant results concerning the effect of historical colonial relationships on inward foreign direct investment. The findings show that historical colonial ties and common colonial experiences between source and host countries lead to more aggregate inward FDI and increase the probability that two countries engage in foreign direct investment in the first place. The fact

that statistically significant positive effects were found for the regression results obtained with OLS, Tobit model, and Heckman sample-selection estimators but not the PPML estimator is in line with findings from Santos Silva and Tenreyro (2006) and Helpman et al. (2008).

This study also took a much closer look at the link between colonialism and foreign direct investment by analysing the effect of European settlement, the direction of colonial procedures, the period during which colonial relationships were formed, country-specific colonial ties, and the duration of colonial rule on inward foreign direct investment. The findings indicate that a larger share of European settlers during colonial times, historical colonial ties initiated by the source country before the Second Industrial Revolution, and longer periods of colonial rule lead to more aggregate inward foreign direct investment in the host country. Again, as with the initial steps of this analysis, OLS, Tobit model, and Heckman sample-selection estimators all confirm these findings with statistically significant positive coefficient estimates, whereas the PPML estimator largely fails to produce statistically significant estimates.

With regard to the brief overview of colonialism in section 3, it must be emphasised that colonial atrocities in the form of territorial domination, land dispossession, resource exploitation, and forced labour do not seem to have a lasting negative impact on present-day investment decisions. Instead, it appears to be more relevant that colonial remnants such as the prevalent use of the coloniser's language, similar institutional structures and business practices, commercial favouritism towards former colonisers, and the dominance of European financial institutions remain key characteristics of postcolonial relationships between European colonisers and colonised countries (Lundan and Jones, 2002). Thus, in order to increase the possibilities of investment, it is recommended for multinational enterprises to invest in countries that were colonised by their home country. Host countries, on the other hand, in pursuit of positive spillover effects, should direct their promotional strategies towards MNEs that are based in former coloniser states. Overall, historical colonial ties between source and host countries lead to more aggregate inward foreign direct investment and increase the probability that two countries engage in foreign direct investment in the first place. Hence, this thesis has shown that historical colonial ties between country pairs do indeed have significant effects on economic transactions, such as foreign direct investment.

7   Appendix

Table A: Sample Countries

Afghanistan	Germany	North Macedonia
Albania	Ghana	Northern Mariana Islands
Algeria	Gibraltar	Norway
American Samoa	Greece	Oman
Andorra	Guam	Pakistan
Angola	Guatemala	Palau
Anguilla	Guernsey	Panama
Antigua and Barbuda	Guinea	Papua New Guinea
Argentina	Guinea-Bissau	Paraguay
Armenia	Guyana	Peru
Aruba	Haiti	Philippines
Australia	Honduras	Poland
Austria	Hong Kong	Portugal
Azerbaijan	Hungary	Puerto Rico
Bahamas	Iceland	Qatar
Bahrain	India	Republic of Congo
Bangladesh	Indonesia	Romania
Barbados	Iran	Russian Federation
Belarus	Iraq	Rwanda
Belgium	Ireland	St. Helena
Belize	Isle of Man	St. Kitts and Nevis
Benin	Israel	St. Lucia
Bermuda	Italy	St. Vincent and the Grenadines
Bhutan	Jamaica	Samoa
Bolivia	Japan	São Tomé and Príncipe
Bosnia and Herzegovina	Jersey	Saudi Arabia
Botswana	Jordan	Senegal
Brazil	Kazakhstan	Serbia
British Indian Ocean Territory	Kenya	Seychelles
British Virgin Islands	Kuwait	Sierra Leone
Brunei Darussalam	Kyrgyzstan	Singapore
Bulgaria	Lao PDR	Slovakia
Burkina Faso	Latvia	Slovenia
Burundi	Lebanon	Solomon Islands
Cambodia	Lesotho	Somalia
Cameroon	Liberia	South Africa
Canada	Libya	South Korea
Cape Verde	Liechtenstein	Spain
Cayman Islands	Lithuania	Sri Lanka
Central African Republic	Luxembourg	State of Palestine
Chad	Macau	Sudan
Chile	Madagascar	Suriname
China	Malawi	Sweden
Colombia	Malaysia	Switzerland
Comoros	Maldives	Syrian Arab Republic
Cook Islands	Mali	Taiwan
Costa Rica	Malta	Tajikistan
Côte D'Ivoire	Marshall Islands	Tanzania
Croatia	Mauritania	Thailand
Cyprus	Mauritius	Timor-Leste
Czech Republic	Mexico	Togo
Democratic Republic of Congo	Micronesia	Tokelau
Denmark	Moldova	Tonga
Djibouti	Monaco	Trinidad and Tobago
Dominica	Mongolia	Tunisia
Dominican Republic	Montenegro	Turkey

Table A: Sample Countries (continued)

Ecuador	Morocco	Turks and Caicos Islands
Egypt	Mozambique	Tuvalu
El Salvador	Myanmar	U.S. Virgin Islands
Equatorial Guinea	Namibia	Uganda
Eritrea	Nauru	Ukraine
Estonia	Nepal	United Arab Emirates
Eswatini	Netherlands	United Kingdom
Ethiopia	Netherlands Antilles	United States
Faeroe Islands	New Caledonia	Uruguay
Fiji	New Zealand	Uzbekistan
Finland	Nicaragua	Vanuatu
France	Niger	Venezuela
French Polynesia	Nigeria	Vietnam
Gabon	Niue	Yemen
Gambia	Norfolk Island	Zambia
Georgia	North Korea	Zimbabwe

Table B: Collinearity Diagnostics

Variable	Tolerance	VIF	SQRT VIF	R-squared
FDI	0.8167	1.22	1.11	0.1833
ln(FDI)	0.4952	2.02	1.42	0.5048
ln GDP $_{Source}$	0.7128	1.40	1.18	0.2872
ln GDP $_{Host}$	0.3394	2.95	1.72	0.6606
ln Distance	0.6174	1.62	1.27	0.3826
Common Border	0.7100	1.41	1.19	0.2900
Common Language	0.5475	1.83	1.35	0.4525
ln Trade	0.6503	1.54	1.24	0.3497
ln Tax	0.7031	1.42	1.19	0.2969
Human Capital	0.3239	3.09	1.76	0.6761
Resource Dependence	0.9786	1.02	1.01	0.0214
Colonial Relationship	0.0165	60.45	7.77	0.9835
Common Coloniser	0.5860	1.71	1.31	0.4140
European Settlement	0.6924	1.44	1.20	0.3076
Former Coloniser $_{Source}$	0.0523	19.11	4.37	0.9477
Former Coloniser $_{Host}$	0.1125	8.89	2.98	0.8875
Est. before 1858	0.0422	23.71	4.87	0.9578
Est. after 1858	0.1167	8.57	2.93	0.8833
Period of Colonial Rule	0.2612	3.83	1.96	0.7388
Regulation Costs	0.5484	1.82	1.35	0.4516
Legal Procedures and Days	0.5728	1.75	1.32	0.4272

Note: a tolerance value close to one represents little multicollinearity, whereas a tolerance value close to zero (<0.25) indicates that multicollinearity could be an issue (Leech et al., 2005). If the VIF is greater than five, the associated regression coefficient might be poorly estimated due to multicollinearity (Daoud, 2017).

Table C: Data Sources

Variable	Source
Foreign Direct Investment (FDI)	United Nations Conference on Trade and Development
Gross Domestic Product (GDP)	World Development Indicators, World Bank Group
Distance, Border, Language, Trade	Centre d'Etudes Prospectives et d'Informations Internationales
Corporate Tax Rates	Corporate Tax Rates Around the World, Tax Foundation
Human Capital (Schooling)	Barro and Lee (2015) and Lee and Lee (2016)
Resource Dependence	World Development Indicators, World Bank Group
European Settlement	Income Inequality and Colonialism (Angeles, 2007)
Former Colonial Powers	Centre d'Etudes Prospectives et d'Informations Internationales
Colonial Relationship Variables	Index of Colonies & Possessions, World Statesmen
Regulation Cost Variables	Doing Business, World Bank Group

Note: the category *Former Colonial Powers* comprises Britain, France, Spain, Portugal, and the Netherlands.

		1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	ln(FDI)	1.000													
2	ln GDP $_{Source}$	0.3694	1.000												
		(0.000)													
3	ln GDP $_{Host}$	0.3038	0.0311	1.000											
		(0.000)	(0.000)												
4	ln Distance	-0.1347	0.0885	-0.0491	1.000										
		(0.000)	(0.000)	(0.000)											
5	Common Border	0.1189	-0.1527	-0.0565	-0.4363	1.000									
		(0.000)	(0.000)	(0.000)	(0.000)										
6	Common Language	0.1489	-0.0845	-0.0874	-0.0544	0.1510	1.000								
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)									
7	ln Trade	0.4840	0.1156	0.2179	-0.2157	0.1843	0.0032	1.000							
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.391)								
8	ln Tax	0.1308	-0.1059	-0.0417	0.2108	-0.0281	0.1532	0.1493	1.000						
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)							
9	Human Capital	0.1649	0.0086	0.7371	-0.1321	-0.0302	-0.2016	0.1285	-0.2353	1.000					
		(0.000)	(0.019)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)						
10	Resource Dependence	-0.0038	0.0375	0.0265	0.0103	0.0066	-0.0189	0.0614	0.0334	-0.1042	1.000				
		(0.457)	(0.000)	(0.000)	(0.004)	(0.070)	(0.000)	(0.000)	(0.000)	(0.000)					
11	Colonial Relationship	0.1293	0.0553	0.0062	-0.0075	0.0370	0.2079	0.0962	0.0309	-0.0321	0.0079	1.000			
		(0.000)	(0.000)	(0.084)	(0.038)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.029)				
12	Common Coloniser	-0.0080	-0.1331	-0.0933	-0.0846	0.1003	0.5295	-0.0392	0.0614	-0.1190	-0.0390	-0.0525	1.000		
		(0.118)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)			
13	European Settlement	0.1569	-0.0136	0.2450	0.2189	-0.0346	0.1691	0.1309	0.2805	0.1666	-0.0433	0.0258	0.2137	1.000	
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)		
14	Period of Colonial Rule	0.0925	0.0357	0.0231	-0.0366	0.0713	0.1491	0.0751	0.0007	-0.0119	0.0013	0.7777	-0.0504	0.0137	1.000
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.860)	(0.001)	(0.723)	(0.000)	(0.000)	(0.000)	

Note: this correlation matrix contains selected variables from the augmented gravity models introduced in section 4.1. The corresponding p-values are in parentheses.

Table E: Heckman Selection Model – Probit Regression

	ln(FDI) (1)	ln(FDI) (2)	ln(FDI) (3)	ln(FDI) (4)	ln(FDI) (5)	ln(FDI) (6)	ln(FDI) (7)	ln(FDI) (8)	ln(FDI) (9)
ln GDP Source	0.1594***	0.1628***	0.1634***	0.1699***	0.1627***	0.1626***	0.1637***	0.1633***	0.1640***
	(0.0515)	(0.0515)	(0.0534)	(0.0546)	(0.0515)	(0.0515)	(0.0515)	(0.0515)	(0.0515)
ln GDP Host	0.6338***	0.6341***	0.645***	0.7118***	0.6341***	0.6340***	0.6346***	0.6346***	0.6345***
	(0.0501)	(0.0501)	(0.0512)	(0.0533)	(0.0501)	(0.0501)	(0.0501)	(0.0502)	(0.0502)
ln Distance	-0.2933***	-0.2944***		-0.3067***	-0.2951***	-0.2951***	-0.2973***	-0.2956***	-0.2967***
	(0.0191)	(0.0192)		(0.0207)	(0.0192)	(0.0192)	(0.0192)	(0.0192)	(0.0192)
Common Border	0.1010*	0.1009*		0.0963	0.1005*	0.0964*	0.1103**	0.0982*	0.1007*
	(0.0534)	(0.0533)		(0.0607)	(0.0534)	(0.0534)	(0.0531)	(0.0534)	(0.0533)
Common Language	0.2294***	0.1567***		0.1803***	0.1526***	0.1566***	0.1490***	0.1544***	0.1473***
	(0.0385)	(0.0443)		(0.0490)	(0.0444)	(0.0439)	(0.0449)	(0.0434)	(0.0449)
ln Trade	0.0678***	0.0648***	0.0654***	0.0664***	0.0646***	0.0650***	0.0649***	0.0647***	0.0643***
	(0.0070)	(0.0070)	(0.0076)	(0.0074)	(0.0070)	(0.0070)	(0.0070)	(0.0070)	(0.0070)
ln Tax	-0.0608	-0.0618	-0.0623	-0.0982	-0.0619	-0.0621	-0.0603	-0.0613	-0.0615
	(0.0680)	(0.0681)	(0.0675)	(0.0814)	(0.0681)	(0.0681)	(0.0681)	(0.0681)	(0.0681)
Human Capital	0.0482*	0.0479*	0.0458*	0.1045***	0.0480*	0.0482*	0.0476*	0.0481*	0.0479*
	(0.0296)	(0.0296)	(0.0302)	(0.0323)	(0.0296)	(0.0296)	(0.0296)	(0.0296)	(0.0296)
Resource Dependence	0.0007	0.0007	0.0008	-0.0121**	0.0007	0.0007	0.0007	0.0007	0.0008
	(0.0033)	(0.0033)	(0.0036)	(0.0056)	(0.0033)	(0.0033)	(0.0033)	(0.0033)	(0.0033)
Colonial Relationship		0.3260***							
		(0.0976)							
Common Coloniser		0.0974**		0.0934*	0.0991**	0.0967**	0.0967**	0.0950**	0.0986**
		(0.0440)		(0.0499)	(0.0440)	(0.0439)	(0.0443)	(0.0437)	(0.0443)
European Settlement				-0.0416*					
				(0.0238)					
Former Coloniser Source					0.3578***				
					(0.1029)				
Former Coloniser Host					0.3264				
					(0.1982)				

Note: statistical significance is denoted by ***(p<0.01), **(p<0.05), *(p<0.1). Robust standard errors are in parentheses. Observations are clustered within country pairs.

Table E: Heckman Section Model – Probit Regression (continued)

	ln(FDI) (1)	ln(FDI) (2)	ln(FDI) (3)	ln(FDI) (4)	ln(FDI) (5)	ln(FDI) (6)	ln(FDI) (7)	ln(FDI) (8)	ln(FDI) (9)
Est. before 1858						0.3753*** (0.1057)			
Est. after 1858						0.1212 (0.1651)			
Britain							0.3373** (0.1653)		0.1311 (0.1756)
France							0.2300 (0.2517)		0.0634 (0.2600)
Spain							0.2493 (0.1748)		-0.1696 (0.2127)
Portugal							0.9049*** (0.2419)		0.3272 (0.2869)
Netherlands							0.0505 (0.2936)		-0.3032 (0.3417)
Period of Colonial Rule								0.0015*** (0.00031)	0.0014*** (0.00042)
Regulation Costs	0.1316*** (0.0352)	0.1326*** (0.0353)	0.1323*** (0.0367)	0.2897*** (0.0360)	0.1324*** (0.0353)	0.1327*** (0.0353)	0.1328*** (0.0352)	0.1321*** (0.0353)	0.1324*** (0.0353)
Legal Procedures and Days	-0.2358*** (0.0358)	-0.2354*** (0.0359)	-0.2358*** (0.0378)	-0.3468*** (0.0403)	-0.235*** (0.0359)	-0.2360*** (0.0359)	-0.2358*** (0.0359)	-0.2358*** (0.0359)	-0.2362*** (0.0359)
Observations	63,011	63,011	60,233	56,032	63,011	63,011	63,011	63,011	63,011
Table 3	Yes	Yes	Yes						
Table 6				Yes	Yes	Yes	Yes	Yes	Yes
Source FE	Yes	Yes			Yes	Yes	Yes	Yes	Yes
Host FE	Yes	Yes			Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-Pair FE			Yes						

Note: statistical significance is denoted by ***(p<0.01), **(p<0.05), *(p<0.1). Robust standard errors are in parentheses. Observations are clustered within country pairs.

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