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

Carolina Moehlecke† Iasmin Goes‡ Ariana Ribeiro Costa§

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Abstract

What drives foreign direct investment (FDI) allocation at the local level? This paper leverages a new municipal-level dataset on FDI transactions to Brazil — the largest recipient of FDI in the developing world — to examine how the political alignment between the municipal and central governments influences investment attraction from 2011 to 2021. Multilevel models of various specifications and a regression discontinuity design show that Brazilian mayors aligned with the president attract more FDI transactions than their non-aligned peers, as alignment signals political stability to foreign investors. Additional tests rule out the role of intergovernmental transfers, investment incentives, and lower regulatory barriers as alternative mechanisms. In examining the still understudied influence of local politics in attracting FDI, our research underscores the heterogeneous effects of global economic integration within countries, showing that specific domestic political dynamics can affect investment decisions.

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

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†Fundação Getulio Vargas, carolina.moehlecke@fgv.br

‡Colorado State University, iasmin.goes@colostate.edu

§Fundação Getulio Vargas, ariana.costa@fgv.br

1 Introduction

Foreign direct investment (FDI) is often analyzed from a global perspective. However, its impacts also manifest at the local level. Foreign capital creates jobs, enhances public infrastructure, reduces inequality, and increases the incumbent party's reelection prospects (Bunte et al. 2018; Jensen and Rosas 2007; Owen 2019). Unsurprisingly, state and local governments spare no effort in trying to attract FDI. They promote overseas investment missions (McMillan 2009), set up international investment offices and promotion agencies (Bauerle Danzman and Slaski 2022), distribute generous investment incentives (Baccini et al. 2018), attend "networking events" — including soccer games and Taylor Swift concerts — to rub shoulders with potential investors (Hamilton 2024), and claim credit for boosting the economy (Jensen and Malesky 2018). But what aspects of subnational politics, if any, effectively play a role in attracting FDI to specific states and municipalities? This paper examines a relevant, but unstudied determinant of municipal-level FDI attraction: the political alignment between mayors and the central government.

We argue that political alignment signals to foreign investors that a given municipality is a priority for the central government. Alignment indicates a higher probability of sustained resource flows (of various kinds) and a lower risk of adverse actions from the central government. As a reward for political loyalty and a tool to consolidate political support, for example, aligned municipalities across several countries typically receive more transfers and benefits from central administrations (Brollo and Nannicini 2012; Berry et al. 2010; Arulampalam et al. 2009; Migueis 2013). By fostering a stable relationship between central and local governments, alignment signals continuity, which produces a favorable environment for long-term economic commitments like FDI. As a result, municipalities should attract more FDI when their mayors are the central government's co-partisans or political allies.

We test our argument using an original dataset of all FDI transactions received by each Brazilian municipality between 2011 and 2021. As the largest recipient of FDI in the developing world (UNCTAD 2022), Brazil is a democratic federation with high party fractionalization and where political alignment plays a significant role (Novaes 2018; Zucco and Power 2024). Given the hi-

erarchical structure of our data, with 5,570 municipalities nested within 26 states, we estimate multilevel regression models of different specifications, controlling for several municipal-level political, social, and economic covariates. We also implement a close-election regression discontinuity design (RDD) that leverages the as-if random assignment of candidates who narrowly win or lose an election.

Both empirical approaches show that local-level political alignment significantly increases the count of FDI transactions, an effect that is robust to different specifications. The RDD allows us to make causal statements about close elections, whereas the multilevel models allow us to identify broader trends across the entire sample, reinforcing the generalizability of our results. We then explore multiple mechanisms that can explain this relationship. Aligned municipalities might receive more intergovernmental transfers or investment incentives, enable lower regulatory barriers, or simply signal overarching political stability to foreign investors. Our tests rule out transfers, incentives, and regulatory barriers as direct mechanisms, suggesting that broad perceptions of political stability are the most likely explanation. We complement these findings with qualitative evidence indicating that investors pay attention to local politics and value the benefits stemming from political alignment, as intangible as these may be.

An emerging literature examines how ideology and partisanship as aspects of subnational politics attract FDI (Garriga and Phillips 2022; Garriga 2022; Halvorsen and Jakobsen 2013; Simmons et al. 2018). Given the challenge of retrieving disaggregated investment data, these studies tend to use states — not municipalities — as the unit of analysis (see Arvate and Story 2021 and Owen 2019 for exceptions). Yet there is often significant social, political, and economic heterogeneity within states that can mask variation in how political dynamics affect investment. In eliminating national and state level noise, our granular data enable a clean test of causal mechanisms, using quasi-experimental evidence to reduce confounding.

Ultimately, firms invest in municipalities, which are embedded in state, national, and global economic patterns. In this sense, we join a growing number of researchers who explicitly acknowledge the interface between local and global political economy (Ballard-Rosa et al. 2021;

Rickard 2022), extending the topic to developing countries (Rickard 2020). In addition, we contribute to an established body of work identifying the local consequences of political alignment, which include more transfers and less crime, but also lower-quality health services (e.g. Alberti et al. 2022; Migueis 2013; Callen et al. 2020; Brollo and Nannicini 2012). Besides connecting scholarship about political alignment with the FDI literature, our results offer practical insights to local policymakers, who are always eager to attract foreign investment.

2 Literature Review: How Local Factors Attract FDI

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

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

and salaries may encourage firms to spread to contiguous locations. But this, in turn, bolsters the development of metropolitan areas, an important determinant of firm location itself (Crescenzi et al. 2019).

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

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

At the end of the day, local politics does not happen in a vacuum, as it is embedded in national politics. Despite the administrative autonomy that states and municipalities enjoy in different countries, their relationship with the central government shapes how they operate. In what follows, we explore one still unstudied aspect of local politics in attracting global capital:

political alignment, that is, the extent to which local politicians are allies or opponents of the central government.

3 Argument

Investors make their location decisions sequentially, choosing a host country before deciding on the specific location (Mataloni Jr 2011; Bauerle Danzman and Slaski 2021).[1] Once a host country is chosen, we expect foreign investors to favor municipalities whose local governments are politically aligned with the central government, all else equal. The thrust of our argument is that political alignment signals to investors that the municipality is more likely to be prioritized by the central government. A close and stable relationship between the two levels of government benefits the municipality and thus the MNC, increasing the odds that investors choose a politically aligned municipality over a non-aligned one. For our argument to hold, two aspects are necessary: first, central governments must prioritize aligned municipalities; second, investors must value the benefits of alignment.

On the first aspect, an extensive literature shows that aligned local governments request and receive more resources (of various kinds) from the central administration than non-aligned ones (Goldstein and You 2017; Meireles 2018). This evidence spans countries like Brazil (Brollo and Nannicini 2012; Meireles 2018), Chile (Alberti et al. 2022), Croatia (Glaurdić and Vuković 2017), India (Arulampalam et al. 2009), Italy (Bracco et al. 2013), Portugal (Migueis 2013), Spain (Solé-Ollé and Sorribas-Navarro 2008), and the US (Berry et al. 2010). Intergovernmental transfers to aligned municipalities not only reward and secure local allies, but also punish political opponents: as more resources go to friends, fewer resources are available to foes (Martin 2003; Brollo and Nannicini 2012). A related strategy is to bypass local-level opponents by distributing resources to non-state organizations instead (Bueno 2018). Either way, aligned municipalities receive better treatment, reflecting national leaders' desire to maximize support at the local, state, and national

[1] This assumption is further corroborated by subnational investment promotion agencies (IPAs) that often provide services aimed at helping foreign investors to find the most appropriate municipalities for their operations within a given host country.

levels (Stokes et al. 2013; Koter 2013; Zarazaga 2014; Novaes 2018; Zucco and Power 2024).

On the second aspect, a cohesive relationship between local and central authorities benefits not only the municipality but the investor choosing it. In the short term, investing in an aligned municipality should increase the odds that the MNC will have a favorable environment to establish itself upfront and further develop (Barry 2018). In the long run, alignment signals an increased likelihood of continuity, as many countries allow mayors to serve two consecutive terms and even run again after a break (Aragón and Pique 2020; Kouba 2024). Even if mayors are not reelected, parties and coalitions pursue continuity in office (Arulampalam et al. 2009), and often succeed in this goal precisely because of the benefits of alignment. Such continuity is valuable for investors: it indicates that resources will keep flowing to the host municipality and that there is a lower likelihood of punishment by the central government (Brollo and Nannicini 2012). More generally, alignment reduces the likelihood that the central government will take actions that may harm the municipality (and the investment) and, conversely, that the mayor will avoid making any decisions that put the two levels of government on a collision course.

Evidently, investors have no guarantee that an aligned municipality today will remain aligned in the future. However, since FDI is a long-term commitment, MNCs should prefer to place their investment in locations with higher odds of continuity. In fact, the benefits of political alignment might even transcend the term of an aligned mayor, since many of these benefits are sunk costs that cannot be reversed by a change in alignment status in the short term (e.g., a new bridge or road built with resources transferred from the national-level ally). In short, the fact that political alignment signals continuity, even if bounded in time, leads investors to prefer aligned municipalities over non-aligned ones.

H1: *Aligned local governments will attract more FDI than non-aligned ones, all else equal.*

Our argument that political alignment yields benefits to both municipalities and investors is deliberately general. There is high heterogeneity across what specific aligned municipalities

want from the central government as well as what foreign investors need from an aligned municipal administration. Knowing that aligned municipalities receive more transfers from the federal government, some investors might be interested in locations with access to a continuous supply of funding for infrastructure and public goods provision. Others may be less interested, assuming that intergovernmental transfers have little or no benefit due to poor implementation (Brollo et al. 2013; Gadenne 2017). MNCs may also believe (rightly or not) that investment incentives depend on a good relationship between the local and central governments, especially in federal systems with extensive fiscal redistributive transfers. Alternatively, foreign investors might assess that well-connected mayors have better access to national authorities who can accelerate regulatory processes and avoid excessive red tape. Better fiscal management and lower administrative burdens are notorious for facilitating FDI (Tomasi et al. 2023), although it is less clear whether they depend on political alignment.

Ultimately, the question of whether one or more of the aforementioned mechanisms (*more transfers, more incentives, or lowered regulatory barriers*) explains a relationship between political alignment and FDI attraction at the local level is empirical. More generally, it could simply be that foreign investors value the *overarching political stability* that alignment signals. As well-connected mayors are more likely to have a cooperative relationship, the central government should refrain from taking actions that could harm its local allies and, as a consequence, the foreign investments in their jurisdictions. Considering that investors' reasoning about where to locate abroad is multidimensional (Maitland and Sammartino 2015), political alignment is a factor that can reduce the liability of foreignness for MNCs at the local level (Belderbos et al. 2020).

4 Case Selection and Data

We test *H1* and its potential mechanisms using data from Brazil. As the largest FDI recipient in the developing world (UNCTAD 2022), Brazil is a federal presidential democracy that delegates substantial decision-making authority to its municipalities, and where political alignment plays

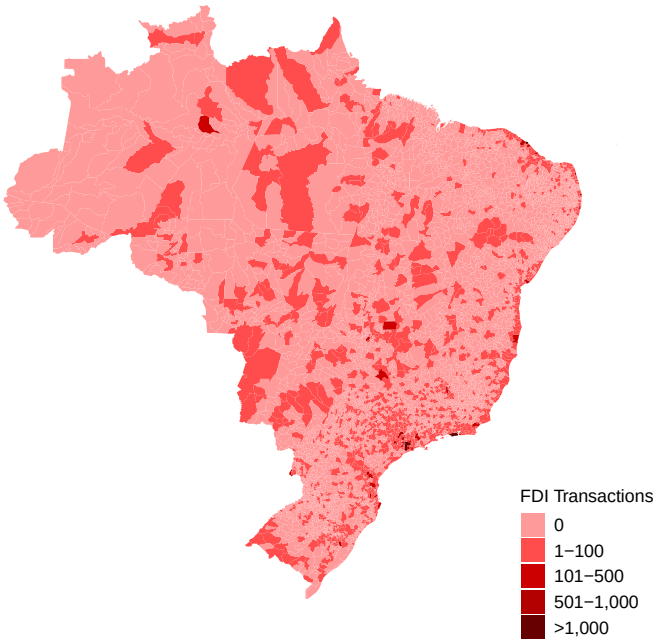
a key role in intergovernmental relations. Mayors value alignment because they derive direct benefits from it (Brollo and Nannicini 2012; Bueno 2018; Meireles 2018); and, for the president, having aligned mayors is key to achieve governability. In Brazil, mayors are key brokers of Members of Parliament (Novaes 2018), elected to the lower house of the National Congress every four years. Mayoral victories are thus strategic for parties and coalitions, as aligned mayors can later serve as brokers for their MPs — and these, in turn, make the president's life easier (Zucco and Power 2024). Brazilian presidents (or aspiring presidents) care so much about local-level support that they directly campaign for mayoral candidates (Ribeiro 2024). These characteristics render Brazil an ideal case for our study.

4.1 Outcome Variable: FDI Transactions

We employ an original source of highly disaggregated FDI data in Brazil. From January 1, 2012 to December 31, 2021, the Brazilian Central Bank recorded 45,337 unique FDI transactions into the country. We used Brazil's nationwide registry of corporations to match each transaction to one of the country's 5,570 municipalities (see Appendix F for a list of data sources), aggregating all unique transactions to the municipality-year level to generate the variable *FDI Transaction Count*.[2] As Figure 1 illustrates, the geographic distribution of the transaction counts is as expected: excluding São Paulo and Rio de Janeiro — with 18,181 and 5,162 transactions, respectively —, the average municipality attracted 0.814 transactions each year, and 4,382 did not attract a single transaction during this period.

[2]The *value* of each individual FDI transaction is confidential information, which prevents us from obtaining the total amount of FDI received by each municipality. However, in 2015 and 2020, the Brazilian Central Bank disclosed information about the value of FDI transactions aggregated by state. At the state level, the transaction *count* is strongly correlated with the transaction *value* ($\rho = 0.908, p = 0.000$), so we assume a similarly strong correlation at the municipal level. Using Brazil's Central Bank data is not only feasible (per the high correlation above) but also advantageous relative to proprietary alternatives (e.g. fDi Markets) that prevent data from being shared and rely on information about all announced FDI projects (rather than just those that were implemented).

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



This figure shows the total number of FDI transactions to Brazil's 5,770 municipalities between 2012 and 2021.

4.2 Independent Variable: Political Alignment

As noted, Brazil is a presidential democracy whose federal structure grants significant autonomy to its 5,570 local governments, sorted into 26 states and one federal district. There are general elections for president, state governors, and the national Congress every four years, with midterm elections for mayors and city councils. All municipalities follow a mayor-council system, with directly elected mayors who hold substantial executive powers.[3]

We use data from the Superior Electoral Court (Tribunal Superior Eleitoral, TSE) to identify 1) the winner of all mayoral elections in 2008, 2012, 2016, 2020, and in over 500 special elections used to fill vacant mayor seats;[4] 2) the winner's margin of victory (that is, the difference in the share of votes between the winner and the runner-up);[5] and 3) the winner's party affiliation during each

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

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

[5]In municipalities with over 200,000 registered voters, there is a run-off election if no candidate receives over 50

year of their term.

Our main independent variable is *Political Alignment* between the local and national governments. This variable takes the value of 1 if the mayor's party is a member of the president's support coalition in the lower chamber of Congress in a given year and 0 otherwise. Each time a motion is put to a vote in the lower chamber of Congress, the president issues a voting recommendation, reflecting the historical Latin American dynamic of "proactive presidents" and "reactive assemblies" (Cox and Morgenstern 2001). Accordingly, we consider that a party is a member of the president's support coalition if the voting recommendation issued by the party leadership aligns with the president's voting recommendation at least 90 percent of the time. Our measure builds on and improves upon a similar measure for local-level alignment in Brazil developed by Power and Rodrigues-Silveira (2019): it accounts for party switching and special elections, expands the coverage until 2021, and is more explicit about the criteria for determining support coalition.[6] In line with Hypothesis 1, we expect *Political Alignment* to have a positive effect on FDI attraction.

4.3 Control Variables

The Brazilian party system is highly fragmented (Samuels and Zucco 2014). The Database of Political Institutions' fractionalization variable, which measures the "probability that two deputies picked at random from the legislature will be of different parties" (Cruz et al. 2021), attributes an average value of 0.93 to Brazil between 2011 and 2020. The 513 MPs elected to the lower house of Congress in 2010 and 2018 came from 22 and 30 different parties, respectively (Caesar 2018), reflecting high mobility across parties (Desposato 2006). Even presidents might switch parties while in power, as Jair Bolsonaro (2019–2022) did. Still, this phenomenon is more widespread among local politicians, who often join the party of a newly elected president or governor to gain influence and privileged access to federal and state resources. In our sample, the median mayor

percent of the votes. In these cases, we only use the run-off results.

[6] Appendix C presents models with a narrower definition of alignment that only takes the value of 1 if the mayor and the president belong to the same party, in addition to models with less strict alignment thresholds (70 and 80 percent) or with various lags of *Political Alignment*.

does not change parties, but some change as many as three times during a regular four-year term. Correspondingly, *Mayor Party Switch* indicates whether the same individual changed parties from one year to another; a change prompted by the election of a new mayor from a different party does not count as a switch. A switch to the president's party — from non-alignment to alignment — may be construed as a positive signal by investors and promote FDI.

We also control for *Mayor Ideology*, the ideology of the mayor's party, which ranges from −1 (extreme left) to 1 (extreme right), using data from Zucco and Power (2024); the winner's *Margin of Victory* (which, as a reminder, is the difference in the share of votes between the winner and the runner-up); *Mayoral Election Year*; and *Mayor Second Term*, as electoral rules only allow mayors to serve for two full consecutive firms.

Beyond politics, models control for economic and geographic factors associated with FDI attraction. This includes *GDP* (in current Brazilian reais) and *Population Density* (total population divided by total area), using data from the Brazilian Institute of Geography and Statistics (IBGE), as well as the percentage of *STEM Workers* (engineers, mathematicians, statisticians, computer scientists, physicists, chemists, and biologists, as labeled by the Brazilian Classification of Occupations) and *Manufacturing Workers*, using the Ministry of Labor's RAIS database. All four variables are logged; in logging them, we add zero to all municipalities and years with no STEM or manufacturing workers. We operationalize degree of economic concentration using the Hirschman-Herfindahl (HH) index, the sum of the squared share of workers in each sector (following the sectors set by the National Classification of Economic Activities), with data from the Ministry of Labor's RAIS database. When employment is diversified, the HH index is closer to zero; when workers cluster in just a few sectors, the index is closer to 1. The municipal homicide rate (out of 100,000, logged), reported by DATASUS (the Ministry of Health's administrative dataset), serves as a measure of "diseconomies of scale." Finally, two dichotomous, time-invariant measures indicate the presence of a public airport or port (maritime, river, or lake), reported by the Civil Aviation Agency and the Federal Revenue Service, respectively.

5 Evidence from Multilevel Models

5.1 Model Specification

Count dependent variables are often modelled using a Poisson model. This assumes that the counts follow a Poisson distribution, where the mean and the variance are equal. Still, *FDI Transaction Count* suffers from overdispersion: its variance (675.136) is considerably larger than its mean (0.814). A more suitable alternative, the negative binomial distribution, allows the variance to exceed the mean, providing greater flexibility in modeling overdispersed variables. The negative binomial model incorporates an additional parameter, the dispersion parameter, that accounts for unobserved heterogeneity or extra variability in the data. In addition, *FDI Transaction Count* contains an excess of zeros, as nearly 80 percent of all municipalities did not attract a single transaction between 2012 and 2021. Therefore, we also estimate a zero-inflated negative binomial model, combining a negative binomial model with a logistic regression that predicts the occurrence of excess zeros; both use the same set of predictors.

Our data exhibit a hierarchical structure: municipalities within the same state are likely more similar to each other than to municipalities from different states, and municipalities in one year are likely more similar to each other than to municipalities in other years. For this reason, we estimate multilevel models with state and year random intercepts.[7] Random intercepts estimate a single variance parameter for the distribution of state-specific or year-specific intercepts. This captures unobserved differences between states, for example, which may be due to cultural, economic, or geographic factors that are difficult to quantify. By assuming that the state-specific intercepts are drawn from a common distribution, the model pools information across states, particularly for states with smaller sample sizes. This helps stabilize parameter estimates and improves the reliability of inference.

In Appendix B, we present the results for fixed effect models, which are substantively and

[7] We also estimated models with random intercepts for each municipality, rather than state. However, these models did not converge, possibly due to the large number of units and the fact that municipality random intercepts are strongly correlated with other predictors.

statistically the same. However, including fixed effects for every state results in a model with a large number of parameters, making interpretation more challenging. In particular, negative binomial models with fixed effects do not correctly control for time-varying covariates and often fail to converge (Allison and Waterman 2002), hence our preference for random effects.

5.2 Results

Table 1 presents evidence supporting Hypothesis 1. In this table, Models 1, 2, and 3 correspond to Poisson, negative binomial, and zero-inflated negative binomial models, respectively. For every model, the coefficients indicate how a one-unit increase in the corresponding predictor variable affects the logged incidence rate of *FDI Transaction Count*. Exponentiating each coefficient leads to its incidence rate ratio, which allows for an easier interpretation of effects.

To compare the relative fit of these models, we examine the Akaike information criterion (AIC) — which penalizes models for having more parameters — and the log-likelihood — which measures how well the model explains the observed data. A lower AIC value and a higher log-likelihood value indicate a better fit. By both metrics, the zero-inflated negative binomial model outperforms the other two models. Yet all models agree: holding all other variables constant at their mean (for continuous variables) or reference category (for dichotomous variables), politically aligned municipalities attract 12.7 to 16.2 percent more FDI transactions ($e^{0.12} = 1.127$, $e^{0.15} = 1.162$) than non-aligned municipalities. This effect is positive and statistically significant across all models ($p < 0.05$). It is also robust to a series of changes reported in Appendix B — for example, replacing random effects with fixed effects, including a lagged dependent variable, excluding Rio de Janeiro or São Paulo, lagging political alignment at $t - 2$, or using a continuous measure of political alignment. Put simply, mayors are better equipped to attract FDI when their party's voting recommendations follow the voting recommendations of the president in Congress.

As an aside, we recognize that one should not attach too much meaning to control variables (Hünermund and Louw 2020), yet ours mostly showcase effects consistent with existing research.

Table 1: The Effect of Political Alignment on FDI Transactions

	FDI Transaction Count		
	(1)	(2)	(3)
	Poisson	Neg. Bin.	Zero-Infl. Neg. Bin.
Political Alignment, $t-1$	0.12^{***}	0.15^{***}	0.12^{**}
	(0.01)	(0.05)	(0.06)
Mayor Party Switch, $t-1$	-0.19^{***}	-0.13	0.01
	(0.03)	(0.09)	(0.11)
Margin of Victory, $t-1$	0.02	0.14	0.07
	(0.03)	(0.09)	(0.11)
Mayor Ideology, $t-1$	0.07^{***}	0.02	0.02
	(0.02)	(0.05)	(0.06)
Mayoral Election, $t-1$	-0.58^{***}	-0.38^{*}	-0.21
	(0.13)	(0.21)	(0.20)
Mayor Second Term, $t-1$	-0.11^{***}	0.04	0.07
	(0.02)	(0.06)	(0.06)
GDP (Log), $t-1$	1.19^{***}	0.94^{***}	0.73^{***}
	(0.01)	(0.02)	(0.03)
Population Density (Log), $t-1$	0.05^{***}	0.16^{***}	0.08^{***}
	(0.01)	(0.02)	(0.02)
STEM Workers, % (Log), $t-1$	0.27^{***}	0.09^{***}	0.16^{***}
	(0.01)	(0.03)	(0.04)
Manufacturing Workers, % (Log), $t-1$	-0.32^{***}	-0.22^{***}	-0.37^{***}
	(0.01)	(0.02)	(0.03)
Economic Concentration (HHI), $t-1$	-0.80^{***}	-2.55^{***}	1.50^{***}
	(0.12)	(0.20)	(0.32)
Homicides per 100k (Log), $t-1$	-0.16^{***}	0.02	-0.05^{**}
	(0.01)	(0.02)	(0.02)
Airport	0.04^{**}	0.06	-0.07
	(0.02)	(0.05)	(0.06)
Port	-0.07^{***}	0.31^{***}	0.26^{***}
	(0.02)	(0.11)	(0.09)
Intercept	-16.94^{***}	-14.27^{***}	-9.89^{***}
	(0.28)	(0.40)	(0.46)
AIC	48294.60	32789.99	31067.32
Log Likelihood	-24130.30	-16377.00	-15499.66
Observations	51667	51667	51667
Number of States	26	26	26
Number of Years	10	10	10
Variance: States (Intercept)	0.85	0.95	0.75
Variance: Years (Intercept)	0.27	0.17	0.12

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

For example, *Mayor Ideology* has no significant effect across all three models, reflecting the mixed evidence that rulers on the left (Pinto and Pinto 2008; Garriga 2022) or on the right (Arvate and Story 2021; Wang and Heyes 2021) are better able to attract FDI. *Economic Concentration* indicates that areas with less economic diversity attract less foreign capital, as expected (Belderbos et al.

2020), although the zero-inflated negative binomial model shows an inverse sign. And consistent with evidence from Mexico (Escobar Gamboa 2012; Garriga and Phillips 2022), higher homicide rates tend to dampen FDI.

6 Evidence from Close Elections

6.1 Model Specification

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

We structure our analysis much like Alberti et al. (2022), who use an RDD to show that political alignment reduces crime in Chile. Our outcome, like the authors', is a count (not logged). Like the authors, we restrict the sample to all elections in which 1) more than one candidate received valid votes[8] and 2) the two most-voted candidates have different alignments (excluding instances where both are aligned, for example, or both are non-aligned). As before, we account for supplementary elections. Like Alberti et al. (2022), our running variable is *Margin of Victory, Aligned Candidate*, which is the difference in the share of votes between the aligned and the non-aligned candidate in the mayoral election (not to be confused with the winner's *Margin of Victory* used in the previous section). Positive values indicate that the aligned candidate won the election, whereas negative

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

values indicate the aligned candidate lost. The probability of treatment (that is, the the probability that the mayor is aligned) jumps from 0 to 1 at the margin of victory cutoff.

The key assumption of a close-election RDD is that candidates just above the cutoff are similar to those just below the cutoff, with the only systematic difference being that one narrowly won and the other narrowly lost. In Appendix D, we provide evidence that this so-called continuity assumption holds for most pre-treatment covariates, with two exceptions: *Mayor Party Switch* and *Mayor Ideology*. These two covariates are not balanced, which means their distributions are not statistically similar between groups: a narrow winner is significantly less likely to switch parties than a narrow loser ($p = 0.006$), and a narrow winner is significantly more conservative (i.e., has a larger value of *Mayor Ideology*) than a narrow loser ($p = 0.000$). This imbalance could affect the validity of the RDD, which is why we control for these covariates when estimating the model.

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

6.2 Results

Table 2 confirms our previous finding that aligned mayors attract more FDI, even after controlling for potential sources of imbalance, as Model 2 does. Now, the coefficients are equivalent to those of a linear model, so political alignment increases the expected number of FDI transactions by 0.14. Not only is this effect statistically significant, it also carries substantive meaning, given that most municipalities attract no FDI at all. Figure 2 provides a graphical representation of this effect, including only observations within the optimal, MSE-minimizing bandwidth selected by *rdrobust*.

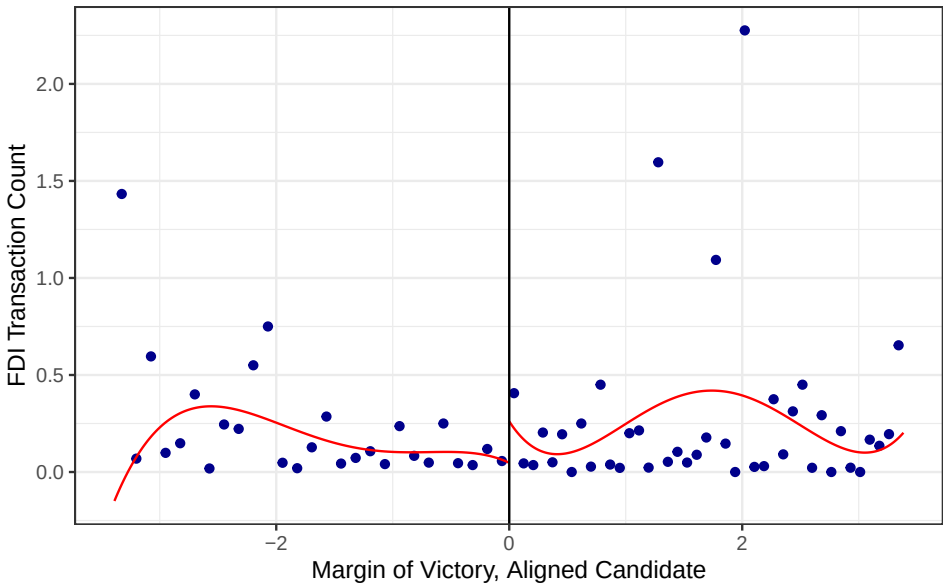
The red line represents the local polynomial smoothing, and the blue dots represent the evenly spaced bins of the running variable. Blue dots above the cutoff represent municipalities with aligned mayors, whereas blue dots below the cutoff represent municipalities with non-aligned mayors.

Table 2: The Effect of Political Alignment on FDI Transactions

	FDI Transaction Count	
	(1)	(2)
	No Covariates	Covariate-Adjusted
Political Alignment	0.15^{**}	0.14^{**}
	(0.03)	(0.04)
Bandwidth (MSE)	3.39	3.39
Eff. Observations (Left)	1565	1565
Eff. Observations (Right)	1694	1694

This table presents the results of two regression discontinuity models with robust p-values. All models cluster standard errors by municipality and election cycle. Model 2 includes the covariates *Mayor Party Switch* and *Mayor Ideology*. $^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

Figure 2: The Effect of Political Alignment on FDI Transactions



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

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

7 Why Alignment Attracts FDI

Having shown evidence that political alignment is associated with more FDI transactions, we return to our discussion on the potential mechanisms underlying this relationship. According to section 3, alignment may increase FDI at the local level by leading to (1) more intergovernmental transfers; (2) more investment incentives; (3) lower regulatory barriers; (4) and/or overarching perceptions of political stability by foreign investors. For any mechanism to hold true, it must be significantly *affected* by alignment while also significantly *affecting* FDI.

To examine whether aligned municipalities attract more FDI due to a higher volume of intergovernmental transfers, we use National Treasury data on two types of transfers from federal to municipal governments (in Brazilian reais, per capita). Non-discretionary transfers (*Fundo de Participação do Municípios*, or FPM) follow strict population thresholds,[9] whereas discretionary transfers (*convênios*) follow no pre-established set of criteria.[10]

To assess whether alignment increases federal investment incentives, which in turn might attract more FDI, we employ data published by the Federal Revenue Service in 2024. This dataset

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

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

records the name and identification number of every firm that benefited from one of Brazil's 24 federal incentive programs since 2015, including the equivalent amount of tax revenue foregone by the federal government. We match this information with our firm-level FDI data; the resulting variable reflects the total amount of *Investment Incentives* (in Brazilian reais, per capita) granted to foreign firms, by municipality and year.

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

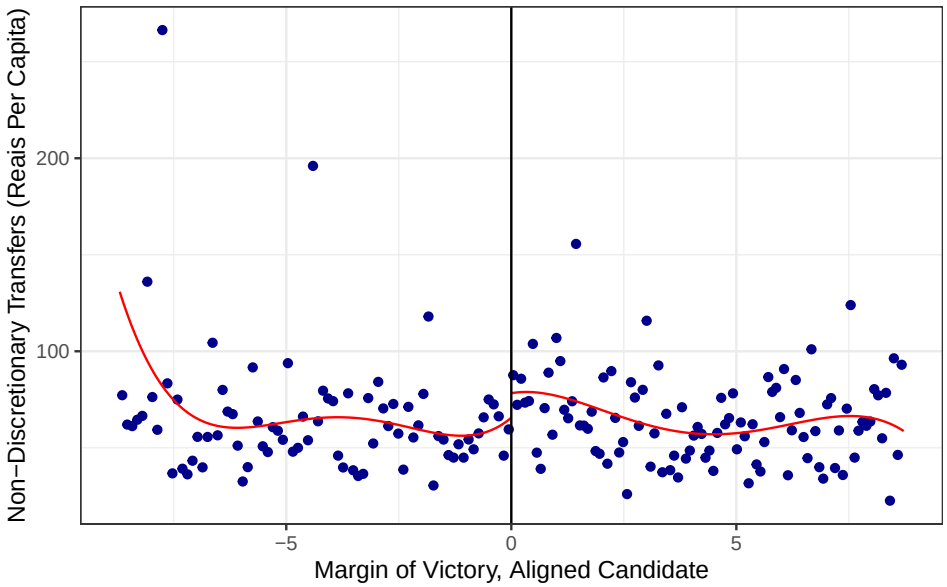
Table 3: The Effect of Political Alignment on Intergovernmental Transfers, Investment Incentives, and Regulatory Barriers

	Non-Discretionary Transfers	Discretionary Transfers	Investment Incentives	Fiscal Management	Time to Register a Business
	(1)	(2)	(3)	(4)	(5)
	2012–2021	2012–2021	2015–2021	2013–2021	2019–2021
Political Alignment	20.04	22.05***	−3.46	0.01	−2.08
	(0.56)	(0.00)	(0.10)	(0.61)	(0.66)
Bandwidth (MSE)	15.08	8.72	11.74	12.47	16.12
Eff. Observations (Left)	5614	3658	4021	4364	1629
Eff. Observations (Right)	6003	3839	4137	4480	1757

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

Table 3 presents the results of five RDDs examining how alignment affects the potential mechanisms, controlling for *Mayor Party Switch* and *Mayor Ideology* (as before). Alignment has no discernible effect on non-discretionary transfers, investment incentives, fiscal management or time to register a business. Consistent with previous studies, we find that aligned mayors receive significantly more discretionary transfers than their non-aligned counterparts (Model 2), an effect illustrated by Figure 3. Compared to municipalities where the aligned candidate barely lost, municipalities where the aligned candidate barely won receive an average of 22.05 additional reais

Figure 3: The Effect of Political Alignment on Discretionary Transfers



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

per capita in discretionary transfers. For context, the median municipality received 30.56 reais per capita in discretionary transfers between 2015 and 2021, suggesting that alignment can make a substantial — and statistically significant — difference.

In sum, of the three potential mechanisms, only discretionary transfers are affected by political alignment. Qualitative evidence confirms this link. The mayor of Várzea Grande (MT), population of 300,000, believes "all municipalities need to be aligned with the state government and the federal government" because the municipality is "where citizens need care, a doctor, paved roads, and garbage collection" (Assunção 2022). Non-discretionary transfers are insufficient to provide these public goods: "with the FPM alone, there is nothing I can do," says the mayor of Careiro (AM), population 38,800 (Portinari 2020). The same mayor considers discretionary transfers to be much more effective, even if opaque: "There is this thing from the government support coalition. I can't tell you how it works, but they have a way of releasing funds."

Discretionary transfers are thus *affected* by political alignment. But do they *affect* FDI? Ta-

Table 4: The Effect of Political Alignment and Intergovernmental Transfers on FDI Transactions

	FDI Transaction Count		
	(1)	(2)	(3)
	Poisson	Neg. Bin.	Zero-Infl. Neg. Bin.
Discretionary Transfers (Log), $t-1$	-0.02^{***}	-0.03^{***}	-0.04^{**}
	(0.00)	(0.01)	(0.01)
Political Alignment, $t-1$	0.12^{***}	0.15^{***}	0.12^{**}
	(0.01)	(0.05)	(0.06)
Mayor Party Switch, $t-1$	-0.19^{***}	-0.13	0.02
	(0.03)	(0.09)	(0.11)
Margin of Victory, $t-1$	0.04	0.14	0.08
	(0.03)	(0.09)	(0.11)
Mayor Ideology, $t-1$	0.07^{***}	0.02	0.02
	(0.02)	(0.05)	(0.06)
Mayoral Election, $t-1$	-0.59^{***}	-0.40^{*}	-0.23
	(0.13)	(0.22)	(0.20)
Mayor Second Term, $t-1$	-0.10^{***}	0.05	0.08
	(0.02)	(0.06)	(0.06)
GDP (Log), $t-1$	1.19^{***}	0.93^{***}	0.73^{***}
	(0.01)	(0.02)	(0.03)
Population Density (Log), $t-1$	0.05^{***}	0.16^{***}	0.08^{***}
	(0.01)	(0.02)	(0.02)
STEM Workers, % (Log), $t-1$	0.27^{***}	0.08^{***}	0.14^{***}
	(0.01)	(0.03)	(0.04)
Manufacturing Workers, % (Log), $t-1$	-0.32^{***}	-0.22^{***}	-0.37^{***}
	(0.01)	(0.02)	(0.03)
Economic Concentration (HHI), $t-1$	-0.80^{***}	-2.56^{***}	1.43^{***}
	(0.12)	(0.21)	(0.32)
Homicides per 100k (Log), $t-1$	-0.17^{***}	0.02	-0.09^{***}
	(0.01)	(0.02)	(0.03)
Airport	0.05^{***}	0.06	-0.07
	(0.02)	(0.05)	(0.06)
Port	-0.06^{**}	0.31^{***}	0.28^{***}
	(0.02)	(0.11)	(0.09)
Intercept	-16.81^{***}	-14.14^{***}	-9.73^{***}
	(0.28)	(0.40)	(0.47)
AIC	48268.38	32784.43	31062.70
Log Likelihood	-24116.19	-16373.22	-15494.35
Observations	51665	51665	51665
Number of States	26	26	26
Number of Years	10	10	10
Variance: States (Intercept)	0.84	0.94	0.76
Variance: Years (Intercept)	0.28	0.17	0.13

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

ble 4 re-estimates the original multilevel models, adding *Discretionary Transfers* (logged) as an independent variable. Across all three models, these transfers have a significantly *negative* effect on FDI attraction. The coefficients and significance levels for *Political Alignment* remain

unchanged, indicating that *Discretionary Transfers* is not a mediator: it does not account for any of the variation in the outcome that was previously attributed to alignment. Put simply, the effect of alignment on FDI is not "transmitted" through transfers, just as it is not "transmitted" through investment incentives or regulatory barriers.[11]

By exclusion, we propose that the mechanism connecting political alignment to FDI is the fourth and remaining one: the overarching perception of stability that it provides to foreign investors. Aligned mayors are better able to signal stability: they can credibly commit to maintaining continuity with national investment policies. When local and national governments are aligned, there is less risk of political conflict or policy reversals, reducing perceived investment risk. This mechanism is consistent with national-level evidence that investors value institutional stability (Jensen 2003; Li and Resnick 2003). Quantitative tests of such mechanism at the municipal level are difficult because perceptions of stability are an intangible concept. Still, Table 5 provides suggestive evidence that the *duration* of alignment matters: the longer a municipality is aligned, the more investment it tends to attract. This is indicated by the positive and significant coefficient for *Political Alignment, Years*, a variable that tallies the number of years under continuous alignment. Conversely, periods of uncertainty — for instance, years of municipal election — lead investors to adopt a "wait and see" approach (Canes-Wrone and Park 2014). For example, in 2024, the vice-president of a sanitation company postponed a potential IPO, declaring that municipal elections "will define many things... [including] the path that Brazil will take in relation to the private sanitation market. It is the new [city] managers who will determine how they will act, and then we will be able to position ourselves and see what is the best strategy for seeking capital" (Martini 2024).

Also consistent with this mechanism, *Mayor Party Switch* is either negatively associated with FDI attraction or has no discernible effect, indicating that switches to an aligned party do not convey immediate stability to investors. Rather, investors seem to value stronger evidence of a close

[11] Explaining the standalone negative effect of discretionary transfers on FDI lies beyond the scope of this paper. Still, our findings are consistent with the aforementioned evidence that transfers are not always properly implemented and may even lead to more corruption (Brollo et al. 2013), which in turn leads to less FDI (Zhu and Shi 2019).

Table 5: The Effect of Political Alignment Duration on FDI Transactions

	FDI Transaction Count		
	(1)	(2)	(3)
	Poisson	Neg. Bin.	Zero-Infl. Neg. Bin.
Political Alignment, Years	0.02^{***}	0.02^{*}	0.02^{*}
	(0.00)	(0.01)	(0.01)
Mayor Party Switch, $t-1$	-0.21^{***}	-0.14	0.00
	(0.03)	(0.09)	(0.11)
Margin of Victory, $t-1$	-0.00	0.13	0.07
	(0.03)	(0.09)	(0.11)
Mayor Ideology, $t-1$	0.06^{***}	0.03	0.02
	(0.02)	(0.05)	(0.06)
Mayoral Election, $t-1$	-0.56^{***}	-0.38^{*}	-0.21
	(0.13)	(0.21)	(0.20)
Mayor Second Term, $t-1$	-0.12^{***}	0.04	0.07
	(0.02)	(0.06)	(0.06)
GDP (Log), $t-1$	1.20^{***}	0.94^{***}	0.73^{***}
	(0.01)	(0.02)	(0.03)
Population Density (Log), $t-1$	0.04^{***}	0.16^{***}	0.08^{***}
	(0.01)	(0.02)	(0.02)
STEM Workers, % (Log), $t-1$	0.27^{***}	0.09^{***}	0.16^{***}
	(0.01)	(0.03)	(0.04)
Manufacturing Workers, % (Log), $t-1$	-0.32^{***}	-0.22^{***}	-0.38^{***}
	(0.01)	(0.02)	(0.03)
Economic Concentration (HHI), $t-1$	-0.77^{***}	-2.54^{***}	1.51^{***}
	(0.12)	(0.20)	(0.32)
Homicides per 100k (Log), $t-1$	-0.16^{***}	0.02	-0.06^{**}
	(0.01)	(0.02)	(0.02)
Airport	0.04^{**}	0.06	-0.07
	(0.02)	(0.05)	(0.06)
Port	-0.07^{***}	0.31^{***}	0.26^{***}
	(0.02)	(0.11)	(0.09)
Intercept	-17.02^{***}	-14.24^{***}	-9.87^{***}
	(0.28)	(0.40)	(0.46)
AIC	48329.00	32796.25	31070.45
Log Likelihood	−24147.50	−16380.13	−15501.22
Observations	51667	51667	51667
Number of States	26	26	26
Number of Years	10	10	10
Var: States (Intercept)	0.86	0.95	0.76
Var: Years (Intercept)	0.28	0.16	0.12

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

and stable relationship between municipal and central administrations. Evidence from multiple outlets specialized in investment analysis corroborate this expectation. For example, ahead of the 2024 municipal elections, the São Paulo Stock Exchange, B3, published that "political activity in ... municipalities can still influence investor expectations regarding specific sectors such as real es-

tate, sanitation, transportation, technology, education, and healthcare ... One direct impact could come after the election results, if the new municipal administration seeks to stimulate the local economy ... This could be coordinated with state and federal governments to attract more companies to the region" (Piovezan 2024). In the same context, investment bank BTG Pactual stated that "municipal elections are also important for markets. In addition to serving as a preview for general elections, they also affect the formation of alliances" (Sousa 2024). A final example of the importance that investors place on local politics is that they donate to mayoral campaigns (Toledo and Pina 2024). Taken together, our evidence indicates that investors pay attention to local politics and look for clues of stability that alignment provides.

8 Conclusion

This study sheds light on how local politics affects subnational variation in FDI. Previous research focused on the effects of partisanship and ideology in determining the site of investment projects within a given country. We uncover alignment as a new political dimension associated with FDI attraction at the local level.

Using novel data on FDI transactions entering Brazilian municipalities between 2011 and 2021, we estimate multilevel regression models and an RDD, finding that political alignment has a positive and significant effect on foreign investment. Concretely, a municipality tends to attract a larger number of FDI transactions when the mayor's party is a member of the president's support coalition in Congress. A test of potential mechanisms suggests that political alignment signals an overarching perception of political stability that foreign investors observe and value. Our study is thus a stepping stone for future research that explores how and when political alignment can help attract not only FDI but also other global capital flows.

As municipalities become increasingly central to national economic strategies, it is imperative that central governments know the best policies to help their subnational units achieve growth and development. This is particularly relevant for large, middle-income, unequal countries like

Brazil, Mexico, South Africa, and Indonesia, among others. These countries attract large amounts of FDI (UNCTAD 2022), but face several fiscal challenges, such that redistributive policies become very consequential. Of course, even if we identify the best policies for attracting and distributing FDI activity within a given country, we cannot disregard politicians' continuous incentives to pursue alignment and the potential negative consequences this may bring, such as corruption and clientelism. We already know that local politicians benefit from both FDI entry (Owen 2019) and political alignment (Arulampalam et al. 2009; Brollo and Nannicini 2012; Bracco et al. 2013, e.g.). The fact that political alignment helps to attract FDI can only reinforce politicians' incentives to continue seeking close relationships with the central government. This predicted behavior should hold important implications not only for Brazil, but for other countries with high party fragmentation, such as Indonesia, Morocco, Slovenia and Tunisia (Cruz et al. 2021), or high levels of party switching, like Ecuador and the Philippines (Desposato 2006).

More broadly, our research underscores the heterogeneity of the effects of global economic integration within a single country. Such variation is partly explained by permanent characteristics related to local economic, social, and geographic aspects, and by political factors, which tend to be more dynamic. Understanding how these two classes of factors interact to produce different outcomes is crucial in a world where the local dimension becomes increasingly intertwined with the global one (Baccini and Weymouth 2021; Broz et al. 2021; Fraccaroli et al. 2023).

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Appendix for

Local Politics, Global Capital: Political Alignment and Foreign Direct Investment in Brazil

Carolina Moehlecke Iasmin Goes* Ariana Ribeiro Costa

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*Corresponding Author, iasmin.goes@colostate.edu

Contents

A Summary Statistics

Table A.1: Summary Statistics: Data for Regression Discontinuity

Variable	N	Mean	Std. Dev.	Min	Pctl. 25	Pctl. 75	Max
FDI Transaction Count	33043	1.164	33.57	0	0	0	2498
Margin of Victory, Aligned Candidate, $t-1$	19993	1.507	22.51	−99.55	−10.21	12.84	99.55
Mayor Ideology, $t-1$	30787	0.09098	0.413	−0.9675	−0.3363	0.3991	0.7931
Mayor Party Switch, $t-1$	33030						
... 0	30766	93.15%					
... 1	2264	6.85%					
Margin of Victory, $t-1$	33038	0.1646	0.1762	0	0.05097	0.2124	1
Mayoral Election, $t-1$	33039						
... 0	23019	69.67%					
... 1	10020	30.33%					
Mayor Second Term, $t-1$	33039						
... 0	28418	86.01%					
... 1	4621	13.99%					
GDP (Log), $t-1$	33039	12.2	1.462	8.998	11.14	12.95	20.45
Population Density (Log), $t-1$	33006	3.293	1.458	−2.839	2.486	4.042	9.547
STEM Workers, % (Log), $t-1$	33039	−0.8287	0.8633	−4.266	−1.441	0	3.57
Manufacturing Workers, % (Log), $t-1$	33039	1.712	1.559	−3.571	0.01907	3.045	4.505
Economic Concentration (HHI), $t-1$	33039	0.3523	0.2433	0.04369	0.1551	0.5011	1
Homicides per 100k (Log), $t-1$	33038	2.024	1.559	−0.3313	0	3.319	5.877
Airport	33043						
... 0	30109	91.12%					
... 1	2934	8.88%					
Port	33043						
... 0	32698	98.96%					
... 1	345	1.04%					
Fiscal Management Index	27727	0.4738	0.2127	0	0.3095	0.6328	1
Investment Incentives	22132	2.968	70.3	0	0	0	6876
Non-Discretionary Transfers	33018	946.2	731.4	12.13	510.7	1118	11227
Discretionary Transfers	33018	66.16	126.4	−0.1697	4.004	81.33	9703
Capital Discretionary Transfers	33018	54.45	103	−0.1697	0	66.19	3659

Table A.2: Summary Statistics: Data for Multilevel Models

Variable	N	Mean	Std. Dev.	Min	Pctl. 25	Pctl. 75	Max
FDI Transaction	55695						
... 0	51854	93.1%					
... 1	3841	6.9%					
FDI Transaction Count	55695	0.814	25.98	0	0	0	2498
FDI Transaction Count, Goods and Services	55695	0.4348	11.12	0	0	0	1059
Political Alignment (Continuous), $t-1$	55245	0.7749	0.2487	0	0.6739	0.9701	1
Political Alignment (90%), $t-1$	55690						
... 0	30569	54.89%					
... 1	25121	45.11%					
Political Alignment (80%), $t-1$	55690						
... 0	21459	38.53%					
... 1	34231	61.47%					
Political Alignment (70%), $t-1$	55690						
... 0	15574	27.97%					
... 1	40116	72.03%					
Mayor and President Are Co-Partisans, $t-1$	55690						
... 0	49616	89.09%					
... 1	6074	10.91%					
Mayor, Governor, and President Are Co-Partisans, $t-1$	55690						
... 0	53974	96.92%					
... 1	1716	3.08%					
Mayor Party Switch, $t-1$	55649						
... 0	51851	93.18%					
... 1	3798	6.82%					
Mayor Ideology, $t-1$	51743	0.1602	0.3947	−0.9675	−0.1706	0.4343	0.7931
Margin of Victory, $t-1$	55647	0.1859	0.2185	0	0.05201	0.2248	1
Mayoral Election, $t-1$	55690						
... 0	38668	69.43%					
... 1	17022	30.57%					
Mayor Second Term, $t-1$	55690						
... 0	47493	85.28%					
... 1	8197	14.72%					
GDP (Log), $t-1$	55690	12.18	1.432	8.998	11.14	12.94	20.45
Population Density (Log), $t-1$	55640	3.255	1.433	−3.211	2.466	4.005	9.575
STEM Workers, % (Log), $t-1$	55689	−0.8245	0.8525	−4.791	−1.427	0	3.57
Manufacturing Workers, % (Log), $t-1$	55690	1.734	1.558	−3.81	0.1091	3.069	4.519
Economic Concentration (HHI), $t-1$	55689	0.348	0.2384	0.04124	0.1564	0.4877	1
Homicides per 100k (Log), $t-1$	55689	1.99	1.569	−0.4717	0	3.304	5.877
Airport	55695						
... 0	50865	91.33%					
... 1	4830	8.67%					
Port	55695						
... 0	55155	99.03%					
... 1	540	0.97%					
Fiscal Management Index, $t-1$	42566	0.464	0.2064	0	0.3068	0.6159	1
Investment Incentives (Log), $t-1$	33396	0.04252	0.5691	−7.4	0	0	8.113
Non-Discretionary Transfers (Log), $t-1$	55648	6.6	0.6465	2.496	6.205	6.975	9.212
Discretionary Transfers (Log), $t-1$	55656	2.962	1.95	−13.99	1.533	4.419	9.18
Capital Discretionary Transfers (Log), $t-1$	55656	2.529	2.05	−13.99	0	4.214	8.893

B Evidence From Fixed Effects Models

As Table B.1 shows, models with fixed effects have practically identical effect sizes and significance levels as the main models with random effects.

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

	FDI Transaction Count		
	(1)	(2)	(3)
	Poisson	Neg. Bin.	Zero-Infl. Neg. Bin.
Political Alignment, $t-1$	0.12^{***}	0.16^{***}	0.12^{**}
	(0.01)	(0.05)	(0.06)
Mayor Party Switch, $t-1$	-0.19^{***}	-0.13	0.01
	(0.03)	(0.09)	(0.11)
Margin of Victory, $t-1$	0.02	0.14	0.07
	(0.03)	(0.09)	(0.11)
Mayor Ideology, $t-1$	0.07^{***}	0.02	0.02
	(0.02)	(0.05)	(0.06)
Mayoral Election, $t-1$	-0.66^{***}	-0.68^{**}	-0.29
	(0.13)	(0.28)	(0.35)
Mayor Second Term, $t-1$	-0.11^{***}	0.05	0.07
	(0.02)	(0.05)	(0.06)
GDP (Log), $t-1$	1.19^{***}	0.94^{***}	0.74^{***}
	(0.01)	(0.02)	(0.03)
Population Density (Log), $t-1$	0.04^{***}	0.16^{***}	0.07^{***}
	(0.01)	(0.02)	(0.03)
STEM Workers, % (Log), $t-1$	0.27^{***}	0.09^{***}	0.15^{***}
	(0.01)	(0.03)	(0.04)
Manufacturing Workers, % (Log), $t-1$	-0.32^{***}	-0.22^{***}	-0.38^{***}
	(0.01)	(0.02)	(0.03)
Economic Concentration (HHI), $t-1$	-0.80^{***}	-2.55^{***}	1.46^{***}
	(0.12)	(0.21)	(0.33)
Homicides per 100k (Log), $t-1$	-0.16^{***}	0.02	-0.08^{***}
	(0.01)	(0.02)	(0.03)
Airport	0.04^{**}	0.05	-0.07
	(0.02)	(0.05)	(0.06)
Port	-0.07^{***}	0.31^{***}	0.24^{***}
	(0.02)	(0.11)	(0.09)
Intercept	-17.16^{***}	-14.26^{***}	-9.69^{***}
	(0.21)	(0.41)	(0.62)
AIC	48118.32	32681.71	30942.42
Log Likelihood	-24010.16	-16290.85	-15372.21
Observations	51667	51667	51667

This table presents the results of three models with fixed effects for state and year. $^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

C Evidence from Multilevel Models: Robustness Checks

C.1 Including a Lagged Dependent Variable

Table C.1: The Effect of Political Alignment on FDI Transactions (Including a Lagged Dependent Variable)

	FDI Transaction Count		
	(1)	(2)	(3)
	Poisson	Neg. Bin.	Zero-Infl. Neg. Bin.
FDI Transaction Count, t-1	0.00^{***}	0.01^{***}	0.00^{***}
	(0.00)	(0.00)	(0.00)
Political Alignment, t-1	0.10^{***}	0.14^{***}	0.09^{*}
	(0.01)	(0.05)	(0.05)
Mayor Party Switch, t-1	-0.15^{***}	-0.12	0.07
	(0.03)	(0.09)	(0.10)
Margin of Victory, t-1	0.15^{***}	0.14	0.04
	(0.03)	(0.09)	(0.10)
Mayor Ideology, t-1	0.20^{***}	0.00	0.01
	(0.02)	(0.05)	(0.06)
Mayoral Election, t-1	-0.61^{***}	-0.37^{*}	-0.20
	(0.13)	(0.21)	(0.18)
Mayor Second Term, t-1	-0.04^{**}	0.04	0.07
	(0.02)	(0.06)	(0.06)
GDP (Log), t-1	0.94^{***}	0.90^{***}	0.53^{***}
	(0.01)	(0.02)	(0.03)
Population Density (Log), t-1	0.12^{***}	0.15^{***}	0.13^{***}
	(0.01)	(0.02)	(0.02)
STEM Workers, % (Log), t-1	0.40^{***}	0.09^{***}	0.21^{***}
	(0.01)	(0.02)	(0.03)
Manufacturing Workers, % (Log), t-1	-0.30^{***}	-0.20^{***}	-0.32^{***}
	(0.01)	(0.02)	(0.03)
Economic Concentration (HHI), t-1	-1.90^{***}	-2.60^{***}	0.74^{**}
	(0.13)	(0.21)	(0.30)
Homicides per 100k (Log), t-1	-0.07^{***}	0.03^{*}	-0.01
	(0.01)	(0.02)	(0.02)
Airport	0.08^{***}	0.05	-0.02
	(0.02)	(0.05)	(0.05)
Port	0.11^{***}	0.27^{**}	0.25^{***}
	(0.02)	(0.11)	(0.08)
Intercept	-13.65^{***}	-13.76^{***}	-7.29^{***}
	(0.28)	(0.40)	(0.45)
AIC	46952.06	32746.38	29767.85
Log Likelihood	−23458.03	−16354.19	−14847.93
Observations	51667	51667	51667
Number of States	26	26	26
Number of Years	10	10	10
Variance: States	0.72	0.89	0.58
Variance: Years (Intercept)	0.27	0.16	0.09

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

Our main results do not include a lagged dependent variable due to the short panel (only ten years) and potential autocorrelation concerns. Still, the results are robust to the inclusion of such a variable. Table C.1 retains the same number of observations as the main analysis (51,667) because we have FDI information for 2011, though this information is complete.

C.2 Excluding São Paulo and Rio de Janeiro

Tables C.2 and C.3 re-estimate the main models excluding São Paulo and Rio de Janeiro, respectively. Despite smaller effect sizes, the results are largely robust to these exclusions.

Table C.2: The Effect of Political Alignment on FDI Transactions (Excluding São Paulo)

	FDI Transaction Count		
	(1)	(2)	(3)
	Poisson	Neg. Bin.	Zero-Infl. Neg. Bin.
Political Alignment, $t-1$	0.06^{***}	0.14^{***}	0.08
	(0.02)	(0.05)	(0.05)
Mayor Party Switch, $t-1$	-0.16^{***}	-0.13	0.05
	(0.03)	(0.09)	(0.10)
Margin of Victory, $t-1$	0.15^{***}	0.14	0.06
	(0.03)	(0.09)	(0.11)
Mayor Ideology, $t-1$	0.20^{***}	0.02	0.06
	(0.02)	(0.05)	(0.06)
Mayoral Election, $t-1$	-0.61^{***}	-0.38^{*}	-0.20
	(0.13)	(0.21)	(0.20)
Mayor Second Term, $t-1$	-0.02	0.05	0.11^{*}
	(0.02)	(0.06)	(0.06)
GDP (Log), $t-1$	0.98^{***}	0.93^{***}	0.63^{***}
	(0.01)	(0.02)	(0.03)
Population Density (Log), $t-1$	0.12^{***}	0.16^{***}	0.11^{***}
	(0.01)	(0.02)	(0.02)
STEM Workers, % (Log), $t-1$	0.40^{***}	0.09^{***}	0.20^{***}
	(0.01)	(0.03)	(0.03)
Manufacturing Workers, % (Log), $t-1$	-0.30^{***}	-0.21^{***}	-0.35^{***}
	(0.01)	(0.02)	(0.03)
Economic Concentration (HHI), $t-1$	-1.67^{***}	-2.58^{***}	1.09^{***}
	(0.13)	(0.21)	(0.32)
Homicides per 100k (Log), $t-1$	-0.09^{***}	0.02	-0.05^{**}
	(0.01)	(0.02)	(0.03)
Airport	0.08^{***}	0.06	-0.03
	(0.02)	(0.05)	(0.06)
Port	0.13^{***}	0.33^{***}	0.38^{***}
	(0.02)	(0.11)	(0.09)
Intercept	-14.12^{***}	-14.14^{***}	-8.51^{***}
	(0.28)	(0.40)	(0.48)
AIC	47222.82	32634.74	30850.11
Log Likelihood	-23594.41	-16299.37	-15390.06
Observations	51659	51659	51659
Number of States	26	26	26
Number of Years	10	10	10
Variance: States (Intercept)	0.73	0.94 0.72	
Variance: Years (Intercept)	0.27	0.17	0.11

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

Table C.3: The Effect of Political Alignment on FDI Transactions (Excluding Rio de Janeiro)

	FDI Transaction Count		
	(1)	(2)	(3)
	Poisson	Neg. Bin.	Zero-Infl. Neg. Bin.
Political Alignment, $t-1$	0.08^{***}	0.15^{***}	0.12^{**}
	(0.01)	(0.05)	(0.05)
Mayor Party Switch, $t-1$	-0.11^{***}	-0.12	0.07
	(0.03)	(0.09)	(0.10)
Margin of Victory, $t-1$	0.04	0.14	0.09
	(0.03)	(0.09)	(0.11)
Mayor Ideology, $t-1$	0.02	0.01	-0.02
	(0.02)	(0.05)	(0.06)
Mayoral Election, $t-1$	-0.55^{***}	-0.38^{*}	-0.18
	(0.12)	(0.21)	(0.19)
Mayor Second Term, $t-1$	-0.23^{***}	0.04	0.03
	(0.02)	(0.06)	(0.06)
GDP (Log), $t-1$	1.18^{***}	0.93^{***}	0.70^{***}
	(0.01)	(0.02)	(0.03)
Population Density (Log), $t-1$	0.05^{***}	0.16^{***}	0.07^{***}
	(0.01)	(0.02)	(0.02)
STEM Workers, % (Log), $t-1$	0.23^{***}	0.09^{***}	0.17^{***}
	(0.01)	(0.03)	(0.03)
Manufacturing Workers, % (Log), $t-1$	-0.36^{***}	-0.22^{***}	-0.38^{***}
	(0.01)	(0.02)	(0.03)
Economic Concentration (HHI), $t-1$	-1.24^{***}	-2.57^{***}	1.14^{***}
	(0.12)	(0.21)	(0.32)
Homicides per 100k (Log), $t-1$	-0.13^{***}	0.02	-0.06^{**}
	(0.01)	(0.02)	(0.03)
Airport	-0.01	0.05	-0.08
	(0.02)	(0.05)	(0.06)
Port	-0.32^{***}	0.26^{**}	0.10
	(0.02)	(0.11)	(0.09)
Intercept	-16.69^{***}	-14.21^{***}	-9.26^{***}
	(0.28)	(0.40)	(0.46)
AIC	47341.60	32622.56	30843.49
Log Likelihood	-23653.80	-16293.28	-15386.74
Observations	51657	51657	51657
Number of States	26	26	26
Number of Years	10	10	10
Variance: States (Intercept)	0.90	0.94	0.73
Variance: Years (Intercept)	0.23	0.16	0.11

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

C.3 Delayed Effects: Longer Lags of Political Alignment

Table C.4: The Effect of Political Alignment on FDI Transactions (With Political Alignment at Time T−2)

	FDI Transaction Count		
	(1)	(2)	(3)
	Poisson	Neg. Bin.	Zero-Infl. Neg. Bin.
Political Alignment, $t-2$	0.02	0.11^{**}	0.13^{**}
	(0.01)	(0.05)	(0.05)
Mayor Party Switch, $t-1$	-0.20^{***}	-0.12	0.03
	(0.03)	(0.09)	(0.11)
Margin of Victory, $t-1$	0.01	0.13	0.07
	(0.03)	(0.09)	(0.11)
Mayor Ideology, $t-1$	0.08^{***}	0.04	0.03
	(0.02)	(0.05)	(0.06)
Mayoral Election, $t-1$	-0.57^{***}	-0.37^{*}	-0.21
	(0.13)	(0.21)	(0.20)
Mayor Second Term, $t-1$	-0.12^{***}	0.04	0.07
	(0.02)	(0.06)	(0.06)
GDP (Log), $t-1$	1.20^{***}	0.94^{***}	0.73^{***}
	(0.01)	(0.02)	(0.03)
Population Density (Log), $t-1$	0.04^{***}	0.16^{***}	0.08^{***}
	(0.01)	(0.02)	(0.02)
STEM Workers, % (Log), $t-1$	0.27^{***}	0.09^{***}	0.15^{***}
	(0.01)	(0.03)	(0.04)
Manufacturing Workers, % (Log), $t-1$	-0.32^{***}	-0.22^{***}	-0.37^{***}
	(0.01)	(0.02)	(0.03)
Economic Concentration (HHI), $t-1$	-0.71^{***}	-2.54^{***}	1.46^{***}
	(0.12)	(0.20)	(0.32)
Homicides per 100k (Log), $t-1$	-0.16^{***}	0.02	-0.08^{***}
	(0.01)	(0.02)	(0.03)
Airport	0.03^{*}	0.06	-0.06
	(0.02)	(0.05)	(0.06)
Port	-0.08^{***}	0.31^{***}	0.26^{***}
	(0.02)	(0.11)	(0.09)
Intercept	-17.08^{***}	-14.27^{***}	-9.86^{***}
	(0.27)	(0.40)	(0.46)
AIC	48371.76	32793.60	31065.37
Log Likelihood	−24168.88	−16378.80	−15497.69
Observations	51667	51667	51667
Number of States	26	26	26
Number of Years	10	10	10
Vaiance: States (Intercept)	0.85	0.95	0.76
Variance: Years (Intercept)	0.26	0.16	0.12

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

Table C.5: The Effect of Political Alignment on FDI Transactions (With Political Alignment at Time T–3)

	FDI Transaction Count		
	(1)	(2)	(3)
	Poisson	Neg. Bin.	Zero-Infl. Neg. Bin.
Political Alignment, $t-3$	0.02	0.07	0.14^{**}
	(0.01)	(0.05)	(0.05)
Mayor Party Switch, $t-1$	-0.20^{***}	-0.13	0.03
	(0.03)	(0.09)	(0.11)
Margin of Victory, $t-1$	0.01	0.13	0.06
	(0.03)	(0.09)	(0.11)
Mayor Ideology, $t-1$	0.08^{***}	0.05	0.03
	(0.02)	(0.05)	(0.06)
Mayoral Election, $t-1$	-0.57^{***}	-0.37^{*}	-0.20
	(0.13)	(0.21)	(0.20)
Mayor Second Term, $t-1$	-0.12^{***}	0.04	0.07
	(0.02)	(0.06)	(0.06)
GDP (Log), $t-1$	1.20^{***}	0.94^{***}	0.73^{***}
	(0.01)	(0.02)	(0.03)
Population Density (Log), $t-1$	0.04^{***}	0.16^{***}	0.08^{***}
	(0.01)	(0.02)	(0.02)
STEM Workers, % (Log), $t-1$	0.27^{***}	0.09^{***}	0.15^{***}
	(0.01)	(0.03)	(0.04)
Manufacturing Workers, % (Log), $t-1$	-0.32^{***}	-0.22^{***}	-0.37^{***}
	(0.01)	(0.02)	(0.03)
Economic Concentration (HHI), $t-1$	-0.71^{***}	-2.54^{***}	1.43^{***}
	(0.12)	(0.20)	(0.32)
Homicides per 100k (Log), $t-1$	-0.16^{***}	0.02	-0.09^{***}
	(0.01)	(0.02)	(0.03)
Airport	0.03^{*}	0.06	-0.06
	(0.02)	(0.05)	(0.06)
Port	-0.08^{***}	0.31^{***}	0.26^{***}
	(0.02)	(0.11)	(0.09)
Intercept	-17.07^{***}	-14.25^{***}	-9.82^{***}
	(0.27)	(0.40)	(0.46)
AIC	48371.65	32796.76	31066.08
Log Likelihood	-24168.82	-16380.38	-15498.04
Observations	51667	51667	51667
Number of States	26	26	26
Number of Years	10	10	10
Variance: States (Intercept)	0.85	0.95	0.76
Variance: Years (Intercept)	0.26	0.15	0.11

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

The main models use *Political Alignment* at time $t-1$. Tables C.4 and C.5 examine political alignment at times $t-2$ and $t-3$, respectively, confirming that the effect of alignment on FDI attraction is strongest and most significant at $t-1$.

C.4 Alternative Measures of Political Alignment

Table C.6: The Effect of Political Alignment on FDI Transactions (With a Continuous Measure of Political Alignment)

	FDI Transaction Count		
	(1)	(2)	(3)
	Poisson	Neg. Bin.	Zero-Infl. Neg. Bin.
Political Alignment (Continuous), $t-1$	0.21^{***}	0.18^{**}	0.20^{**}
	(0.03)	(0.08)	(0.10)
Mayor Party Switch, $t-1$	-0.21^{***}	-0.13	0.01
	(0.03)	(0.09)	(0.11)
Margin of Victory, $t-1$	0.01	0.13	0.07
	(0.03)	(0.09)	(0.11)
Mayor Ideology, $t-1$	0.07^{***}	0.02	0.01
	(0.02)	(0.05)	(0.06)
Mayoral Election, $t-1$	-0.57^{***}	-0.37^{*}	-0.21
	(0.13)	(0.21)	(0.20)
Mayor Second Term, $t-1$	-0.12^{***}	0.04	0.07
	(0.02)	(0.06)	(0.06)
GDP (Log), $t-1$	1.19^{***}	0.94^{***}	0.73^{***}
	(0.01)	(0.02)	(0.03)
Population Density (Log), $t-1$	0.05^{***}	0.16^{***}	0.08^{***}
	(0.01)	(0.02)	(0.02)
STEM Workers, % (Log), $t-1$	0.27^{***}	0.09^{***}	0.15^{***}
	(0.01)	(0.03)	(0.04)
Manufacturing Workers, % (Log), $t-1$	-0.32^{***}	-0.22^{***}	-0.37^{***}
	(0.01)	(0.02)	(0.03)
Economic Concentration (HHI), $t-1$	-0.77^{***}	-2.54^{***}	1.46^{***}
	(0.12)	(0.20)	(0.32)
Homicides per 100k (Log), $t-1$	-0.16^{***}	0.02	-0.08^{***}
	(0.01)	(0.02)	(0.03)
Airport	0.04^{**}	0.06	-0.07
	(0.02)	(0.05)	(0.06)
Port	-0.07^{***}	0.31^{***}	0.26^{***}
	(0.02)	(0.11)	(0.09)
Intercept	-17.11^{***}	-14.34^{***}	-9.94^{***}
	(0.28)	(0.40)	(0.46)
AIC	48300.81	32794.68	31067.27
Log Likelihood	−24133.41	−16379.34	−15498.64
Observations	51667	51667	51667
Number of States	26	26	26
Number of Years	10	10	10
Variance: States (Intercept)	0.85	0.94	0.76
Variance: Years (Intercept)	0.26	0.15	0.11

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

To generate the dichotomous measure of *Political Alignment*, the main models consider that a party is a member of the president's support coalition if the voting recommendation issued by

Table C.7: The Effect of Political Alignment on FDI Transactions (With 80% Political Alignment)

	FDI Transaction Count		
	(1)	(2)	(3)
	Poisson	Neg. Bin.	Zero-Infl. Neg. Bin.
Political Alignment (80%), $t-1$	0.15^{***}	0.08	0.09^{*}
	(0.01)	(0.05)	(0.05)
Mayor Party Switch, $t-1$	-0.19^{***}	-0.13	0.02
	(0.03)	(0.09)	(0.11)
Margin of Victory, $t-1$	0.03	0.13	0.07
	(0.03)	(0.09)	(0.11)
Mayor Ideology, $t-1$	0.08^{***}	0.04	0.03
	(0.02)	(0.05)	(0.06)
Mayoral Election, $t-1$	-0.58^{***}	-0.38^{*}	-0.22
	(0.13)	(0.21)	(0.20)
Mayor Second Term, $t-1$	-0.12^{***}	0.04	0.07
	(0.02)	(0.06)	(0.06)
GDP (Log), $t-1$	1.19^{***}	0.94^{***}	0.73^{***}
	(0.01)	(0.02)	(0.03)
Population Density (Log), $t-1$	0.05^{***}	0.16^{***}	0.08^{***}
	(0.01)	(0.02)	(0.02)
STEM Workers, % (Log), $t-1$	0.27^{***}	0.09^{***}	0.15^{***}
	(0.01)	(0.03)	(0.04)
Manufacturing Workers, % (Log), $t-1$	-0.32^{***}	-0.22^{***}	-0.37^{***}
	(0.01)	(0.02)	(0.03)
Economic Concentration (HHI), $t-1$	-0.81^{***}	-2.54^{***}	1.46^{***}
	(0.12)	(0.20)	(0.32)
Homicides per 100k (Log), $t-1$	-0.16^{***}	0.02	-0.08^{***}
	(0.01)	(0.02)	(0.03)
Airport	0.04^{**}	0.06	-0.06
	(0.02)	(0.05)	(0.06)
Port	-0.07^{***}	0.31^{***}	0.26^{***}
	(0.02)	(0.11)	(0.09)
Intercept	-16.96^{***}	-14.26^{***}	-9.84^{***}
	(0.28)	(0.40)	(0.46)
AIC	48249.87	32796.67	31069.25
Log Likelihood	-24107.94	-16380.34	-15499.62
Observations	51667	51667	51667
Number of States	26	26	26
Number of Years	10	10	10
Variance: States (Intercept)	0.85	0.95	0.76
Variance: Years (Intercept)	0.27	0.15	0.11

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

its leadership aligns with the voting recommendation of the president at least 90 percent of the time. Table C.6 uses the raw, continuous measure of alignment (ranging from zero to 100 percent), without dichotomizing it. The results are consistently significant, with effect sizes much larger than in the original models.

Table C.8: The Effect of Political Alignment on FDI Transactions (With 70% Political Alignment)

	FDI Transaction Count		
	(1)	(2)	(3)
	Poisson	Neg. Bin.	Zero-Infl. Neg. Bin.
Political Alignment (70%), $t-1$	0.12^{***}	0.07	0.08
	(0.01)	(0.05)	(0.05)
Mayor Party Switch, $t-1$	-0.22^{***}	-0.13	0.01
	(0.03)	(0.09)	(0.11)
Margin of Victory, $t-1$	0.00	0.13	0.07
	(0.03)	(0.09)	(0.11)
Mayor Ideology, $t-1$	0.07^{***}	0.04	0.02
	(0.02)	(0.05)	(0.06)
Mayoral Election, $t-1$	-0.57^{***}	-0.37^{*}	-0.20
	(0.13)	(0.21)	(0.20)
Mayor Second Term, $t-1$	-0.12^{***}	0.04	0.07
	(0.02)	(0.06)	(0.06)
GDP (Log), $t-1$	1.20^{***}	0.94^{***}	0.73^{***}
	(0.01)	(0.02)	(0.03)
Population Density (Log), $t-1$	0.04^{***}	0.16^{***}	0.08^{***}
	(0.01)	(0.02)	(0.02)
STEM Workers, % (Log), $t-1$	0.27^{***}	0.09^{***}	0.15^{***}
	(0.01)	(0.03)	(0.04)
Manufacturing Workers, % (Log), $t-1$	-0.32^{***}	-0.22^{***}	-0.37^{***}
	(0.01)	(0.02)	(0.03)
Economic Concentration (HHI), $t-1$	-0.76^{***}	-2.54^{***}	1.46^{***}
	(0.12)	(0.20)	(0.32)
Homicides per 100k (Log), $t-1$	-0.16^{***}	0.02	-0.08^{***}
	(0.01)	(0.02)	(0.03)
Airport	0.04^{**}	0.06	-0.06
	(0.02)	(0.05)	(0.06)
Port	-0.07^{***}	0.31^{***}	0.26^{***}
	(0.02)	(0.11)	(0.09)
Intercept	-17.05^{***}	-14.27^{***}	-9.86^{***}
	(0.28)	(0.40)	(0.46)
AIC	48303.66	32796.64	31069.87
Log Likelihood	-24134.83	-16380.32	-15499.93
Observations	51667	51667	51667
Number of States	26	26	26
Number of Years	10	10	10
Variance: States (Intercept)	0.85	0.94	0.11
Variance: Years (Intercept)	0.26	0.15	0.76

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

Tables C.7 and C.8 construct *Political Alignment* using less strict alignment thresholds (80 and 70 percent, respectively). The weaker effects suggest that alignment only matters significantly after a certain threshold. Finally, Tables C.9 and C.10 suggest that co-partisanship has positive, but limited effects. Municipalities attract more FDI when the mayor and the president are co-

Table C.9: The Effect of Political Alignment on FDI Transactions (With a Measure of Mayor and President Co-Partisanship)

	FDI Transaction Count		
	(1)	(2)	(3)
	Poisson	Neg. Bin.	Zero-Infl. Neg. Bin.
Mayor and President Are Co-Partisans, $t-1$	0.10^{***}	0.07	0.08
	(0.02)	(0.06)	(0.07)
Mayor Party Switch, $t-1$	-0.19^{***}	-0.13	0.02
	(0.03)	(0.09)	(0.11)
Margin of Victory, $t-1$	0.02	0.13	0.07
	(0.03)	(0.09)	(0.11)
Mayor Ideology, $t-1$	0.12^{***}	0.06	0.06
	(0.02)	(0.05)	(0.07)
Mayoral Election, $t-1$	-0.57^{***}	-0.36^{*}	-0.19
	(0.13)	(0.21)	(0.19)
Mayor Second Term, $t-1$	-0.13^{***}	0.04	0.06
	(0.02)	(0.06)	(0.06)
GDP (Log), $t-1$	1.20^{***}	0.94^{***}	0.73^{***}
	(0.01)	(0.02)	(0.03)
Population Density (Log), $t-1$	0.05^{***}	0.16^{***}	0.08^{***}
	(0.01)	(0.02)	(0.02)
STEM Workers, % (Log), $t-1$	0.27^{***}	0.09^{***}	0.15^{***}
	(0.01)	(0.03)	(0.04)
Manufacturing Workers, % (Log), $t-1$	-0.32^{***}	-0.22^{***}	-0.37^{***}
	(0.01)	(0.02)	(0.03)
Economic Concentration (HHI), $t-1$	-0.77^{***}	-2.54^{***}	1.45^{***}
	(0.12)	(0.21)	(0.33)
Homicides per 100k (Log), $t-1$	-0.17^{***}	0.02	-0.09^{***}
	(0.01)	(0.02)	(0.03)
Airport	0.04^{**}	0.06	-0.06
	(0.02)	(0.05)	(0.06)
Port	-0.07^{***}	0.31^{***}	0.26^{***}
	(0.02)	(0.11)	(0.09)
Intercept	-16.97^{***}	-14.24^{***}	-9.82^{***}
	(0.28)	(0.40)	(0.46)
AIC	48333.21	32798.06	31071.14
Log Likelihood	-24149.61	-16381.03	-15500.57
Observations	51667	51667	51667
Number of States	26	26	26
Number of Years	10	10	10
Variance: States (Intercept)	0.85	0.95	0.76
Variance: Years (Intercept)	0.26	0.15	0.11

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

partisans, or when the mayor, the governor, and the president are co-partisans, but these effects are not consistently signirficant across models.

Table C.10: The Effect of Political Alignment on FDI Transactions (With a Measure of Mayor, Governor, and President Co-Partisanship)

	FDI Transaction Count		
	(1)	(2)	(3)
	Poisson	Neg. Bin.	Zero-Infl. Neg. Bin.
Mayor, Governor, and President Are Co-Partisans, $t-1$	0.07^{**}	0.17	0.22^{*}
	(0.04)	(0.11)	(0.12)
Mayor Party Switch, $t-1$	-0.20^{***}	-0.13	0.02
	(0.03)	(0.09)	(0.11)
Margin of Victory, $t-1$	0.00	0.13	0.06
	(0.03)	(0.09)	(0.11)
Mayor Ideology, $t-1$	0.07^{***}	0.05	0.04
	(0.02)	(0.05)	(0.06)
Mayoral Election, $t-1$	-0.57^{***}	-0.37^{*}	-0.20
	(0.13)	(0.21)	(0.19)
Mayor Second Term, $t-1$	-0.13^{***}	0.04	0.06
	(0.02)	(0.06)	(0.06)
GDP (Log), $t-1$	1.20^{***}	0.94^{***}	0.73^{***}
	(0.01)	(0.02)	(0.03)
Population Density (Log), $t-1$	0.04^{***}	0.16^{***}	0.08^{***}
	(0.01)	(0.02)	(0.02)
STEM Workers, % (Log), $t-1$	0.27^{***}	0.09^{***}	0.15^{***}
	(0.01)	(0.03)	(0.04)
Manufacturing Workers, % (Log), $t-1$	-0.32^{***}	-0.22^{***}	-0.37^{***}
	(0.01)	(0.02)	(0.03)
Economic Concentration (HHI), $t-1$	-0.70^{***}	-2.54^{***}	1.48^{***}
	(0.12)	(0.20)	(0.32)
Homicides per 100k (Log), $t-1$	-0.16^{***}	0.02	-0.09^{***}
	(0.01)	(0.02)	(0.03)
Airport	0.03^{*}	0.06	-0.06
	(0.02)	(0.05)	(0.06)
Port	-0.07^{***}	0.31^{***}	0.26^{***}
	(0.02)	(0.11)	(0.09)
Intercept	-17.08^{***}	-14.25^{***}	-9.86^{***}
	(0.27)	(0.40)	(0.46)
AIC	48368.90	32796.98	31069.10
Log Likelihood	-24167.45	-16380.49	-15499.55
Observations	51667	51667	51667
Number of States	26	26	26
Number of Years	10	10	10
Variance: States (Intercept)	0.86	0.95	0.77
Variance: Years (Intercept)	0.25	0.15	0.11

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

C.5 Alternative Dependent Variables

Table C.11: The Effect of Political Alignment on FDI Transactions (With a Dichotomous Measure of FDI Transactions)

	FDI Transaction = 1
	(1)
	Logit
Political Alignment, $t-1$	0.07
	(0.05)
Mayor Party Switch, $t-1$	−0.09
	(0.10)
Margin of Victory, $t-1$	0.14
	(0.10)
Mayor Ideology, $t-1$	0.03
	(0.06)
Mayoral Election, $t-1$	−0.27
	(0.20)
Mayor Second Term, $t-1$	0.03
	(0.06)
GDP (Log), $t-1$	0.93***
	(0.03)
Population Density (Log), $t-1$	0.19***
	(0.02)
STEM Workers, % (Log), $t-1$	0.18***
	(0.03)
Manufacturing Workers, % (Log), $t-1$	−0.09***
	(0.02)
Economic Concentration (HHI), $t-1$	−1.93***
	(0.26)
Homicides per 100k (Log), $t-1$	0.01
	(0.02)
Airport	0.03
	(0.06)
Port	0.55***
	(0.13)
Intercept	−15.13***
	(0.43)
AIC	15765.57
Log Likelihood	−7865.79
Observations	51667
Number of States	26
Number of Years	10
Variance: States (Intercept)	0.46
Variance: Years (Intercept)	0.14

This table presents the result of a logistic regression. that includes random intercepts for state and year. $^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

Table C.11 replaces the dependent variable *FDI Transaction Count* with a binary measure indicating whether a municipality received any transaction. In the resulting model (a multilevel logit),

Table C.12: The Effect of Political Alignment on FDI Transactions (Focusing on FDI in Goods and Services)

	FDI Transaction Count, Goods and Services		
	(1)	(2)	(3)
	Poisson	Neg. Bin.	Zero-Infl. Neg. Bin.
Political Alignment, $t-1$	0.09^{***}	0.15^{***}	0.11^{*}
	(0.02)	(0.05)	(0.06)
Mayor Party Switch, $t-1$	-0.15^{***}	-0.08	0.09
	(0.04)	(0.09)	(0.12)
Margin of Victory, $t-1$	0.06	0.17^{*}	0.02
	(0.04)	(0.10)	(0.12)
Mayor Ideology, $t-1$	0.09^{***}	0.03	0.07
	(0.02)	(0.06)	(0.07)
Mayoral Election, $t-1$	-0.73^{***}	-0.51^{**}	-0.36
	(0.16)	(0.24)	(0.24)
Mayor Second Term, $t-1$	-0.06^{***}	0.05	0.13^{*}
	(0.02)	(0.06)	(0.07)
GDP (Log), $t-1$	1.11^{***}	0.95^{***}	0.71^{***}
	(0.01)	(0.03)	(0.03)
Population Density (Log), $t-1$	0.04^{***}	0.13^{***}	0.03
	(0.01)	(0.02)	(0.03)
STEM Workers, % (Log), $t-1$	0.25^{***}	0.08^{***}	0.11^{***}
	(0.01)	(0.03)	(0.04)
Manufacturing Workers, % (Log), $t-1$	-0.23^{***}	-0.20^{***}	-0.33^{***}
	(0.01)	(0.02)	(0.03)
Economic Concentration (HHI), $t-1$	-0.74^{***}	-2.07^{***}	1.78^{***}
	(0.14)	(0.22)	(0.34)
Homicides per 100k (Log), $t-1$	-0.11^{***}	0.02	-0.10^{***}
	(0.01)	(0.02)	(0.03)
Airport	-0.02	0.01	-0.09
	(0.02)	(0.06)	(0.06)
Port	-0.02	0.27^{**}	0.18^{**}
	(0.03)	(0.11)	(0.09)
Intercept	-16.24^{***}	-14.73^{***}	-9.60^{***}
	(0.30)	(0.42)	(0.49)
AIC	37603.58	28038.18	26440.37
Log Likelihood	-18784.79	-14001.09	-13185.18
Observations	51667	51667	51667
Number of States	26	26	26
Number of Years	10	10	10
Variance: States (Intercept)	0.77	0.89	0.67
Variance: Years (Intercept)	0.34	0.22	0.17

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

Political Alignment has a positive effect on the binary outcome, but this effect is not statistically significant and nor is the effect of any political variable. Political factors alone cannot explain whether a municipality attracts FDI or not, but they can explain *how much* FDI a municipality

has the potential to attract.

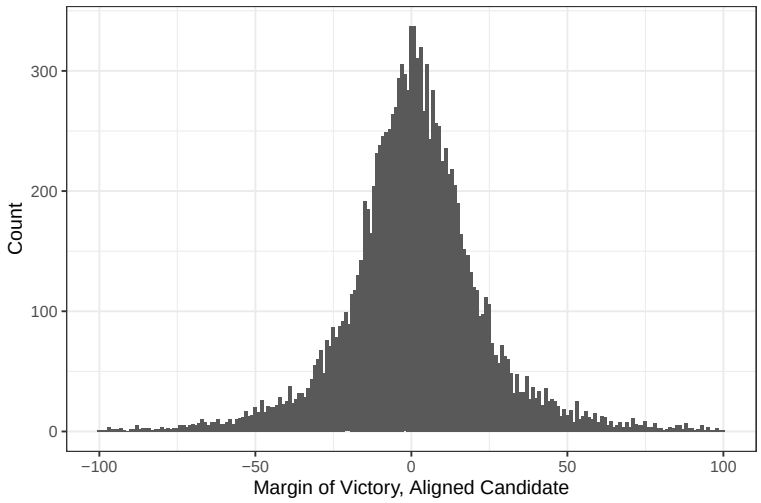
Table C.11 narrows down the analysis to FDI transactions in goods and services. The results continue to be statistically significant.

D Evidence From Close Elections: Continuity Assumption

D.1 Running Variable

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

Figure D.1: Distribution of the Running Variable



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

We do not conduct the McCrary discontinuity test (McCrary 2008) because the presence of mass points tends to distort the test's results, leading to inaccurate conclusions about the conti-

nuity of the density at the cutoff. Instead, we rely on covariate balance tests to assess whether pre-treatment characteristics are similar around the cutoff. This strategy is more robust to mass points while still providing evidence of no manipulation near the threshold.

D.2 Covariate Balance Tests

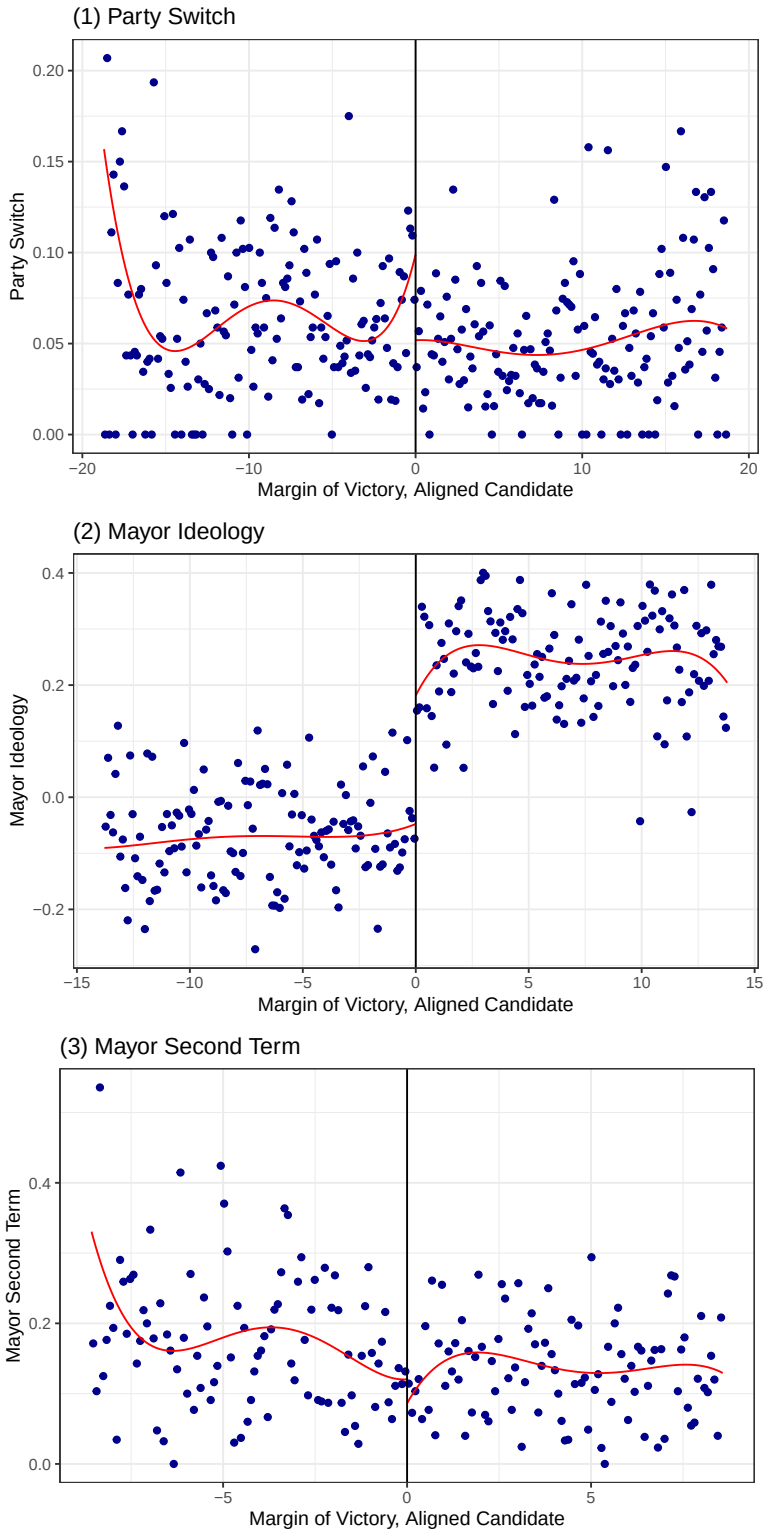
Second, we examine whether the pre-treatment covariates are similar on either side of the threshold. Ideally, these covariates should not change discontinuously at the threshold: the treatment and control groups should be comparable, and the only change should be the treatment itself. To test for this, we use the R package *rdrobust* (Calonico et al. 2015) to estimate models with each pre-treatment covariate as a dependent variable, clustering the standard errors by municipality and election cycle.

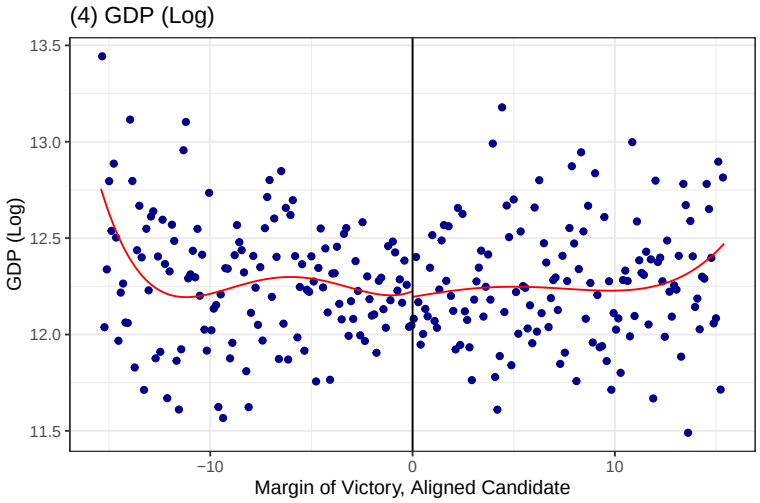
We begin with a visual inspection of the relationship between *Margin of Victory, Aligned Candidate* and each pre-treatment covariate. These are the same covariates used in the multilevel models, except for *Political Alignment* (the treatment variable), *Mayoral Election* (which is part of the treatment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

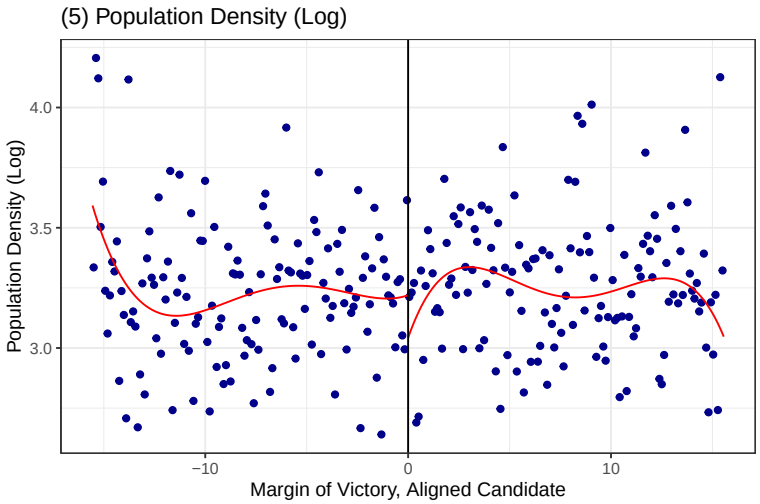
A visual inspection suggests that most variables are balanced, with two exceptions: *Party Switch* and *Mayor Ideology*. As Table D.1 confirms, an aligned mayor who barely wins is significantly less likely to switch parties than an aligned mayor who barely loses ($p = 0.006$), and an aligned mayor who barely wins is significantly more conservative (i.e., has a larger value of *Mayor Ideology*) than an aligned mayor who barely loses ($p = 0.000$). This imbalance could af-

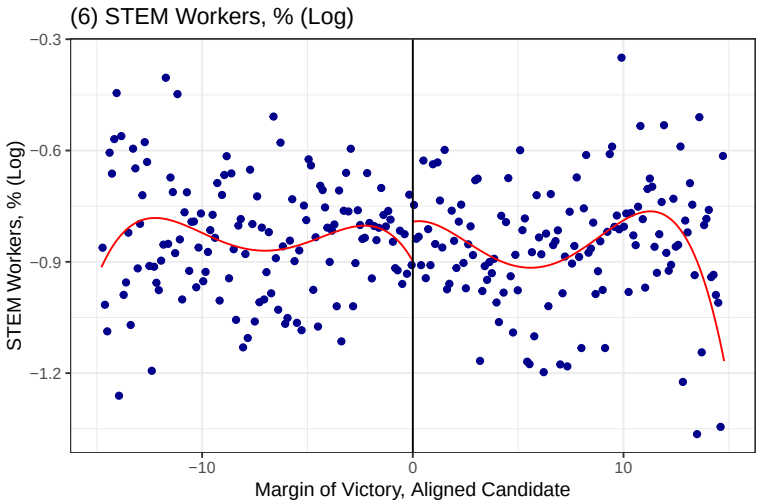
fect the validity of the RDD, as it violates the assumption that pre-treatment characteristics are independent of treatment assignment.

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

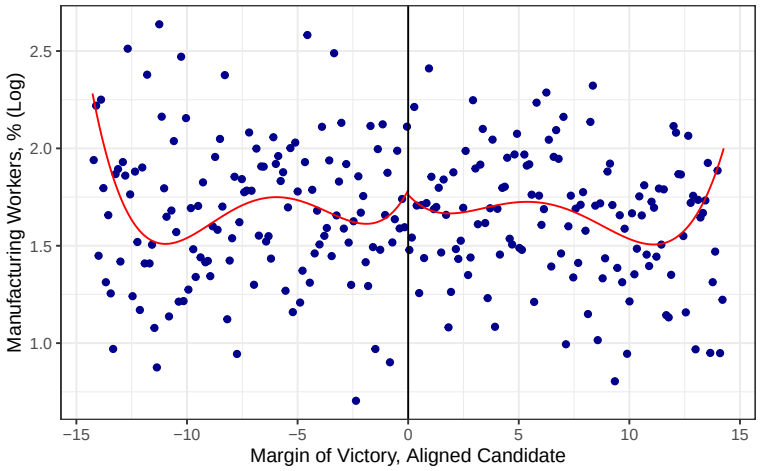



(4) GDP (Log)
GDP (Log)
13.5
13.0
12.5
12.0
11.5
−10
0
10
Margin of Victory, Aligned Candidate

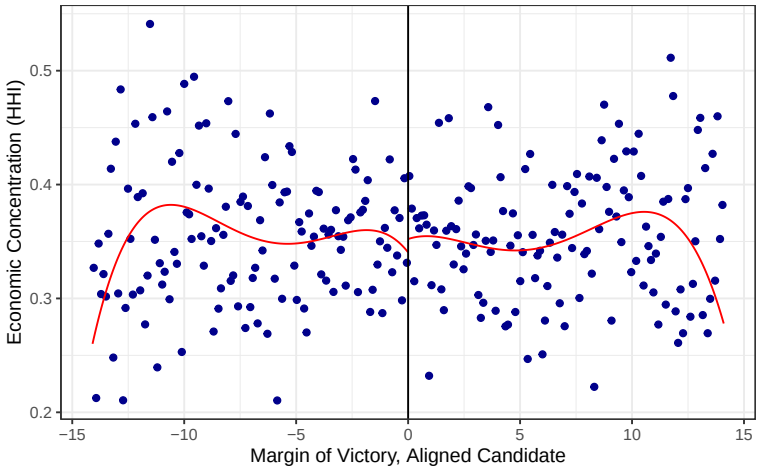

(5) Population Density (Log)
Population Density (Log)
4.0
3.5
3.0
−10
0
10
Margin of Victory, Aligned Candidate


(6) STEM Workers, % (Log)
STEM Workers, % (Log)
−0.3
−0.6
−0.9
−1.2
−10
0
10
Margin of Victory, Aligned Candidate

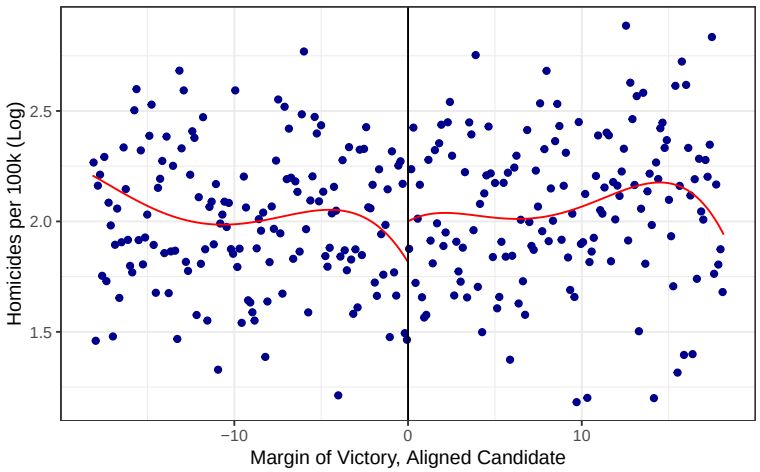
(7) Manufacturing Workers, % (Log)

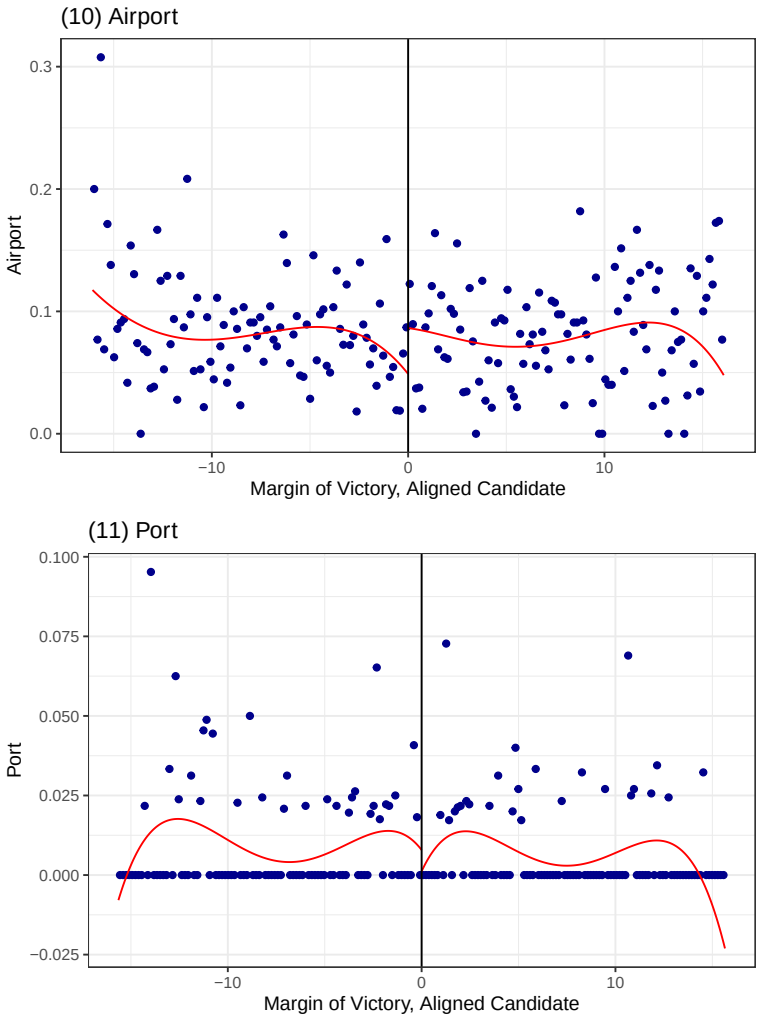


(8) Economic Concentration (HHI)



(9) Homicides per 100k (Log)





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

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

	Mayor Party Switch	Mayor Ideology	Mayor Second Term	GDP (Log)	Population Density (Log)	STEM Workers, % (Log)
	(1)	(2)	(3)	(4)	(5)	(6)
Political Alignment	-0.02^{***}	0.30^{***}	0.01	0.00	0.02	0.01
	(0.01)	(0.00)	(0.65)	(1.00)	(0.76)	(0.85)
Bandwidth (MSE)	18.70	13.79	8.58	15.4	15.56	14.78
Eff. Observations (Left)	6355	5287	3633	5738	5769	5569
Eff. Observations (Right)	6965	5641	3831	6156	6218	5974

	Manufacturing Workers, % (Log)	Economic Concentration (HHI)	Homicides per 100k (Log)	Airport	Port
	(7)	(8)	(9)	(10)	(11)
Political Alignment	0.05	−0.00	0.04	0.01	0.00
	(0.48)	(0.80)	(0.47)	(0.51)	(0.99)
Bandwidth (MSE)	14.27	14.10	12.35	16.08	15.65
Eff. Observations (Left)	5396	5351	6262	3924	3862
Eff. Observations (Right)	5796	5754	6864	4151	4080

This table presents the results of 11 regression discontinuity models with robust p-values. All models cluster standard errors by municipality and election cycle. $^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

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

D.3 Alternative RDD Specifications

Following Alberti et al. (2022), our main models cluster the standard errors by municipality and election cycle, controlling for two sources of imbalance: *Party Switch* and *Mayor Ideology*. In Table D.2, they correspond to Models 1 and 2. Models 3 and 4 follow the specification of Toral (2024), who includes electoral cycle fixed effects; Model 3 omits the covariates, whereas Model 4 includes them. Across all models, *Political Alignment* has very similar effect sizes: it is positively

— and significantly — associated with more FDI transactions.

Table D.2: The Effect of Political Alignment on FDI Transactions, Alternative RDD Specifications

	FDI Transaction Count			
	(1) Clustered SE, No Covariates	(2) Clustered SE, Covariate-Adjusted	(3) Electoral Cycle FE, No Covariates	(4) Electoral Cycle FE, Covariate-Adjusted
Political Alignment	0.15^{**}	0.14^{**}	0.13^{*}	0.12^{*}
	(0.03)	(0.04)	(0.06)	(0.07)
Bandwidth (MSE)	3.39	3.39	3.13	3.13
Eff. Observations (Left)	1565	1565	1440	1440
Eff. Observations (Right)	1694	1694	1563	1559

This table presents the results of four regression discontinuity models with robust p-values. Models 1 and 2 cluster standard errors by municipality and election cycle, whereas Models 3 and 4 include electoral cycle fixed effects. Models 2 and 4 include the covariates *Mayor Party Switch* and *Mayor Ideology*. $^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

D.4 Alternative Bandwidths

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

	FDI Transaction Count				
	(1) mserd	(2) mse2	(3) msesum	(4) msecomb1	(5) msecomb2
Political Alignment	0.14^{**}	0.15^{**}	0.2^{***}	0.14^{**}	0.2^{***}
	(0.04)	(0.03)	(0.01)	(0.04)	(0.01)
Bandwidth (MSE)	3.39	5.63	3.83	3.39	3.83
Eff. Observations (Left)	1565	2471	1742	1565	1742
Eff. Observations (Right)	1694	2770	1883	1694	1883

	FDI Transaction Count				
	(6) cerrd	(7) certwo	(8) cersum	(9) cercomb1	(10) cercomb2
Political Alignment	0.02	0.12^{*}	0.05	0.02	0.05
	(0.72)	(0.06)	(0.53)	(0.71)	(0.53)
Bandwidth (MSE)	2.12	3.51	2.39	2.12	2.39
Eff. Observations (Left)	947	1597	1099	947	1099
Eff. Observations (Right)	1065	1813	1174	1065	1174

This table presents the results of 10 regression discontinuity models with robust p-values. All models cluster standard errors by municipality and election cycle. All models include the covariates *Mayor Party Switch* and *Mayor Ideology*. Model 1 is the default bandwidth used in the main text. $^{***}p < 0.01$; $^{**}p < 0.05$; $^{*}p < 0.1$

When choosing a bandwidth, the challenge is to minimize bias while controlling for variance. The bandwidth should be narrow enough to provide precise estimates (as observations that are

too far from the cutoff might not reflect the local treatment effect around the cutoff), but not so narrow that the estimates are sensitive to noise (because they rely on few observations). The main model uses the bandwidth that minimizes the MSE, which is the default optimal bandwidth selection process employed by *rdrobust* to balance bias and variance. Table D.3 presents the results with bandwidths selected using alternative procedures. Models 1 to 5 use MSE-based bandwidth selectors, whereas Models 6 to 10 use selectors that minimize the Coverage Error Rate (CER). Calonico et al. (2019) describe these selection procedures in more detail. Our results are robust to all MSE-based selectors, but not to most CER-based selectors. We attribute this to the fact that CER-based selectors produce much narrower bandwidths that are underpowered: there are just not enough observations to detect an effect. Indeed, the CER-based selector with the largest bandwidth — that is, the largest number of effective observations (Model 7) — does in fact recover significant results.

E Why Alignment Attracts FDI: Robustness Checks

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

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

	FDI Transaction Count		
	(1)	(2)	(3)
	Poisson	Neg. Bin.	Zero-Infl. Neg. Bin.
Discretionary Transfers (Log), $t-1$	-0.02^{***}	-0.03^{***}	-0.04^{**}
	(0.00)	(0.01)	(0.01)
Mayor Party Switch, $t-1$	-0.20^{***}	-0.13	0.01
	(0.03)	(0.09)	(0.11)
Margin of Victory, $t-1$	0.03	0.13	0.07
	(0.03)	(0.09)	(0.11)
Mayor Ideology, $t-1$	0.08^{***}	0.05	0.03
	(0.02)	(0.05)	(0.06)
Mayoral Election, $t-1$	-0.58^{***}	-0.38^{*}	-0.21
	(0.13)	(0.21)	(0.20)
Mayor Second Term, $t-1$	-0.11^{***}	0.04	0.07
	(0.02)	(0.06)	(0.06)
GDP (Log), $t-1$	1.20^{***}	0.94^{***}	0.73^{***}
	(0.01)	(0.02)	(0.03)
Population Density (Log), $t-1$	0.05^{***}	0.16^{***}	0.08^{***}
	(0.01)	(0.02)	(0.02)
STEM Workers, % (Log), $t-1$	0.27^{***}	0.08^{***}	0.14^{***}
	(0.01)	(0.03)	(0.04)
Manufacturing Workers, % (Log), $t-1$	-0.31^{***}	-0.22^{***}	-0.37^{***}
	(0.01)	(0.02)	(0.03)
Economic Concentration (HHI), $t-1$	-0.70^{***}	-2.55^{***}	1.47^{***}
	(0.12)	(0.21)	(0.32)
Homicides per 100k (Log), $t-1$	-0.17^{***}	0.02	-0.09^{***}
	(0.01)	(0.02)	(0.03)
Airport	0.04^{**}	0.06	-0.07
	(0.02)	(0.05)	(0.06)
Port	-0.06^{***}	0.31^{***}	0.27^{***}
	(0.02)	(0.11)	(0.09)
Intercept	-16.96^{***}	-14.10^{***}	-9.74^{***}
	(0.28)	(0.40)	(0.46)
AIC	48346.90	32792.00	31065.90
Log Likelihood	-24156.45	-16378.00	-15497.95
Observations	51665	51665	51665
Number of States	26	26	26
Number of Years	10	10	10
Variance: States (Intercept)	0.84	0.95	0.76
Variance: Years (Intercept)	0.26	0.15	0.11

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

Table E.2: The Effect of Discretionary Transfers on FDI Transactions (Focusing on Discretionary Capital Transfers)

	FDI Transaction Count		
	(1)	(2)	(3)
	Poisson	Neg. Bin.	Zero-Infl. Neg. Bin.
Discretionary Capital Transfers (Log), $t-1$	-0.02^{***}	-0.04^{***}	-0.04^{***}
	(0.00)	(0.01)	(0.01)
Political Alignment, $t-1$	0.12^{***}	0.16^{***}	0.12^{**}
	(0.01)	(0.05)	(0.06)
Mayor Party Switch, $t-1$	-0.19^{***}	-0.13	0.01
	(0.03)	(0.09)	(0.11)
Margin of Victory, $t-1$	0.04	0.14	0.07
	(0.03)	(0.09)	(0.11)
Mayor Ideology, $t-1$	0.08^{***}	0.02	0.02
	(0.02)	(0.05)	(0.06)
Mayoral Election, $t-1$	-0.58^{***}	-0.40^{*}	-0.23
	(0.13)	(0.22)	(0.20)
Mayor Second Term, $t-1$	-0.10^{***}	0.05	0.08
	(0.02)	(0.06)	(0.06)
GDP (Log), $t-1$	1.19^{***}	0.93^{***}	0.73^{***}
	(0.01)	(0.02)	(0.03)
Population Density (Log), $t-1$	0.05^{***}	0.16^{***}	0.08^{***}
	(0.01)	(0.02)	(0.02)
STEM Workers, % (Log), $t-1$	0.27^{***}	0.08^{***}	0.15^{***}
	(0.01)	(0.03)	(0.04)
Manufacturing Workers, % (Log), $t-1$	-0.32^{***}	-0.22^{***}	-0.37^{***}
	(0.01)	(0.02)	(0.03)
Economic Concentration (HHI), $t-1$	-0.81^{***}	-2.56^{***}	1.45^{***}
	(0.12)	(0.21)	(0.32)
Homicides per 100k (Log), $t-1$	-0.17^{***}	0.02	-0.09^{***}
	(0.01)	(0.02)	(0.03)
Airport	0.05^{***}	0.06	-0.07
	(0.02)	(0.05)	(0.06)
Port	-0.07^{***}	0.30^{***}	0.27^{***}
	(0.02)	(0.11)	(0.09)
Intercept	-16.83^{***}	-14.12^{***}	-9.76^{***}
	(0.28)	(0.40)	(0.46)
AIC	48271.37	32776.26	31058.56
Log Likelihood	-24117.68	-16369.13	-15492.28
Observations	51665	51665	51665
Number of States	26	26	26
Number of Years	10	10	10
Variance: States (Intercept)	0.83	0.94	0.75
Variance: Years (Intercept)	0.28	0.17	0.12

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

F Data Sources

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

Airport. Agência Nacional de Aviação Civil.

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

Economic Concentration (HHI). Herfindahl–Hirschman Index calculated using the R package EconoGeo and employment data by sector, Relação Anual de Informações Sociais (RAIS), via Base dos Dados.

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

Fiscal Management. Índice Firjan de Gestão Fiscal, Firjan.

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

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

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

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

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

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

Mayor Party Switch. Calculated using party membership records (Filiação Partidária), Tri-

bunal Superior Eleitoral, via Base dos Dados.

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

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

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

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

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

Port. Receita Federal.

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

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

G References

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