The Ugly Face of MNCs: Protests against MNCs and Collusive Corruption in Liberia*

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Abstract

There is an extensive literature on the positive impacts of foreign direct investment (FDI) on host economy, but it is often inconsistent with the local residents' experiences in many developing countries. This paper investigates the public responses toward the interactions between multinational corporations (MNCs) and political corruption using cases in Liberia. We analyze the newly collected district-level data of social protests against MNCs in Liberia between 2004 and 2021. Using a difference-in-differences design with a spatially lagged dependent variable and error terms, we find that an FDI entry increases protests against MNCs. This effect increases in the level of corruption and the number of senators from opposition parties. This implies that corruption provides the reasons for protest. In addition, senators from opposition parties have more incentives to encourage protests in area that they represent, while senators from governing party may strengthen repression as a result of collusive corruption between MNCs and the host government. We also find that firms use bribery to hedge political risks from protests on particular issue areas. However, when the demand of protesters has clear legal focal points to dispute, collusive corruption cannot repress protests.

KEYWORDS MNCs, social protests, georeferenced dataset, difference-in-differences, spatial lag

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Introduction

In 2009, Sime Darby, a Malaysian agricultural company, signed a 63-year concession to develop 220,000 hectares of land in Bomi and Grand Cape Mount counties in Liberia.[1] The company owned the world's largest oil palm plantation. However, until the divestment of its entire Liberian operations in 2020, there have been 12 protests against the plantation due to salaries arrears, noncompliance of concession contract regarding corporate social responsibility (CSR) activities, poor treatment of workers, land rights violation, and environmental damages. A former Bomi county lawmaker, Sando Johnson, even threatened to sue the company for labor issues.[2].

Multinational corporations (MNCs) have been regarded as promoters of sustainable development in host countries (e.g. Ghauri and Yamin 2009; Kolk 2016). Extant literature has suggested that foreign direct investment (FDI) provides countries access not only to abundant foreign capital but also to advanced technologies, which facilitates host countries to get through the long economic stagnation as well as to achieve miraculous economic growth (e.g. Blomström and Kokko 1998; Blonigen and Wang 2005; Görg and Greenaway 2004; Gorg and Strobl 2004; Meyer and Sinani 2009; Moran, Graham and Blomstrom 2005; Narula and Dunning 2000, 2010; Poole 2013). Nevertheless, it is often inconsistent with the local residents' experiences in developing countries.

Recent studies reflect growing interests in such irresponsible corporate behavior and corporate crime in host countries (e.g. Alcadipani and de Oliveira Medeiros 2020; Antonetti and Maklan 2016; Lin-Hi and Müller 2013). The effectiveness of MNCs' CSR initiatives has been questioned (e.g. Chanda, Burton and Dunne 2017; Frynas 2005; Jamali and Karam 2018; Lund-Thomsen, Lindgreen and Vanhamme 2016; Phiri, Mantzari and Gleadle 2018), and other studies report that MNCs tend to increase corruption in the host local economy (e.g. Knutsen, Kotsadam, Olsen and Wig 2017; Malesky, Gueorguiev and Jensen 2015; Nachum and Zaheer 2005; Zhu

[1] Murugiah, Surin. 2020. "Sime Darby Plantation completes Liberian unit disposal." *The Edge Markets*. 16 January 2020. (https://www.theedgemarkets.com/article/sime-darby-plantation-divests-liberian-operations)

[2] Perry, Roland. 2010. "Liberia: Lawsuit Hangs Over Sime Darby Plantation." *The Informer*. 12 August 2010. (http://allafrica.com/stories/201008120977.html)

2017).

The purpose of this paper is to investigate the public response towards the interaction between MNCs and political corruption using cases in Liberia. Although FDI is perceived as an important asset to promote economic development in Liberia, there have been many reports and news on MNCs providing poor working conditions and environmental damages. In addition, host governments and local politicians often collude with MNCs, which tacitly allows such unlawful misdemeanors of those foreign companies. As a result, there have been much social unrest and incidents against MNCs.

This study focuses on the pattern of social protests against MNCs in Liberia. We collect the district-level data of local protests against MNCs between 2004 and 2021. Exploiting the new FDI entry into a district as a treatment variable, this research employs a difference-in-differences (DID) design to identify the causal effect of the presence of foreign investments on protests against MNCs. To address the spatial dependence between cross-sectional units, this paper uses spatially lagged the outcome variable and error terms. We find that an FDI entry increases protests against MNCs. This effect increases in the level of corruption and the number of senators from opposition parties. This implies that corruption provides the reasons for protest. In addition, senators from opposition parties have more incentives to encourage protests in area that they represent, while senators from governing party may strengthen repression as a result of collusive corruption between MNCs and the host government.

We also find that multinationals use bribery to hedge political risks from particular types of protests. As mining firms are vulnerable to environment and concession issues, protests against foreign miners on these issues are more likely to be muted when the corruption level is high. Agricultural firms are susceptible to labor strikes. As a result, agricultural MNCs face fewer protests on labor in more corrupt area than cleaner. Because land right issues have clear legal focal points to dispute, bribery cannot contribute to suppressing land-related protests but increasing tacit approval of corporate misbehavior, and thus corruption increases protests on land issues.

This paper contributes to the literature of FDI in three ways. First, this study sheds light on micro-level interactions between local residents' grievance against MNCs, corruption, and politicians that have been neglected by previous literature. Second, this study contributes to the methodological advances in the literature. Using the newly collected district-level data of protests and FDI in Liberia, this study provides more systematic evidences of the impact of FDI on local communities than previous empirical studies. The third contribution of this research is to the literature on the corporate social responsibility (CSR) of MNCs. Many foreign companies often advertise the number of schools and hospitals that they build in host countries and their participation in local festivals. However, the more important part of CSR is the investment in institutional development to clarify the problem and responsibility among actors. Although our empirical design is based specifically on Liberia, our findings are more widely applicable.

FDI, Corruption, and Social Conflict

Multinational Corporations (MNCs) are often regarded as an economic stimulant for a host's economic development. Most scholarship on FDI has focused on economic growth and prosperity of host countries (e.g. Blomström and Kokko 1998; Blonigen and Wang 2005; Görg and Greenaway 2004; Gorg and Strobl 2004; Meyer and Sinani 2009; Moran, Graham and Blomstrom 2005; Narula and Dunning 2000, 2010; Poole 2013). Essentially, the foundation of the theory is that the host country's economy is stimulated and developed through technology transfer, tax revenues, industrial production, and job creation. However, FDI does not always benefit host community. MNCs often commits to violation of worker's rights, land rights, environmental regulations, and concessional agreements, which can be a cause of social conflict. This tendency becomes greater when host institutions remain weak (Fig 2005; Leonard 2018).

There have been a series of protests against the Malaysian oil palm giant, Sime Darby, from local residents in in Bomi and Grand Cape Mount counties. Under the concession, Sime Darby pledged to contribute local communities by building housing, hospitals, and five primary and secondary schools with free education for worker's family. Employees and local residents expected an opportunity to send their kids to a quality school. However, the education facilities built by the corporation were deplorable and school teachers had not been paid for a while since the company did not pay the promised Cultural Endowment Fund.[3] Moreover, working conditions and labor practices were also bad. Workers were paid at the minimum wage ($3 a day) and even the company did not pay on time. Workers had to spray toxic chemicals to nurture palm trees, while the management provided no protective gear nor good health insurance. Sime Darby also violated the land rights of local farmers while also polluting the water.[4]

Based on our research, there have been 72 protests against MNCs[5] in Liberia between 2004 and 2021. Given a fact that 91 foreign investment projects[6] have been operated by 47 MNCs from 20 countries during the time, 72 protests imply that many MNCs well contribute to increasing local grievances against MNCs in their vicinity.

***Hypothesis* 1.** *FDI increases local protests against MNCs in the vicinity of its facilities.*

Nevertheless, 72 protests also mean that not all the MNCs induce social conflicts. The maps in Figure 1 show the geographical distribution of social protests against MNCs, foreign investment facilities, and the level of corruption between 2004 and 2021 in 136 administrative districts of Liberia. According to the maps, some districts hosting FDI have experienced a greater number of protests, while others experience a fewer number of protests or none. If the

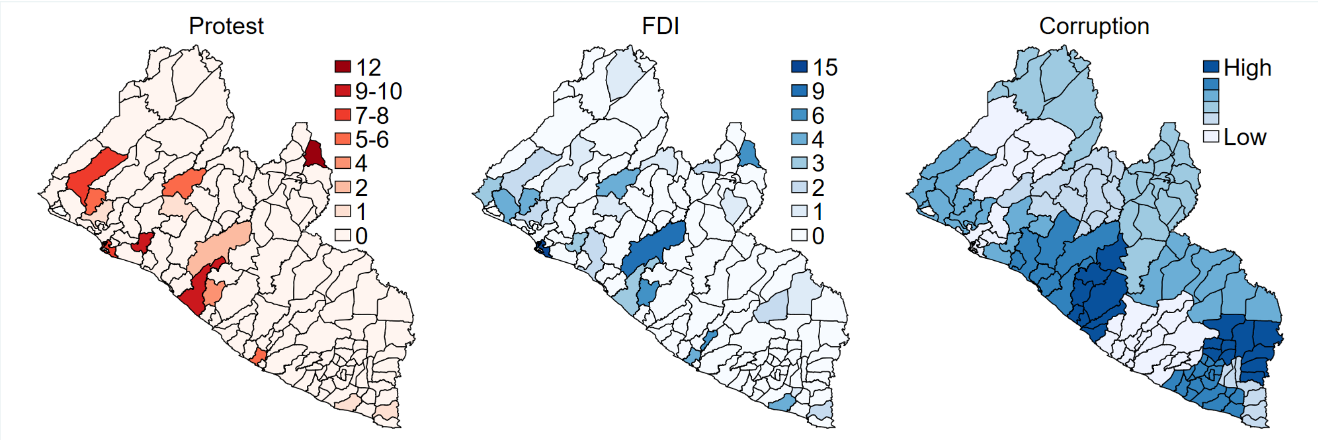
[3]Koinyeneh, Gerald C. 2020. "Liberia: Workers Stage 21-Day Protest in Demand of New Company to Meet Sime Darby's Contractual Agreement." *Front Page Africa.* 13 March, 2020. (https://frontpageafricaonline.com/news/liberia-workers-stage-21-day-protest-in-demand-of-new-company-to-meet-sime-darbys-contractual-agreement/)

[4]Caramel, Laurence. 2011. "Is palm oil a kernel of development for African countries like Liberia?." *The Guardian.* 8 March, 2011. (https://www.theguardian.com/environment/2011/mar/08/africa-asia-palm-oil-caramel)

[5]We searched news media reports on FDI-related social conflicts in Liberia from 14 news platforms: Reuters, Frontpage Africa, Aljazeera, Mongabay, Liberian Observer, The Atlantic Federation of African Press Agencies (FAAPA), Hot Pepper Newspaper, Global News Network (GNN) Liberia, The Newdawn Liberia, Flash News Liberia, The Independent Probe Newspaper, Liberia News Agency, All Africa, and Google. These news platforms include both internationally well-known newspaper and Liberian online local newspapers. At each platform, we searched either "conflicts" or "protests" with specific FDI locations and the name of foreign firms in Liberia.

[6]We identify the location of MNCs and its entry timing by using publicly available FDI datasets including fDiMarkets.com, Bloomberg Terminal data, and other supplementary online news sources.

Figure 1: The Geographical Distribution of Protests against MNCs and FDI in Liberia



entry of FDI generates local grievances against MNCs, under which condition do those grievances erupt as protests? This paper focuses on two factors that can provide more reasons for protests: corruption and senators of opposition parties.

Between August 2021 and May 2022, we conducted a series of interviews with 7 local Liberians who had either observed or participated in a protest against MNCs, and two Liberian political scientists. One consensus among these interviewees is that the collusive corruption between MNCs and government officials prevents FDI from benefiting host local economy, and remains local residents and workers under-represented. Some scholars find that corruption tends to impede quality FDI because it results in additional costs of operation (e.g. Habib and Zurawicki 2001; Hellman, Jones and Kaufmann 2002; Kaufmann 1997; Svensson 2005; Wei 2000). Recent studies suggest that some firms may prefer a corrupt economy than others by focusing on industrial heterogeneity across MNCs, while the theoretical predictions and empirical evidence have not reached a consensus. Brouthers, Gao and McNicol (2008) argue that corruption discourages resource-seeking investors, while market-seeking FDI is more likely to accept corruption since it can offset the additional costs by increasing prices. In contrast, Kolstad and Wiig (2013) and Knutsen, Kotsadam, Olsen and Wig (2017) suggest that MNCs in mining sectors tend to prefer more corrupt environment since gains after the bribes are greater. Furthermore, firms with greater fixed asset intensity are more likely to accept predictable asking for side payments in exchange for better concession terms and operations (Zhu and Deng 2022; Zhu and Shi 2019).

In most cases, however, such demands for side payment are not a surprising news even for newly entering multinationals in developing countries. Hence, other studies claim that corruption can be an incentive for FDI (Cuervo-Cazurra 2016; Egger and Winner 2005; Li and Resnick 2003). Multinationals are rather more willing to pay bribes to enter a market with more entry barriers, to smooth and secure concession acquisition process, and to access to critical infrastructure (Levien 2013; Malesky, Gueorguiev and Jensen 2015; Wei and Kaufmann 1999; Zhu 2017). Furthermore, collusive corruption between MNCs and government officials greases the wheel of irresponsible corporate behaviors. Corruption often hampers the enforcement of regulations and efforts of correcting misbehavior of foreign investors. In addition, corrupt host government officials try to repress protests against MNCs to maintain the collusive exchange. As local politicians can take greater rents from corruption when firms stay longer and take more profits from investment, they tacitly consent to bad corporate practices. Interviewees claim that they have petitioned government officers for correcting misbehavior and maltreatment of MNCs in their town. However, those officers barely tried to regulate corporate commitment to the community. When it turns out that those firms paid bribes, people staged a protest against MNCs. Finally, the police fired a gun in the air and the protest becomes more violent. This implies that local residents would have more reasons for protests against MNCs when the level of corruption increases. Moreover, protests could be the only last resolution that local people can rely on.

***Hypothesis* 2.** *FDI causes more protests when the level of corruption is greater.*

Under this circumstance, supports from influential political actors who can deter repression would be greatly helpful for local people. Senators affiliated in the incumbent party are more likely to be a beneficiary of honeymoon relationship with MNCs and government officials. In contrast, senators from opposition party do not automatically become a collusive partner with MNCs. Because concessions are negotiated and signed between host government and MNCs, politicians from the governing party are an actor who are a natural target of bribery as well as who can demand side payment in exchange for greasing the wheel. Hence, senators from opposition parties can increase local protests against MNCs for two reasons. First, they can provide a political opportunity for local host communities. Opposition parties are in the position of checking and balancing the power and interests of the governing party and the Executive branches. They can also earn public supports by raising dissatisfaction against the government. Therefore, local politicians, particularly senators of different parties, have more incentives to lead and support protest against MNCs. One interviewee who was participated in a protest against Sime Darby in 2018 suggests that his senator affiliated in the Unity Party (UP) joined the protest and mediated the talk between protesters and the firm. Interestingly, 2018 is the year when the UP became an opposition party as a result of the electoral victory of George Weah from the Coalition for Democratic Change (CDC). This implies that the senator wanted to mobilize public supports to increase his political survivability.

On the other hand, they can induce firms to provide bribery by increasing protests against multinationals. Because they were not in the position of negotiation as well as have less influence in controlling police authority, they tend to be a less attractive partner of collusive exchange. Once they could make MNCs realize that they can control protesters, however, those firms are more willing to grab their hands. Sando Johnson served as a senator of Bomi County from 2011 to 2020. He was a member of the All Liberians Party (ALP) during the time when the UP was the governing party. When CDC became the incumbent party since 2018, he moved to the Collaborating Political Parties (CPP), a conglomeration of four opposition parties: Unity Party(UP), Liberty Party(LP), Alternative National Congress(ANC), and All Liberian Party(ALP). So, he has not been a member of governing party. So, he often expressed his support to protests against Sime Darby since 2010 and claimed to prosecute corruption scandals between MNCs and governmental officials such as the Sabel Mining bribery case in 2018 and the concession agreement between Hummingbird Resources and Liberian government in 2019. However, these actions seem to be his strategy to leverage his position in a collusive exchange. In

2014, one of the largest Liberian offshore oil block, Block 16, was awarded to a coalition of Liberty Petroleum (US), Pillar Oil (Nigeria), and New Millennium Oil and Gas Resources (Liberia). At the time, Senator Johnson was a chairman of the Senate Committee on Concession. On the day when the concession was approved by the legislature, a mysterious payment of $31,000 was delivered to his bank account.[7]

In contrast, senators from the incumbent party are more attractive target of bribery, and thus they are more likely to engage in corruption. They have authorities, access, and resources to suppress protests and provide a lax regulation for MNCs. They can maximize their rents from the collusion with MNCs by protecting hard the interests of MNCs but not that of local constituents, since foreign investors would compensate for the repression. As long as such collusive exchanges with MNCs are barely caught, receiving side payments from MNCs even increase their political survivability. Bowles, Larreguy and Liu (N.d.) find that the incumbent party in Liberia has increased monitoring and incentivizing tools to facilitate clientelism. Since monetary rewards are the key to control brokers, protests are more likely to be suppressed in a county where more senators are affiliated in the incumbent party.

***Hypothesis* 3.** *FDI causes more protests in a county as the number of senators affiliated in the opposition parties increases.*

The effect of senators' partisan affiliation on protest against MNCs implies that the effect of corruption can vary across the composition of partisanship of senators. The corruption, in general, provides reasons for local grievances, which in turn increases protests. However, more corrupt senators from the incumbent party put more suppression on protests. On the contrary, more corrupt senators from opposition parties would encourage more protests to increase their attractiveness in collusive exchange. Therefore, the expectation that a new entry of FDI in a district increases the number of protests as the level of corruption becomes greater would hold only

[7] Gant, Jonathan. 2015. "Liberia has burned the furniture to warm the house." *Global Witness*. 27 February, 2015. (https://www.globalwitness.org/en/archive/liberia-has-burned-furniture-warm-house/)

when there are senators from opposition parties. However, the increase in the number of senators from the governing party would reverse the effect of corruption. In other words, there will be fewer number of protests against MNCs as the level of corruption increases if there is no opposition senator. When the corruption level is low, the presence of senators from governing party can result the more protests because they are less incentivized to suppress protest against MNCs.

***Hypothesis* 4.** *FDI causes more protests when the county is represented by senators from opposition party and corruption level is high, while FDI and corruption are less likely to increase protest when the county is represented by senators from governing party.*

Research Design

Our newly collected district-level data of the location of both FDI and protests against MNCs between 2004 and 2021 includes all 136 administrative districts in Liberia. The dependent variable is the number of protests at year t. As mentioned earlier, we searched news media reports on FDI-related social conflicts in Liberia from 14 news platforms (see footnote 5). After counting the number of protest at the firm-year level, we aggregate them to the district-year level. According to the dataset, Arcelor Mittal experienced the most protests (16), followed by Firestone (12) and Sime Darby (12). 72 protests include 18 protests on land issues, 31 on labor rights, 12 on environmental, and 17 on corporate commitment to concession deal.[8] Between 2004 and 2021, the district where protests occurred the most frequently is Gbehlay-Geh district in Nimba county (12), followed by Firestone district in Margibi county (10) and District #4 in Grand Bassa county. Among 2,448 district-year level observations, Greater Monrovia in 2021, Firestone district in 2020, and Gbehlay-Geh district in 2020-21 have the largest annual number of protest (4), while 48 districts have experienced at least one protest between 2004 and 2021.

[8] The sum of the number of each issue type of protest (78) exceeds the total number of protests, since some protests are staged for multiple issues.

To estimate the causal effect of new FDI on protest against MNCs, we test our hypotheses by using a staggered difference-in-difference (DID) design. The treatment group consists of districts which have hosted MNCs between 2004 and 2021, while the control group consists of districts where MNCs never entered. There are 25 districts in the treatment group and 111 districts are in the control group. The intervention timing is the earliest year of new entry since 2004. The intervention timing for control groups are coded as the earliest year of new entry in a nearest district.[9] The distribution of intervention timing of each district is as follows:

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013
Districts	45	7	0	7	6	60	0	4	7
(%)	33.09	5.15	0	5.15	4.41	44.12	0	2.94	5.15

To evaluate Hypothesis 2, we measure the local corruption level using the perceived corruption level of local government officials based on Afrobarometer survey response. Liberia has been included in Afrobarometer since 2008, which is the 4th wave. Because the number of observation for each administrative district is not even across districts and small in the survey, we aggregated these values at the county level and coded the corruption score based on the best available time periods. For example, the corruption score from 2004 to 2011 is the same with that of the 4th wave (2008); from 2012 to 2014 is that of the 5th (2012); 2015 to 2018 is as the 6th (2015); and 2019 to 2021 is as the 7th (2018). The map on the right in Figure 1 shows the distribution of this variable. The corruption score ranges from 0 to 3. The least corrupt area is Rivercess county which scores 0.905 between 2004 and 2011, followed by Maryland county between 2012 and 2014 (0.95) and Grand Gedeh between 2012 and 2014 (1). The most corrupt county is River

[9] A key assumption for a difference-in-differences design is the parallel trends assumption. Hence, the number of protests in a region for the control and treatment groups must have the common average changes in the pre-intervention timing. Plots in Figure 7 in Appendix display lowess lines for the adjusted average number of protests against MNCs in each group. The plot on the left uses 1 for the bandwidth, the center one uses 0.6, the right plot uses 0.4. In general, all the plots show there is a common stable average changes before a new MNC's entry, while the number of protest for the treatment group surges right after the entry. The number of protests for the treatment group shows a slight consistent decreasing pattern from the t-10 to 0. This may reflect a fact that a new FDI tend to be located in an area where other MNCs already ran their business, which incurred protest 10 years before the new firm enters. Interestingly, the number of protest for control group dramatically increases in t+5. This may imply the spillover impact of the presence of MNCs toward the vicinity districts. To address this issue, this paper employs spatial autoregressive models.

Gee between 2015 and 2018 (2.458), followed by Rivercess between 2015 and 2018 (2.25) and Grand Bassa between 2015 and 2018 (2.15). The average corruption score is 1.490.

In Liberia, the House of Senate consists of 30 senators representing the 15 counties. Hence, each county is represented by two senators. Before 2011, 15 senators are categorized as senior senators who serve for nine years, and the other 15 are called junior senators serving for six years. However, Following the 2011 General and Presidential elections, all senators are elected to serve a term of nine years, while the timing of election is different for each senator group. To test H3, we count the number of senators from the governing party. Among 2448 district-year observations, 1,693 (69,26%) district-years have zero senators from the incumbent party, 472 (19.28%) district-years have one senator from an opposition party and the other one from the governing party, and 283 (11.56%) samples are represented by both senators from the incumbent party. All the constituent terms of interaction between these these two independent variables and the difference-in-differences terms are included in the model to test Hypothesis 4.

Since workers can come across neighboring districts and social and environmental impact of MNCs can reach to near local communities, we have to consider the spatial spillover effect of the dependent variable and disturbance process. Therefore, we include the spatially lagged dependent variable ($\rho W y_t$) and error terms ($\epsilon_{i,t}$) in the model. We use the following model specification:

$$
\begin{aligned}
\mathrm{y}_{i,t} &= \alpha + \beta\ \left[\text{Entry}_{i,t} \times \text{Intervention}_{i,t} \times \text{Corruption}_{i,t} \times \text{Governing Sen.}_{i,t}\right] + \mu\ \text{Monrovia}_i + \rho W y_{i,t} + \delta_t + \epsilon_{i,t} \\
\epsilon_{i,t} &= \lambda W \epsilon_{i,t} + \gamma_i + v_{i,t}
\end{aligned}
\tag{1}
$$

α is the intercept. $\left[\text{Entry}_{i,t} \times \text{Timing}_{i,t} \times \text{Corruption}_{i,t} \times \text{Governing Sen.}_{i,t}\right]$ is the vector of all the constituent terms for four-way interactions between the difference-in-differences estimates, corruption level, and the number of senators from the governing party. μ Monrovia$_i$ is included to control for the peculiarity of the district of Greater Monrovia. Agricultural and extractive MNCs are well scattered across different districts in Liberia, while FDI in other sectors are only concentrated in the district of Greater Monrovia.[10] In addition, because Monrovia is the capital city, all the governmental agencies including the Legislature of Liberia, the Supreme Court of Liberia, and the Executive Mansion of Liberia are located in this area. Therefore, the pattern of protests against MNCs in Monrovia should be different from other areas. $\epsilon_{i,t}$ consists of the spatial error term, $\lambda W \epsilon_t$, and the random error term, $v_{i,t}$, to address spatial autocorrelation among residuals. γ_i is the panel-level effects for administrative division i and δ_t is the year fixed effect.

Findings

The main results are presented in Table 1. Model 1 estimates the main model without interaction terms. The interaction term has a positive and significant coefficient which is greater than the absolute value of the negative significant coefficient for the intervention variable. This implies that protests against MNCs are more likely occur when a new MNC enters into a district. The margins plot on the left in Figure 2 also suggests that the new entry significantly increase the likelihood of protest, which is consistent with Hypothesis 1. The dummy variable for Monrovia has a negative and significant coefficient, which indicates that Monrovia experiences relatively smaller number of protest if the new entry of MNCs hold the same as other districts.

Model 2 includes the interaction term between the difference-in-differences estimates and the level of corruption. The coefficient for the three-way interaction term is positive and statistically significant at 90% level. This implies that the effect of the new entry of MNCs on protest increases in the level of corruption, while this effect may not be statistically significant at some levels of corruption. The margins plot on the right in Figure 2 visualizes how corruption moderates the effect of MNCs entry on protest. As Hypothesis 2 suggests, the FDI entry into more corrupt district increases more protests than into less corrupt regions.

[10] Maps in Figure 8 in Appendix visualize the geographical distribution of MNCs in Liberia across the industrial sectors. In fact, Monrovia host the most FDI in Liberia. 15 MNCs entered Monrovia, while the second largest host district, District #3 of Grand Bassa county hosts 9.

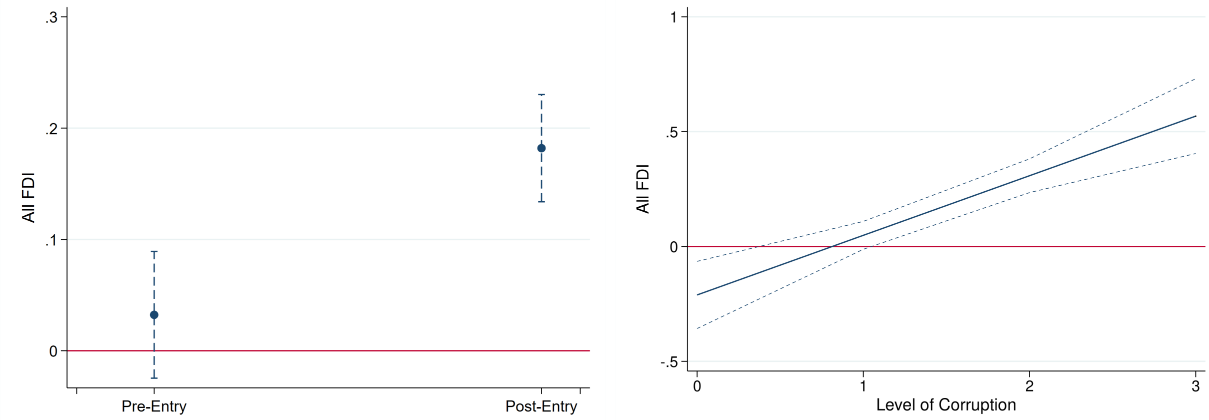
Table 1: Impact on All Types of Protests

	Model 1	Model 2	Model 3	Model 4
Entry	0.032	0.144	0.042	0.496
	(0.029)	(0.251)	(0.036)	(0.382)
Intervention	-0.041**	-0.014	-0.043**	-0.008
	(0.019)	(0.094)	(0.021)	(0.124)
Entry × Intervention	0.149***	-0.354	0.162***	-0.764*
	(0.028)	(0.259)	(0.037)	(0.390)
Corruption	0.010	-0.000	0.008	-0.002
	(0.022)	(0.058)	(0.022)	(0.080)
Governing Sen.	-0.018	-0.014	-0.008	-0.002
	(0.013)	(0.013)	(0.023)	(0.086)
Entry× Corruption		-0.074		-0.306
		(0.171)		(0.259)
Intervention × Corruption		-0.016		-0.020
		(0.064)		(0.085)
Entry× Intervention × Corruption		0.333*		0.612**
		(0.176)		(0.264)
Entry× Governing			-0.014	-0.342
			(0.026)	(0.256)
Intervention × Governing			0.004	-0.019
			(0.022)	(0.097)
Entry× Intervention × Governing			-0.052	0.493*
			(0.036)	(0.280)
Corruption × Governing				-0.001
				(0.057)
Entry× Corruption × Governing				0.224
				(0.176)
Intervention × Corruption × Governin				0.014
				(0.067)
Entry× Intervention × Corruption × Governing				-0.359*
				(0.190)
Monrovia	-0.297***	-0.284***	-0.298***	-0.286***
	(0.086)	(0.083)	(0.085)	(0.083)
Constant	0.310***	0.303**	0.297***	0.292*
	(0.099)	(0.121)	(0.104)	(0.150)
W×Protest	0.009	0.003	-0.004	0.000
	(0.093)	(0.089)	(0.092)	(0.090)
$W \times \epsilon_{i,t}$	0.052	0.048	0.066	0.053
	(0.095)	(0.092)	(0.094)	(0.092)
Observations	2448	2448	2448	2448
Pseudo R^2	0.100	0.115	0.104	0.119
Year FE	Yes	Yes	Yes	Yes

Note: Standard errors are in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Hypotheses 3 and 4 suggest that the new entry of MNCs would incur more protests in a district when the district is represented by more senators from opposition parties because senators from opposition parties are incentivized to encourage protests but senators from the

Figure 2: The Effect of the New Entry of MNCs on Protest

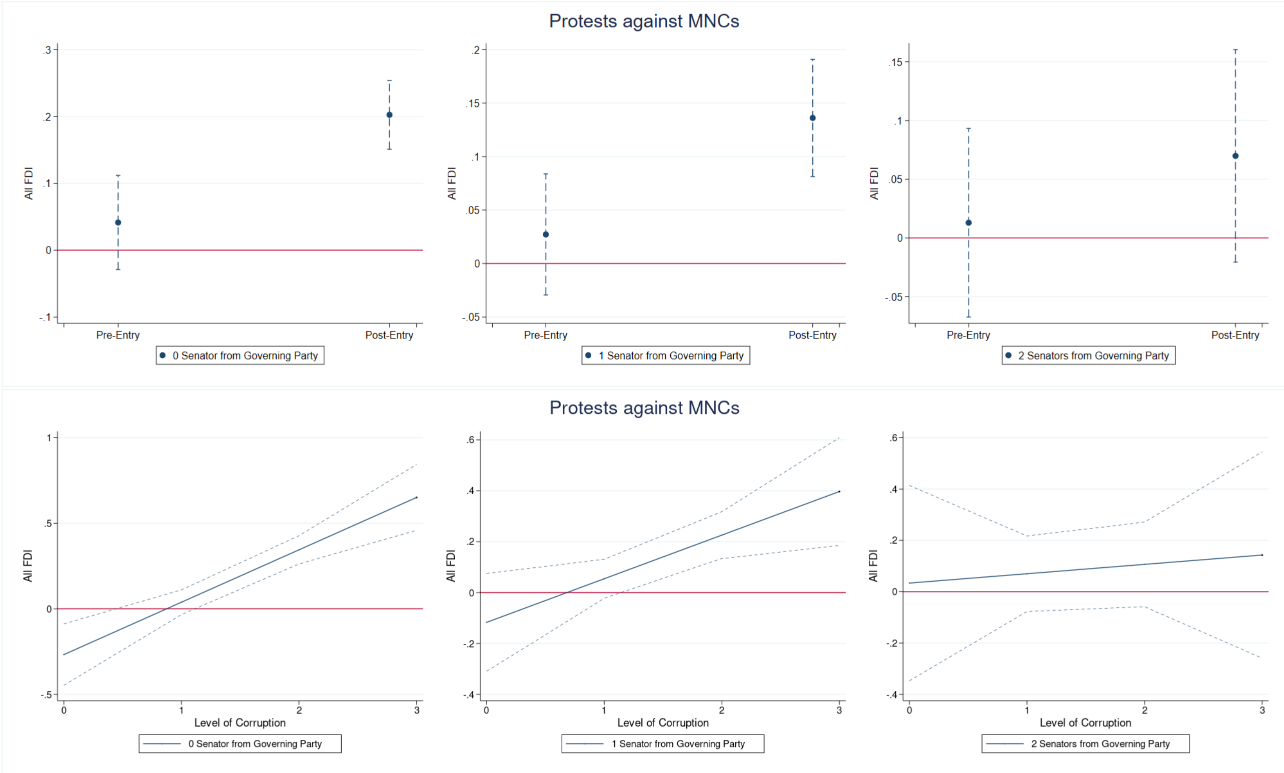


incumbent party can maximize their side payments by suppressing protests. Figure 3 summarizes the results from Model 3 and 4. The plots in the first row and the second row correspond to Model 3 and 4 respectively. The plots on the first column from the left indicate the interaction effects when both senators are affiliated in opposition parties, and plots in the second column are for the case when one senator comes from an opposition party and the other is from the incumbent party. In both columns, the treatment effect of the new FDI entry on protest is positive and significant. In addition, the marginal effects of MNCs significantly increase in more corrupt districts than cleaner districts. Although these plots show the same pattern across the partisan composition of senators, however, the size of the effects are much larger in an area where both senators come from opposition parties. When incumbent party members take both positions, the effect of entry becomes insignificant and the interaction effects are also insignificant even when the level of corruption is so high. This is consistent with the story that senators affiliated in the governing party may contribute to suppressing protests against MNCs.

Mining FDI vs. Agricultural FDI

Then, does the effect of MNCs on protests hold the same across different sectors? As shown in Figure 8 in Appendix, all the MNCs in finance, construction, utility, manufacture, and warehouse are located only in Monrovia, while foreign businesses in agricultural and mining sectors are

Figure 3: Interaction Effects across the Partisan Composition of Senators (M3 and M4)



geographically better distributed. Monrovia is the capital city of Liberia as well as the center of the transportation. This means that the Liberian dataset would only show the sectoral heterogeneity between mining and agricultural businesses. Therefore, this paper focuses on agriculture and mining FDI to examine the industrial heterogeneity in the effects of MNCs on protests.

As discussed earlier, some previous studies attempt to explain why foreign miners prefer corruption (e.g. Knutsen, Kotsadam, Olsen and Wig 2017; Kolstad and Wiig 2013; Malesky, Gueorguiev and Jensen 2015; Zhu 2017). Higher market entry barriers in extractive industry may generate monopoly rents, which in turn increases firms' willingness and capabilities to pay bribes. In addition, mining locations are geographically constrained and the up front costs of operation is greater than others. Therefore, divestment cannot be an easy option for extractive FDI. In contrast, agricultural FDI can be more mobile than mining business and the market entry barriers and monopolistic rents are relatively rare. If this is true, therefore, agricultural

MNCs have less incentives to pay bribes than foreign miners. Even if they decide to provide a side payment, they would pay less amount than extractive MNCs. If the payment is smaller or rarely given to local politicians, the level of police support during the protest would be different across these two industrial sectors. In other words, the expected level of repression against mining MNCs is greater than that of agricultural MNCs. This means that corruption will increase protests against agricultural FDI, while it will be reversed for extractive MNCs.

Nevertheless, bribery is a purposive action. It could be understood as a petition or lobbying process under the weak institution as well as firms' exchange with corrupt political actors to minimize business risks in the host country. Therefore, firms in each sector should have a set of clear objectives, and thus sectoral heterogeneity may work more strongly in a particular issue than at the aggregated level. Based on the demands of protesters, we could find that there are four major issues in protests against MNCs: environment, concession, labor, and land rights. Some protests were caused by a single issue but they are involved in multiple issues in many cases. As we find from the main results, corruption provides more reasons for protests in general. However, the high level of corruption also means that firms can have an opportunity to suppress protests by providing a bribery. Hence, the number of protest can decrease in corruption if firms provide monetary rewards to corrupt governmental officials and politicians in exchange for the repression.

***Hypothesis* 5.** *Total number of protests against both extractive and agricultural MNCs increases in corruption.*

The negative impact of mining industry on natural environment is not only a well-known fact but also a real life problem for local residents in Liberia. This implies that foreign miners would spend more resources bribing for environment issues. In contrast, plantation farming for palm oil and rubber incurs relatively smaller environmental damage, which in turn agricultural MNCs would not bribe much for this issue. Concession is also crucial for extractive FDI. Concession deals in mining sector in Liberia is about 13 years on average, while that of agriculture is usually longer than 60 years. Foreign miners in Africa also often face nationalist backlash against their natural resource extraction business. Therefore, they tend to promise various socio-economic development plans as a part of concession deals, which they tend not to commit quite well. Agricultural businesses are less likely to provoke resource nationalism as well as concession deals are often not conditional on the huge amount of financial contribution to the local host community. Hence, foreign miners would bribe more for repressing protests on environment and concessional issues as well as tacit approval of their misbehavior related to these issues, which makes the interaction effects of extractive FDI on protests a decreasing function of corruption.

***Hypothesis* 6.** *Protests on environment and concession against extractive MNCs decrease in corruption, while that against agricultural MNCs increase in corruption.*

On the other hand, agricultural business is more labor-intensive than modern mining businesses. In addition, the local farmers working in a foreign-owned plantation in Liberia always can find other jobs in the vicinity, since there are other farm lands around the plantation. Therefore, agricultral MNCs have strong incentives to bribe for the labor issue. Yet, mining business is highly capital-intensive and there are not many job opportunities near the mines because it is often located in mountainous rocky area. This implies that workers have lower leverage in labor strike against extractive FDI, and thus foreign miners' collusive exchange for suppressing workers' protest is less likely.

***Hypothesis* 7.** *Protests on labor issues against extractive MNCs increase in corruption, while that against agricultural MNCs decrease in corruption.*

However, land rights issues is clear about its legal focal points between local residents and foreign investors. The violation of land rights could be tacitly approved in highly corrupt area, while repression is not a key to calm the storm. Once protests on land rights are staged, prosecution could be carried out. Under this circumstances, local governmental officials and bribed politicians cannot easily handle the situation. Therefore, we expect that the interaction effects on land-related protests increases in corruption in both sectors.

***Hypothesis* 8.** *Protests on land rights against both extractive and agricultural MNCs increase in corruption.*

To test this expectation, we modify the specification for Model 3 by breaking down the constituent terms for the difference-in-differences specification into two different sets. Therefore, this model specification includes two vectors, estimating a three-way interaction effects. Like the previous specification, we control for the number of senators from the governing party and Monrovia-ness, and include spatially lagged dependent variable and error terms. The model specification is as follows:[11]

$$\begin{aligned} \mathrm{y}_{i,t} &= \alpha + \beta_1 \ \left[\text{Entry of Extractive FDI}_{i,t} \times \text{Intervention}_{i,t} \times \text{Corruption}_{i,t}\right] \\ &+ \beta_2 \ \left[\text{Entry of Agricultural FDI}_{i,t} \times \text{Intervention}_{i,t} \times \text{Corruption}_{i,t}\right] \\ &+ +\mu_1 \text{ Governing Sen.}_{i,t} + \mu_2 \text{ Monrovia}_i + \rho W y_{i,t} + \delta_t + \epsilon_{i,t} \end{aligned} \tag{2}$$

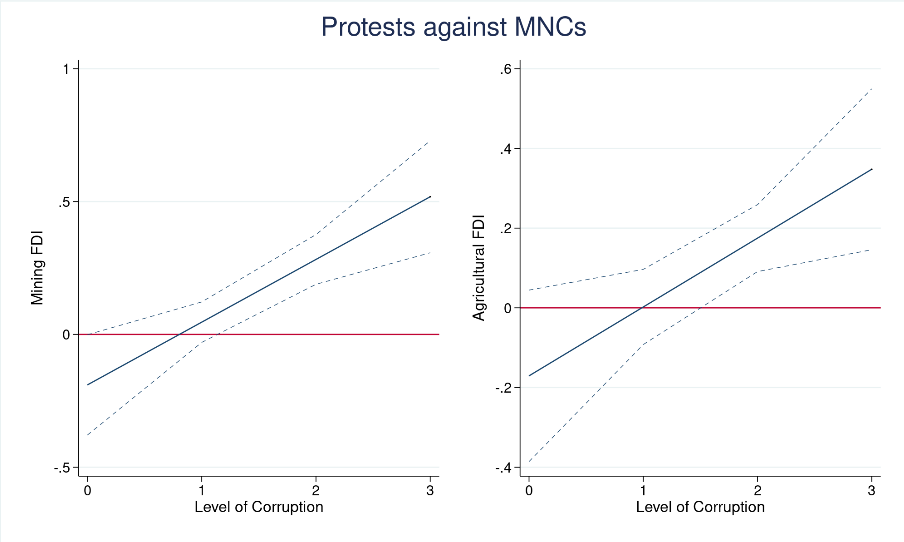
Plots in Figure 4 display the estimated interaction effects of the entry of MNCs in each sector. The dependent variable is the total annual number of protests in a district, which is used in the main analysis. The entry of MNCs in both sectors increases protests when the corruption level is high. This result is consistent with Hypothesis 5 that corruption increases local grievances in general. This pattern also indicates that our main findings are not driven by a particular sectoral group of companies, which supports the robustness of our main findings.[12]

To test hypotheses 6-8, we also estimate the model with four different dependent variables: the number of protests on (1) environment, (2) concession, (3) labor, and (4) land rights. The results are well summarized in Figure 5. The entry of extractive FDI increases protests on environment only when the corruption level is moderate, while the size of effect is smaller in more

[11] In this extension, the four-way interaction in Model 4 is out of the scope.

[12] We also estimate Model 4 after differentiating the treatment variable by industrial sectors. The results are summarized in Figure 9 in Appendix which is also consistent with our main findings.

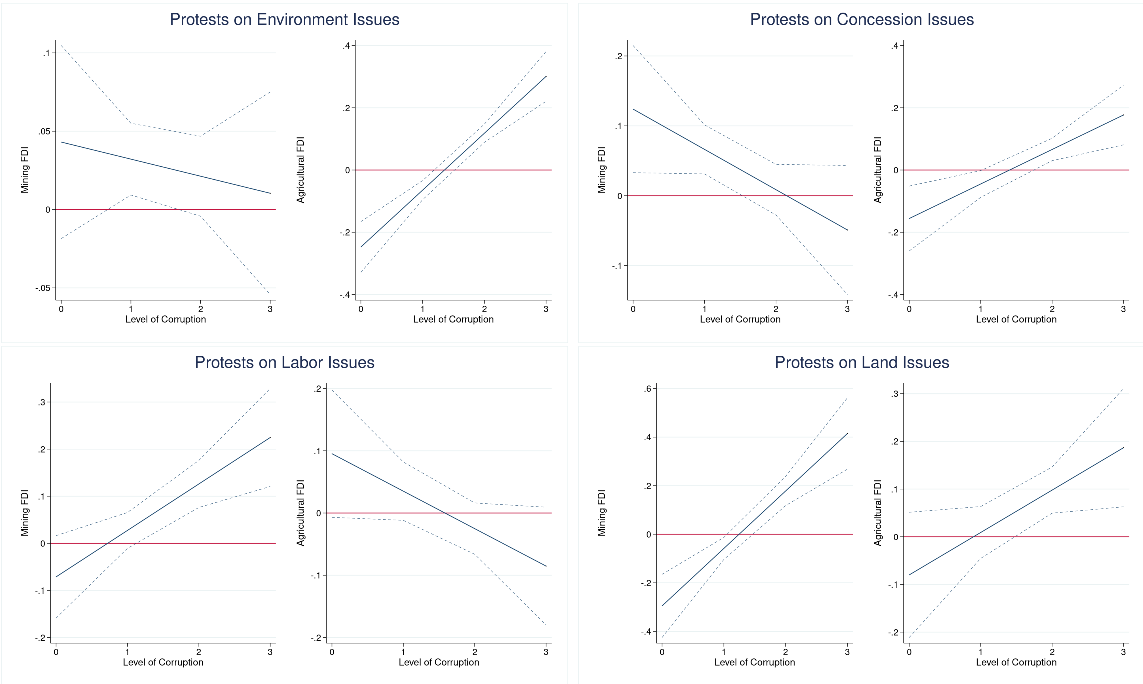
Figure 4: Interaction Effects on All Types of Protest by Industrial Sectors



corrupt region and the effect becomes insignificant when the host district is highly corrupt. This implies that foreign miners could and are willing to suppress environment protests. In contrast, agricultural MNCs face more protests on environment as the level of corruption in the location increases. Since this is the natural pattern as shown in Figure 4, foreign-owned plantations seem not to bribe for avoiding environment protests, which is consistent with Hypothesis 6. The plot on the top right also shows the same pattern. Protests on concession against extractive FDI is one of the most common type of protest in Liberia as well as other developing countries. This type of protest is more likely to occur when corruption level is low, which implies that local political actors are clean enough and thus bribery was not quite successful nor received. As Hypothesis 7 suggests, however, this is not a usual problem for foreign agricultural companies. The increasing interaction effects in corruption reflects this mechanism.

On the contrary, these patterns are reversed in the case of protests on labor issues, which confirms Hypothesis 7. Agricultural FDI is vulnerable to labor strikes, while extractive FDI is not. Therefore, agricultural MNCs heavily bribe on this issue, which leads insignificant effect of FDI entry. Hypothesis 8 posits that land issues are more about legal disputes, while the corporate misbehavior could occur more frequently when the local politicians are more corrupt.

Figure 5: Interaction Effects by Sectors across Different Issues



The collusive corruption in this case, however, cannot suppress protests, while it only allow tacit approvals by officials before protests which increases protests.

Conclusion

By using district-level data of local protests against MNCs between 2004 and 2021, this paper explores the pattern of social protests against MNCs in Liberia. To identify the causal effect of MNCs business operation on local protests against MNCs, we use a difference-in-differences (DID) design with the spatial lag of the outcome variable and spatial error terms. We find that the FDI entry increases protest against MNCs in general, while this aggravating effect is magnified by the level of corruption and the number of senators from the incumbent party. This implies that corruption provides the reasons for protest and senators from governing party suppress such protests in area where they represent. In addition, multinationals' bribery is a tool for hedging political risks from particular types of protests. Mining firms experience fewer number of protest related to environment and concession issues in more corrupt districts, while the number of labor strikes that agricultural firms experience decreases as the corruption level increases. Land right issues are more likely to be legally disputable. Therefore, corruption increases protests on land issues regardless of industrial sectors.

Although our argument is validated by the Liberian data, our findings are more widely applicable to other developing countries. Micro-level interactions between local residents' grievance against MNCs, corruption, and politicians have not been scrutinized through fine-grained dataset. Previous literature relying on publicly available aggregated country-year level data is not able to address this issue, and thus these interactions have been a a literature gap despite their normative importance. To promote sustainable economic development and political stability in host country, studying on the micro-dynamics of such interactions is necessary. Although we could not directly test our theory of bribery with exact amount of side payment and its consequence, we unfold the mechanism in Liberian context.

Although there are many empirical studies on human right violations and negative environmental impact of MNCs in developing countries, they often fail to provide systematic evidences through rigorous investigation. We look into the impact of MNCs on local host communities by using newly collected district-level data of protests and FDI in Liberia. We also test our theoretical arguments with more advanced causal inference techniques. By doing so, this study contributes to the methodological advance in the literature.

The literature of corporate social responsibility of MNCs has been focusing on the utility of this business strategy without considering factors that hampers its true success. The number of schools and hospitals cannot be a truly meaningful achievement that CSR may seek for. Local host communities want to get compensated for the possible or already realized negative impacts from multinational corporations business operation. Corporates want to build or restore friendly relations with local residents in order to minimize political risks which can disrupt their business. However, one of the most common consequences of CSR in Africa is that local residents are dissatisfied with the quality and management of buildings provided by foreign investors, and multinationals feel burdensome. When the local grievances become hard to be resolved, MNCs look for more cost-efficient ways to deal with this risk. As a result, collusive corruption is everywhere in African countries and nobody is satisfied.

However, we find that protests on land right can give a hint to solve the problem. Since it is more about disputes over the legal ownership of a land, collusive corruption could not mute the voice of local people. This implies that highly institutionalized issues cannot simply be repressed by local officials. Thus, investing in institutionalization of communication and enforcement could be the best CSR strategy to resolve problems between MNCs and local community as well as achieve sustainable development goals.

Appendix

Figure 6: Smoothing Curve for the Adjusted Mean of Protests against MNCs

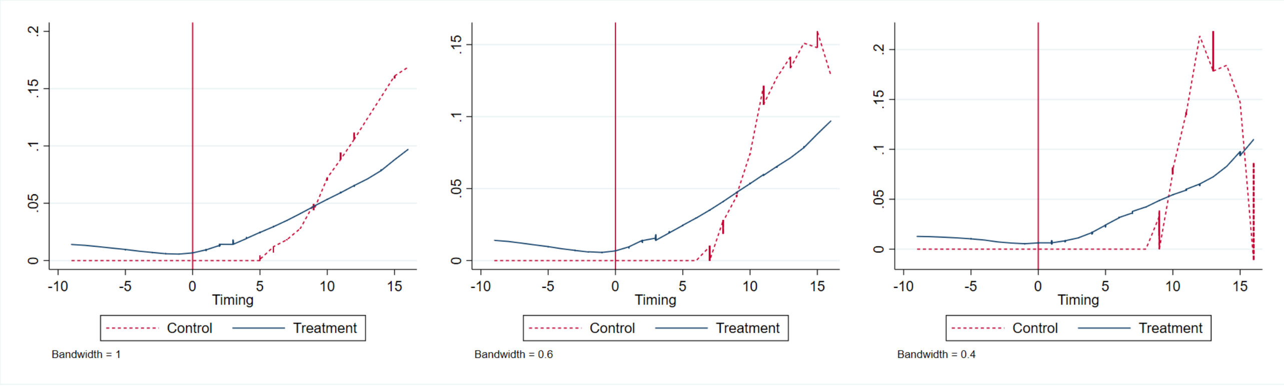


Figure 7: The Geographical Distribution of MNCs by Industrial Sectors

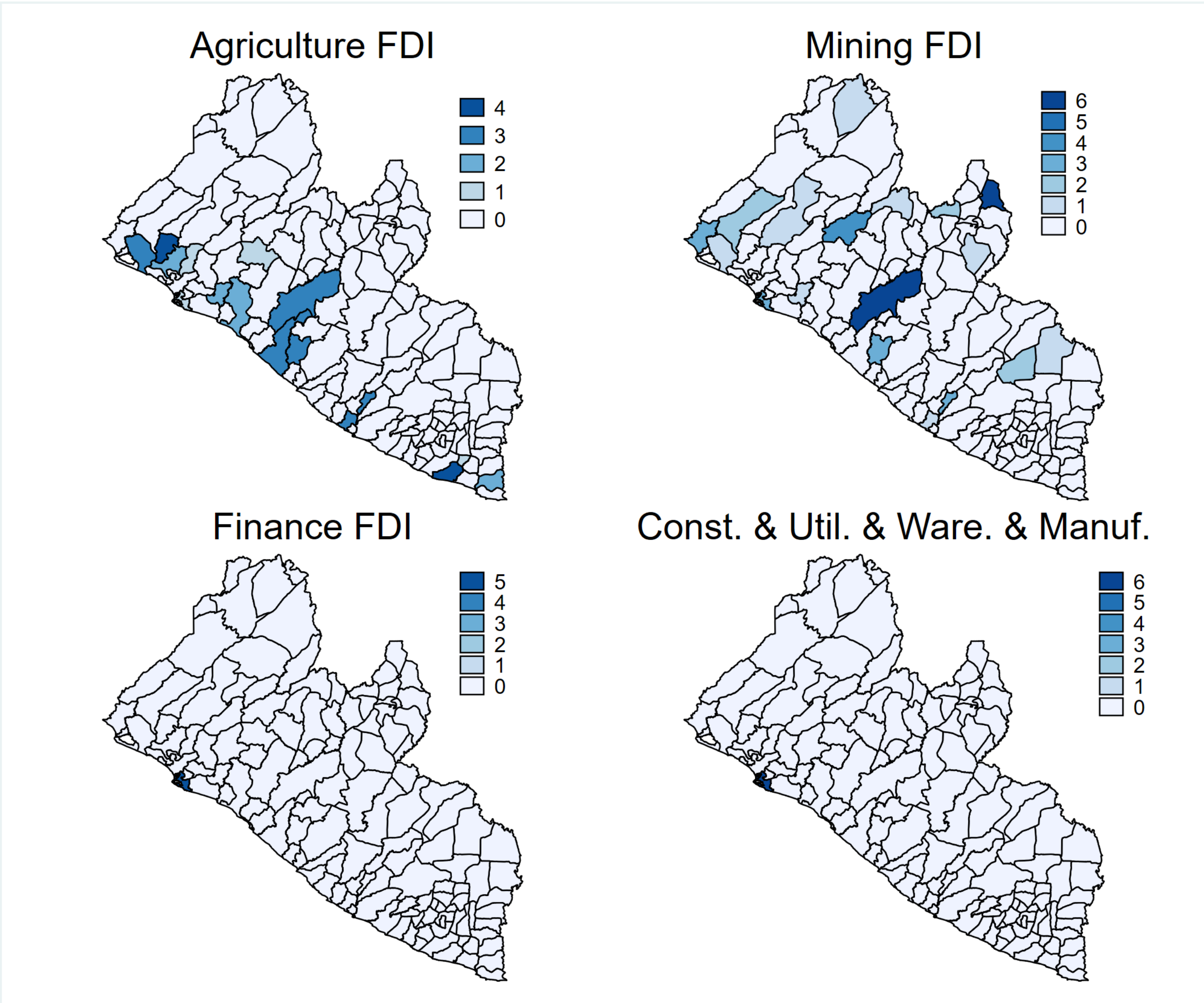
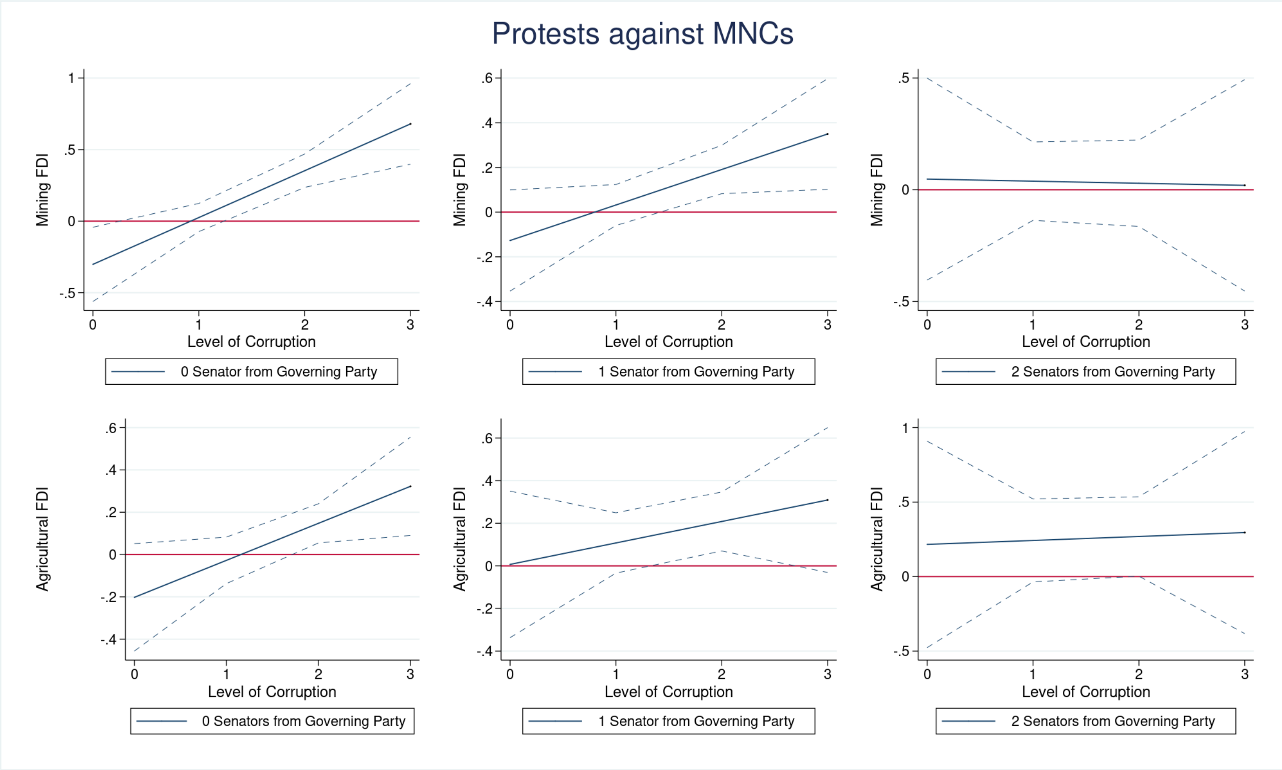


Figure 8: Interaction Effects on All Types of Protest by Industrial Sectors (Modified M4)



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