Electoral Politics and Foreign Project Investment in Developing Countries

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Abstract

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ABSTRACT

Research on multinational corporations (“MNCs”) and host government political risk in developing countries has largely ignored local electoral politics, economic policies and the MNC investment incentives they may generate. In response, we develop and test a model of MNC risk and investment based on political business cycle considerations. Analyses of 408 MNC investments worth $199 billion in 18 developing countries holding 35 presidential elections from 1987-2000 support the model and indicate that MNCs perceive higher (lower) risk in the form of fewer (more) investment project announcements as right-wing (left-wing) incumbents appear more likely to be replaced by left-wing (right-wing) challengers.

Keywords: political risk, decision-making, emerging economies
Management research over five decades has investigated political risk and investment behavior related to the divergent interests of foreign-domiciled multinational corporations ("MNCs") and host governments in developing countries. In the 1960s, Robinson (1963) identified political risk to international firms operating in newly independent and "nationalistic" countries with occasional interest in breaching contracts or outright expropriation of firm assets. In the 1970s, Vernon (1971) called attention to political risk associated with "obsolescing bargains" between investing MNCs and developing country host governments over time. In the late 1970s and 1980s, Kobrin (1979, 1987) articulated different components of political risk associated with a "bargaining hypothesis" and different MNC responses to mitigate that risk. A general decline in expropriations during the 1980s and 1990s (Minor, 1994) coincided with new research directions regarding strategic actions developing country host governments might take to attract larger shares of foreign investment (Murtha & Lenway, 1994), and what legal policies (LaPorta, Lopez-de-Silanes, Shleifer & Vishny, 1998), economic policies (Murtha, 1993) and political institutional arrangements (Henisz, 2000) might constrain government actions.

In the 2000s, interest remains strong in understanding: how governments matter for business investment incentives (Ring, Bigley, D’Aunno, & Khanna, 2005); how MNC investment decisions in emerging economies differ from industrialized democracies generally (Hoskisson, Eden, Lau & Wright, 2000), and how in particular MNC investment willingness (Henisz & Delios, 2001) and modes of MNC investment (Delios & Henisz, 2000) evolve with MNC experience in dealing with local policy environments in emerging economies; and how MNCs identify and mitigate risks associated with investing in and transforming former state-owned enterprises (Zahra, Ireland, Gutierrez & Hitt, 2000).

With such richly developed research streams, it is surprising that we have, to date, no
theoretical models or quantitative empirical evidence to guide our understanding of MNC risk and investment behavior when host government economic policies, politics and political institutions are arguably most vulnerable to change, that is, during elections. Past and present management research on obsolescing bargains between MNCs and developing country host governments, on reversals of economic policies inducing MNC investment, and on MNC investment modes and strategies for privatizing enterprises are not necessarily tied to local electoral dynamics. Until the 1980s, this oversight may have been understandable. Developing countries often occupying researcher attention had one-party systems as in Mexico or Poland, or military-led governments as in Brazil or South Korea. With no competitive electoral system there was little likelihood of policy changes linked to voter preferences. But the last two decades have seen substantial democratization in developing countries, often with the expectation that political modernization would enhance country attractiveness for foreign investment and economic growth (Goldstein, 1994; Haggard, 1990). In many developing countries, parties from across the political spectrum have competitive opportunities to hold office and shape policies affecting MNC risk and investment behavior. Management research should respond to these developments with theoretical models and empirical evidence designed to observe and explain risk and investment behavior during increasingly frequent election periods.

In this study, we develop and test hypotheses derived from a framework of election-period MNC risk and investment behavior based on political business cycle (“PBC”) theory more familiar to political economy than management researchers. Since the seminal work of Nordhaus (1975), PBC models and empirical evidence have been debated largely in the context of industrialized democracies and interactions between elected officials and voters. These original models and their descendants (Drazen, 2000; Rogoff, 1990) posit opportunistic politicians using expansionary
fiscal, monetary and related policies during election periods to garner voter support even though such policies often have detrimental economic consequences in post-election periods. PBC models developed by Hibbs (1977) and refined by others (Alesina, 1987; Alesina, Roubini & Cohen, 1997) also suggest that politicians implement economic policies for electoral purposes. But unlike in opportunistic models, their policies differ with right-wing politicians implementing policies emphasizing lower inflation and the interests of investors, and left-wing candidates implementing policies emphasizing lower unemployment and the interests of workers. 30 years of empirical work summarized recently by Drazen (2000) and Block and Vaaler (2004) find mixed support for opportunistic and partisan PBC models in industrialized democracies but consistent support for both types of models in studies during the last decade in recently democratizing countries from the developing world.

Our study builds on these PBC foundations, extends the PBC domain beyond interactions among elected officials, voters and the local economy, and promises at least two contributions to management research on MNC risk and investment behavior related to host government politics in developing countries. The first contribution is theoretical. This study provides management researchers with the first theoretical framework for understanding MNC risk and investment behavior during election periods in developing countries where PBC theories suggest that local politicians have incentives to vary economic policies to suit their electoral aspirations. Our theoretical framework is motivated by the proposition that foreign-domiciled MNCs watch local politicians, their policies, and likely electoral outcomes, and “vote” during election periods based on opportunistic and partisan PBC considerations. Consistent with opportunistic considerations, MNCs may perceive more (less) risk to the extent that incumbent politicians are unpopular (popular), thus prompting (avoiding) election-period spending sprees that may be detrimental to
post-election investment environments. Consistent with partisan considerations, MNCs may also perceive more (less) risk to the extent that right-wing (left-wing) incumbents with investor-friendly (worker-friendly) policies are likely to go down in defeat to the possible detriment (benefit) of post-election investment environments. Unlike previous PBC research, which follows either opportunistic or partisan branches, we combine both into an integrated theoretical framework to derive hypotheses about election-period MNC risk and investment behavior –their votes-- in developing countries.

Our integrated theoretical framework finds precedents in previous studies by Vaaler, Schrage and Block (2005, 2006), who develop similar frameworks to explain election-period risk assessments by developing country sovereign bondholders (Vaaler, Schrage & Block, 2005) and major credit rating agencies (Vaaler, Schrage & Block, 2006). While noteworthy, these previous frameworks and related evidence about foreign financial actors and election-period risk may not easily extend to MNC managers and the investments projects they sponsor in developing countries. Skeptics might argue that foreign-domiciled financial actors, like bondholders and rating agencies, work in a world quite different from strategic managers working in MNCs. Bondholders determining bond yields and credit agencies setting sovereign ratings operate in institutional settings that permit fast, low-cost responses to changes in country conditions periodically caused by electoral personalities, parties and policies. But strategic managers in MNCs assess risks and take decisions about whether to construct and operate hydroelectric dams, automobile manufacturing plants, and hotel resorts with construction and operating costs running in the millions or billions of US dollars, and with expected life-spans measured in years or decades. These investment decisions are exemplars of difficult-to-reverse commitments that Ghemewat (1991) highlights as the dynamic of strategy and a key source of firm performance
differences. Short-term electoral politics and economic policies in developing countries may be largely irrelevant to decisions about investment projects spanning several national governments, campaigns and votes. Thus, our research proposition about the significance of opportunistic and partisan PBC effects on MNC risk and investment behavior competes with a plausible alternative expectation of no PBC effects.

In this research context, we promise a second empirical contribution. We test two hypotheses derived from the integrated PBC theoretical model using a novel empirical context. We analyze election-period trends in announcements of project investments, a form of foreign direct investment (“FDI”) frequently used by MNCs in developing countries, and commonly utilizing a legally-independent and bankruptcy remote (from the parent MNC) company and non-recourse debt to fund large-scale, long-term infrastructure, manufacturing and service projects (Esty, 2004). We analyze annual counts of 408 project investment announcements worth $199 billion announced by foreign-domiciled MNCs in 18 developing countries holding 35 presidential elections from 1987-2000. No previous empirical research in management has examined this FDI form, particularly with the breadth of industry coverage and length of time comprised by our sample. As we will see below, this empirical context also proves advantageous for assessing the robustness of empirical model assumptions, including whether and how election-period PBC considerations affect or are affected by MNC investment project announcements.

Panel regression analyses of this sample yield results consistent with both hypotheses and the broader theoretical framework linking election-period MNC risk and investment behavior to PBC considerations. The annual count of new investment projects announced by MNCs decreases significantly and substantially as the likelihood of right-wing incumbent government
defeat on election day increases. The count and implied dollar amount of announced investment projects drop to zero in years when right-wing incumbents are likely to be replaced by left-wing challengers with less investor-friendly policies. By contrast, the count and implied dollar amount of announced investment projects increase significantly and substantially as left-wing incumbents appear more likely to be defeated by more investor-friendly right-wing challengers, an indication that partisan PBC considerations dominate contrary opportunistic PBC considerations in MNC risk and investment behavior. These election-year effects on the count of MNC project announcements translate into swings worth hundreds of millions or even billions of dollars in FDI. Developing country PBCs have statistically significant and economically substantial effects on long-term infrastructure, manufacturing and service investment projects sponsored by MNCs similar to PBC effects documented previously by Vaaler, Schrage and Block (2005, 2006) for developing country bondholders and major credit agencies. More broadly, these results suggest that PBC theoretical models and developing country empirical settings provide management researchers with new lenses and evidentiary sources for broadening and deepening understanding of often divergent, and perhaps at times, convergent interests of investing MNCs and host governments.

EMPIRICAL CONTEXT

Brief explanation of institutional practices associated with project investment in developing countries provides helpful context for building our theoretical model to predict changes in MNC risk and investment behavior linked to opportunistic and partisan PBC considerations. For this description we rely primarily on Esty (2003, 2004). Project investment, also described as project finance investment, is defined as direct investment using a legally-independent project company financed by equity from a sponsoring firm or syndicate of sponsoring firms, and non-recourse
Typically, a project company has a lead sponsor with the largest single equity stake, with oversight responsibility for project operations, and control over strategic decisions. A lead-sponsoring MNC often engages junior sponsors in an investing syndicate as well as lenders to provide additional funds. It may also engage specialist suppliers to provide equipment and services for project construction and operation. In contrast to other MNC investment structures, project finance lenders and other suppliers typically agree to rely exclusively for repayment on receipts generated by and guarantees given to the investment project. The project company is bankruptcy remote, thus effectively separating the risk profile of the project company from MNC parents of the lead sponsor and junior sponsors in the syndicate. They can now undertake riskier investments with less concern that an individual project failure will threaten MNC assets elsewhere. A project company and its various stakeholders are tightly focused on a single line of business—the project—typically with construction and operation life-spans of 5-15 years in manufacturing and upwards of 30 years for infrastructure projects such as hydroelectric generators or sewage-treatment plants.

This investment structure lends itself well to the higher risk-and-return environment of developing countries. Since the mid-1960s the number of announced project investments in non-OECD countries has topped 2200 with a cumulative nominal US dollar value of approximately $1.6 trillion. In some developing countries, such as in the Philippines and Indonesia, more than 75% of inward FDI in the 1990s came through project investment companies. For other developing countries, project investments have become a substantial percentage of overall inward FDI.

Project investments in developing countries focus primarily on infrastructure industries such as construction, transportation, energy generation and transmission, telecommunications, and water and sewage. In the 1990s, project investments in developing countries were frequently established as part of host government privatization policies. For example, the Philippines’
Maynilad Water Services water treatment project announced in 1997 involved a syndicate led by France-based MNC, Lyonnaise des Eaux, S.A. Initial construction and facilities upgrade costs were valued at announcement at approximately $150 million. The Maynilad water project was expected to generate over $7 billion worth of infrastructure investments over its 25-year life (Manila Times, 2003). Project investment structures have also proved popular historically and currently for mining and power generation. One of the earliest examples of project investment in mining is also one of the earliest and still popular teaching cases in management to analyze issues related to MNC risk and investment related to host government politics, Bougainville Copper Ltd. in Papua-New Guinea (Hammond & Allan, 1974). UK- and Australia-based Rio-Tinto Zinc sponsored a project company in the mid-1960s to construct a multi-million dollar copper mine, preliminary refining facility, deep-water port, and related housing. The start of operations in the early 1970s coincided with Papua-New Guinea’s independence from Australia and founding elections. Competing factions and policies for dealing with the now foreign-domiciled MNC led to substantial re-negotiation of the original mining concession terms. Case study interest extends into the 1990s with Enron Development Corp.’s Dahbol Power Project misadventure in Maharashtra State, India (Wells, 1997). State elections and a change in government led to re-negotiation of Enron’s earlier concession agreement, and the project’s eventual abandonment. Our study complements case research interest with more formal theoretical modeling and broad-sample quantitative study of election-period risk and MNC project investment behavior in developing countries guided by PBC considerations.

THEORETICAL FRAMEWORK AND HYPOTHESES

With this institutional context, we develop a theoretical framework of MNC risk and investment behavior integrating both partisan and opportunistic PBC considerations. From this
framework, we derive two hypotheses. The framework follows similar ones developed to explain electoral-period risk assessments by sovereign bondholders (Vaaler et al., 2005) and major credit rating (Vaaler et al., 2006), and builds on two important assumptions drawn from PBC theory.

The first assumption relates to opportunistic PBC incentives and MNC project investment. We follow Nordhaus (1975) and other opportunistic PBC models showing that elected politicians have incentives to engage in expansionary economic policies in the run-up to elections and contractionary policies in the post-election environment, the net effect of which can be detrimental to sustained economic development.\(^1\) But we assume in our framework that opportunistic PBC incentives are modified by the likelihood of incumbent electoral victory. Incumbents certain of victory have fewer incentives to resort to opportunistic policies than incumbents facing “close calls” from competitive challengers or incumbents facing likely defeat. This assumption follows Schultz (1995), who shows that expectations of incumbent party victory in British parliamentary elections are negatively correlated with the likelihood of pre-election expansionary economic policies, and Block, Singh and Feree (2003), who observe similar trends in Sub-Saharan Africa.

Opportunistic PBC incentives moderated in intensity by incumbent popularity may have substantial impact on MNC willingness to invest, even when the projects involved have a lifespan measured in years or decades. Higher inflation in the aftermath of an election can erode the real value of nominal returns from MNC project operations in early years. Decreasing near-term returns can also depress longer-term project valuation and attractiveness. Similarly, fiscal

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\(^1\) The Nordhaus (1975) opportunistic model, for example, assumes that all incumbents, both left- and right-wing, behave the same. They tend to engage in fiscal spending sprees that increase output and decrease unemployment just before an election. Inflation accelerates in the run-up to election day, but peaks and is observed by voters after the election. Post-election, incumbents (or successful challengers) typically reduce inflation with fiscal austerity policies that also result in lower output and increased unemployment. Alternatively, politicians tolerate permanently higher inflation and the erosion of gains in nominal wages, salaries and fixed asset values. Consistent with his opportunistic PBC model, Nordhaus documents evidence of economic expansion *cum contraction* associated with US presidential elections in the twentieth century, while Block et al. (2003) document evidence of increased government expenditure, output and money supply foretelling accelerating inflation across Sub-Saharan African countries with competitive electoral systems since the 1980s. Block and Vaaler (2004) review other empirical research documenting pre- and post-election trends consistent with opportunistic PBC models in other country contexts.
contraction in the aftermath of an election may decrease the pool of government funds available to subsidize MNC project construction costs. Increasing project construction costs requires higher future operating returns or a lower project valuation and attractiveness. This logic suggests that post-election investment environments become less attractive for MNCs to the extent that incumbents resort to expansionary economic policies during election years.

Our second assumption relates to partisan PBC incentives and MNC project investment. We assume that right-wing policies favor MNC project investment more than left-wing policies. Partisan PBC research since Hibbs (1977) has articulated differences in right- versus left-wing economic policies in terms of a Phillips curve, with right-wing policies favoring lower inflation at the expense of higher unemployment and left-wing policies favoring the opposite trade-off. More recent partisan PBC research (Alesina et al., 1997) expands on this simple distinction to contrast the broader investor friendliness of right-wing policies lowering inflation, taxes and preserving fixed asset values, to the broader worker friendliness of left-wing policies that permit more inflation, higher taxes and asset devaluation to lower unemployment. LeBlang and Mukherjee (2005) document movements in UK and US stock market prices consistent with right-wing versus left-wing such policy preferences in US and UK governments from 1930-2000.2 In the run-up to developing country elections where right-wing (left-wing) incumbents are likely to lose left-wing (right-wing) incumbents, Vaaler, Schrage and Block (2005) show that developing country sovereign bond spreads increase (decrease) consistent with partisan PBC considerations of higher (lower) credit risks when a left-wing (right-wing) party victory is likely.

Partisan PBC incentives may also have substantial impact on MNC willingness to invest, even when the projects involved have a lifespan measured in years or decades. Job creation policies stoking inflation in the aftermath of a right-to-left-wing partisan switch can also erode the
real value of nominal returns from project operations in the early years of project operation, thus depressing project valuation and attractiveness. On the other hand, investor-friendly policies such as targeted tax cuts for new project construction coupled with fiscal discipline and balanced budgets may be more likely after a left-to-right partisan switch. These partisan policies can reduce construction costs and protect the real value of nominal returns from project operations, both of which increase project valuation and attractiveness. This logic suggests that post-election investment environments become less (more) attractive to MNCs to the extent that less (more) investor-friendly left-wing (right-wing) parties are likely to prevail in election-years.

*** Insert Table 1 Approximately Here ***

With these two assumptions we define in Table 1 an integrated PBC theoretical framework for explaining MNC project investment willingness during election years. The two columns of this framework define the partisan orientation of an incumbent party seeking to retain office in a general election. The three rows of the framework define different MNC expectations (“\( \lambda \)”) regarding the likelihood that a right-wing party candidate will prevail. These expectations range from \( 0 \leq \lambda \leq 1 \) where \( \lambda \approx 1 \) indicates MNC expectations of a right-wing victory, \( \lambda \approx 0 \) indicates MNC expectations of a right-wing defeat, and \( \lambda \approx 0.5 \) indicates balanced MNC expectations –it is a close call. The resulting six scenarios in this 2 x 3 matrix (I-VI) summarize predicted effects that incumbent partisan orientation and incumbent re-election likelihood have on MNC willingness to sponsor project investments as indicated by increasing (+) or decreasing (-) willingness. We depict these two effects in pairs where the first sign summarizes partisan PBC effects and the second sign summarizes opportunistic PBC effects on MNC willingness to invest. For example, a (0, 0) pair indicates an election-year scenario with no PBC effects, but a (+,-) indicates an election-year

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2 See Block and Vaaler (2004) for a recent review of other empirical research documenting partisan PBC trends.
scenario where partisan PBC effects increase but opportunistic PBC effects decrease MNC willingness to invest.

For right-wing incumbents, shifts from likely re-election ($I, \lambda \cong 1$) to a close call election ($III, \lambda \cong 0.5$) and then to a partisan switch through a left-wing election victory ($V, \lambda \cong 0$) decrease MNC willingness to invest during election-years. Right-wing incumbents are increasingly likely to be replaced by less investor-friendly left-wing challengers, and those embattled right-wing incumbents are more likely to engage in opportunistic spending sprees to avoid losing. Both types of PBC considerations decrease MNC willingness to invest, moderately (-,-) in close call scenarios and strongly in left-wing victory scenarios (--,--):

*Hypothesis 1:* Given a right-wing incumbent, MNC investment will decrease as the likelihood of re-election decreases (shifts from likely re-election ($I$) to close call ($III$) to switch ($V$) scenarios).

For left-wing incumbents, partisan and opportunistic PBC considerations oppose rather than reinforce each other as we shift from likely left-wing re-election ($VI, \lambda \cong 0$) to close call election ($IV, \lambda \cong 0.5$) and then to likely partisan switch through right-wing election ($II, \lambda \cong 1$) scenarios. Increasing prospects of investor-friendly right-wing victory increase MNC willingness to invest, but also increase incentives to stave off right-wing challenges with opportunistic spending sprees, which decrease MNC willingness to invest. These opposing considerations are moderate (+,-) in close call scenarios ($IV$) and stronger (++,--) in right-wing victory scenarios ($II$).

We, therefore, have no *à priori* basis for determining whether partisan or opportunistic PBC effects will dominate. Accordingly, Hypothesis 2 is formulated in alternative terms. If partisan PBC effects dominate, then we expect election-year MNC investment to increase relative to the base case left-wing re-election scenario ($VI$):

*Hypothesis 2a:* Given a left-wing incumbent, MNC investment will increase as the likelihood of re-election decreases (shifts from likely re-election ($VI$) to close call ($IV$) to switch ($II$) scenarios).
Given previous research indicating the dominance of partisan PBC effects on risk and investment behavior among developing country sovereign bondholders (Vaaler et al., 2005) and major credit rating agencies (Vaaler et al., 2006), we pay particular attention to Hypothesis 2a. Yet, we do not dismiss the other theory-driven prediction that opportunistic PBC effects will dominate, in which case, we expect election-period MNC investment to decrease (not increase) relative to the base case left-wing re-election scenario:

Hypothesis 2b: Given a left-wing incumbent, MNC investment will decrease as the likelihood of re-election decreases (shifts from likely re-election (VI) to close call (IV) to switch (II) scenarios).

We close this section by noting a third assumption in our framework. It is foreign-domiciled MNCs rather than domestic firms that will vary their risk and investment behavior during election periods consistent with reinforcing or counteracting PBC considerations. This assumption follows from a rich line of research over 40 years documenting MNC vulnerability to obsolescing bargains (Vernon, 1971) with host country governments and related local individuals amounting to a liability of foreignness (Zaheer, 1995) for MNCs to manage in developing country political environments. Our framework suggests that electoral dynamics and the PBC incentives they generate can increase or decrease substantially such liability and vary MNC project investment activity during election periods.

METHODOLOGY

MNC Project Investment Empirical Model and Implied Hypothesis Tests

To test the two hypotheses, we define the following empirical model for estimation:

\[
P_{\text{Count}_{it}} = \beta_0 + \sum_{k=1}^{17} \gamma_k \text{Country} + \sum_{t=1997}^{2017} \varepsilon_t \text{Year}_t + \sum_{j=1}^{15} \psi_j \text{Macro}_{it} \\
+ \beta_1 \text{Elec}_{it} + \beta_2 \text{Rinc}_{it} + \beta_3 \text{Rinc}^* \text{Elec}_{it} + \beta_4 \lambda \text{D}^* \text{Elec}_{it} + \beta_5 \lambda \text{D}^* \text{Rinc}^* \text{Elec}_{it} \\
+ \beta_6 \text{Elec}_{it+1} + \beta_7 \text{Rinc}^* \text{Elec}_{it+1} + \beta_8 \text{Elec}_{it-1} + \beta_9 \text{Rinc}^* \text{Elec}_{it-1} \\
+ \beta_{10} P_{\text{Count}_{it-1}} + \mu_{it} \tag{1}
\]

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+ \beta_{10} P_{\text{Count}_{it-1}} + \mu_{it} \tag{1}
\]
The dependent variable, \( PCount \), is defined as the count of project investments announced by foreign-domiciled MNCs for developing country \( i \) in year \( t \). To explain \( PCount \) we first include controls for unobserved effects related to individual countries (\( Country \)) and years (\( Year \)). We omit the first country in our sample, Argentina, and include 17 0-1 dummies for the other countries in our sample. We omit the last year of our observation, 2000, and include 13 0-1 year for the other years in our sample. Next, we include 15 macroeconomic and related country control variables (\( Macro \)), which previous researchers have used to explain the broader attractiveness of countries for lending, investment and economic development (Cantor and Packer, 1996; Humphreys & Bates, 2005; La Porta et al., 1998; Vaaler & McNamara, 2004; Vaaler et al., 2006).

Such data are updated on an approximately annual basis, thus final data on these 15 terms may not be available in year \( t \) only as MNCs make investment project decisions. To reflect that possibility, we measure these macroeconomic and related country controls as rolling two-year averages using observations from years \( t \) and \( t-1 \). The 15 \( Macro \) terms include:

- **External Balance**, measured as the average current account balance (exports less imports) divided by GDP, and expected to be positively related to \( PCount \);

- **External Debt**, measured as the sum of public, publicly guaranteed, and private non-guaranteed long-term debt, use of IMF credit, and short-term debt divided by GDP, stated as a percentage (multiplied by 100) and expected to be negatively related to \( PCount \);

- **Per Capita Income**, measured as average GDP in constant (1995) thousands of US dollars divided by the average mid-year country population, and expected to be positively related to \( PCount \);

- **Economic Size**, measured as the natural log of average GDP, and expected to be positively related to \( PCount \);

- **Economic Growth**, measured as the average annual real GDP percentage growth rate, and expected to be positively related to \( PCount \);

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3 Here, we follow Vaaler and McNamara (2004) and others. Our annual project counts (\( PCount \)) occur throughout year \( t \). We assume that MNC managers have reliable information on these country factors for year \( t-1 \) and increasingly reliable forecasts followed by actual results for year \( t \) as it unfolds. Our approach, therefore, reflects a mix of information from these two time periods consistent with the actual information environment in which MNC managers take investment decisions in year \( t \).
• **Inflation**, measured as the average annual percentage of consumer price inflation, divided by 100, and expected to be negatively related to $P_{Count}$;

• **Fiscal Balance**, measured as the average annual overall budget balance (receipts less expenditures) divided by GDP, and expected to be positively related to $P_{Count}$;

• **Fuel Exports**, measured as the value of all energy exports (e.g., coal, oil, natural gas) in current US dollars, divided by GDP, and expected to be negatively related to $P_{Count}$;

• **Government Size**, measured as government final consumption expenditure including all government current expenditures for purchases of goods and services except the military, divided by GDP, and expected to be negatively related to $P_{Count}$.

• **Openness**, measured as the sum of exports and imports of goods and services divided by GDP, and expected to be positively related to $P_{Count}$;

• **Currency Crisis**, a 0-1 dummy (1 if in crisis, 0 otherwise) indicating whether the country’s local currency has depreciated at least 20% against the US dollar in the current year.4

• **Recent Default**, a 0-1 dummy (1 if in default, 0 otherwise) indicating whether the country sovereign has defaulted on its foreign-currency denominated debt (excluding bank debt) in the last five years, and expected to be negatively related to $P_{Count}$;

• **Investment Grade Rating**, a 0-1 dummy (1 if investment grade, 0 otherwise) indicating whether the average country sovereign rating has an investment grade sovereign rating according to the Standard & Poor’s credit rating agency (investment grade rating is “BBB-“ or higher according to the following ordinal ranking: AAA, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, and C = 0), and expected to be positively related to $P_{Count}$;

• **Lack of Political and Civil Rights**, measured as the average of political rights (1-7 integral measure where 1 = strong political rights and 7 = weak political rights) and civil rights (1-7 integral measure where 1 = strong civil rights and 7 = weak civil rights), and expected to be negatively related to $P_{Count}$.

• **Political Checks**, measured as the extent of checks on political authority, derived from an assessment of the number of relevant veto players in the national polity (1-18 integral measure where 1 = no/minimal checks on political authority and 18 = substantial checks on political authority), and expected to be positively related to $P_{Count}$.

4 We continue to categorize a country as experiencing a currency crisis beyond the first year if the rate of depreciation in subsequent years grows by at least 10%. Thus, in the first year, if there is a 20% depreciation then the country is in currency crisis. In the next year, depreciation must increase to at least 22% to continue in currency crisis (Vaaler & McNamara, 2004).
These 15 controls generally follow intuition. Countries with net exports, lower external debt, higher per capita incomes, greater economic size, faster economic growth, lower inflation, government budget surpluses, lower government profile in the overall economy, more trade, no recent history of large domestic currency depreciation, no recent history of defaulting on foreign financial obligations, and an investment grade rating by a major credit agency will attract more MNC investment projects.

Three macroeconomic controls merit additional explanation. At first glance, *Fuel Exports* has an ambiguous impact on country attractiveness for MNC project investment. On the one hand, oil, gas and related energy exports may have a positive effect on investment attractiveness. These exports attract energy project investors as well as generate foreign currency reserves thus stabilizing developing country finances. On the other hand, country reliance on energy industry development and export can starve other industry sectors of capital for new projects. Because it generates foreign currency, it may also lessen the need for foreign projects and capital (Humphrey and Bates, 2005). Given our focus on foreign projects across a range of industry settings, we resolve this ambiguity by predicting a net negative impact on *PCount* for *Fuel Exports*. Two other controls, *Lack of Political and Civil Rights* and *Political Checks*, follow from research linking legal and political modernization to investment attractiveness in developing countries (Goldsmith, 1994). This line of research holds that countries with stronger traditions of voting and protection of rights attract more investment (LaPorta *et al.*, 1998). A related line of research links the number of checks on political authority to economic policy stability, predictability and foreign investment (Delios & Henisz, 2000; Humphreys & Bates, 2005).

Consistent with our integrated PBC theoretical model, variables of central interest in the empirical model relate to elections, the partisan orientation of incumbents during elections, and
MNC electoral expectations. We define nine such variables. We first include an election-year term, \(Elec(\beta_1)\), a 0-1 dummy (1 if it is the year of an election, 0 otherwise) to probe for current year \(t\) effects on \(PCount\). We next include one-year lead and lagged election-year terms, \(Elec_{t+1}\) and \(Elec_{t-1}\), \((\beta_6\) and \(\beta_8\)), to probe for the persistence of PBC effects on \(PCount\). We next include a right-wing incumbent term, \(Rinc(\beta_2)\), a 0-1 dummy (1 if incumbent is right-wing, 0 if left-wing), to control for the partisan orientation of incumbents. When interacted with current year election-year dummy, \(Rinc*Elec(\beta_3)\), and with the one-year lead and lagged election year dummies, \(Rinc*Elec_{t+1}\) and \(Rinc*Elec_{t-1}\) \((\beta_7\) and \(\beta_9\)), we can partition current, lead and lagged election-year effects on \(PCount\) by the partisan orientation of the incumbent.

Two additional variables, \(Elec*\lambda D_{it}\) and \(Rinc*Elec*\lambda D\) \((\beta_4\) and \(\beta_5\)), deal specifically with MNC electoral expectations. The expectations term, \(\lambda D\), takes on three possible values related to three expected electoral outcomes MNCs consider. If \(\lambda D = 1\) then MNC expectations are that the right-wing parties and policies will prevail. If \(\lambda D = -1\) then MNC expectations are that left-wing parties and policies will prevail. If \(\lambda D = 0\) then there is no clear MNC expectation either of a right- or left-wing parties and policies coming to power – a close call. We interact \(\lambda D\) with \(Elec\) and \(Elec*Rinc\) to permit examination of MNC expectations under different partisan incumbents (right-wing and left-wing). A final term in the empirical model is a one-year lagged dependent variable, \(PCount_{t-1}\). This term acts as a catch-all control for other unspecified past factors influencing current year \(PCount\). Inclusion of this lagged dependent variable term in the presence of country fixed effects leads to estimation challenges discussed below.
Hypothesis 1 predicts decreasing annual MNC investment project announcement counts ($PCount$) as right wing base case scenarios of likely re-election ($\beta_1 + \beta_3 + \beta_4 + \beta_5$) shifts to close call scenarios ($\beta_1 + \beta_3$), and then to switch scenarios ($\beta_1 + \beta_4 - \beta_5$). A test of differences in this hierarchy reduces to: $H_1: \beta_4 + \beta_5 > 0$. Hypothesis 2a predicts that partisan PBC considerations will dominate MNC risk and investment behavior during election years. Accordingly, Hypothesis 2a predicts increasing annual MNC investment project announcement counts as left-wing base case scenarios of likely re-election ($\beta_1 - \beta_4$) gives way to a close call scenarios ($\beta_1$) and then to switch scenarios ($\beta_1 + \beta_4$). Hypothesis 2b predicts that opportunistic PBC effects will dominate. Accordingly, Hypothesis 2b predicts decreasing annual MNC investment project announcement counts for left-wing incumbent elections as we move from base case to close call to switch scenarios. A test of differences in these alternative hierarchies reduces to: $H_{2a}: \beta_4 > 0$ or $H_{2b}: \beta_4 < 0$.

Ideally, we would measure the MNC expectation term, $\lambda D$, with data from regular, comparable and reliable pre-election-period polls of MNC managers considering investment projects. Alternatively we would use such pre-election polling data for likely voters. These measurement approaches are problematic. First, such pre-election polling data for likely voters across developing countries are not widely available. Such polling data for MNC managers are non-existent. Aside from Shultz (1995), who had regular, comparable and reliable UK pre-election polling data, there are only a handful of published studies examining the moderating effect of electoral expectations and exploiting such empirical luxury. These studies are exclusive to

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5 In this scenario, variables $Elec = 1$, $Rinc = 1$ and $\lambda D = 1$. Thus, in our fully-partitioned empirical model, the set of coefficients corresponding to this scenario becomes $Elec(\beta_1) + Rinc*Elec(\beta_2) + Elec*\lambda D(\beta_4) + Rinc*Elec*\lambda D(\beta_5)$. Appropriate variable measures, model terms and corresponding coefficients are derived for the other five PBC electoral scenarios similarly.

6 $H_1$ is derived from reduction of the following inequality: $\beta_1 + \beta_3 + \beta_4 + \beta_5 > \beta_1 + \beta_4 - \beta_5$. This inequality reduces to: $\beta_4 + \beta_5 > 0 - \beta_4 - \beta_5 = \beta_4 + \beta_5 > 0$. 


industrialized country contexts such as the US (Alesina et al., 1997) or the US and UK (LeBlang & Mukherjee, 2005), not developing country contexts. Second, even if such pre-election polling data were available for developing countries holding elections in the 1980s and 1990s, MNC investment project announcements occur throughout the election year. Researchers would be challenged to decide appropriate weights for various polling results, including the most important polling results on election day.

We deal with these measurement issues by assuming that MNC pre-electoral expectations in election year $t$ are not systematically different from final results on election day. This approach follows Vaaler, Schrage and Block (2005, 2006), who use actual election-day results to proxy retrospectively for sovereign bondholder expectations shaping 60- and 90-day pre-election trends in bond spreads, and to proxy for major credit rating agency expectations affecting the likelihood of changes in the sovereign rating of countries during election years. To provide some empirical confirmation for this approach, we also review each election campaign to uncover some pre-election polling information or other prognostications in local media or polling organizations. Since many countries also have party primaries or other preliminary contests, general campaign candidates and assessments are often not available until 30-90 days prior to election day. Our review of pre-election information does not uncover any “surprise” results such as one candidate far ahead in pre-election polls but then defeated on election day. Pre-election indicators generally anticipate voter preferences on election day.

$H_{2a}$ is derived from reduction of the following inequality: $\beta_1 - \beta_4 < \beta_1 < \beta_1 + \beta_4$. This inequality reduces to: $-\beta_4 < 0 < \beta_4 = \beta_4 > 0$.

$H_{2b}$ is derived from reduction of the following inequality: $\beta_1 - \beta_4 > \beta_1 > \beta_1 + \beta_4$. This inequality reduces to: $-\beta_4 > 0 > \beta_4 = \beta_4 < 0$.

$H_{2a}$ is derived from reduction of the following inequality: $\beta_1 - \beta_4 < \beta_1 < \beta_1 + \beta_4$. This inequality reduces to: $-\beta_4 < 0 < \beta_4 = \beta_4 > 0$.

$H_{2b}$ is derived from reduction of the following inequality: $\beta_1 - \beta_4 > \beta_1 > \beta_1 + \beta_4$. This inequality reduces to: $-\beta_4 > 0 > \beta_4 = \beta_4 < 0$.

Actual election-day results work as retrospective proxies for pre-election expectations and post-election expectations in election year $t$. Even if projects are announced in election year $t$ after voting, election-day results become useful prospective proxies for MNC expectations. Indeed, until winning parties take office and start governing, there is residual uncertainty as to which partisan policies will actually be enacted and which were merely part of the campaign trail rhetoric or sincerely proposed but destined to be stifled by checks on political authority.

7 H$^{2a}$ is derived from reduction of the following inequality: $\beta_1 - \beta_4 < \beta_1 < \beta_1 + \beta_4$. This inequality reduces to: $-\beta_4 < 0 < \beta_4 = \beta_4 > 0$.

H$^{2b}$ is derived from reduction of the following inequality: $\beta_1 - \beta_4 > \beta_1 > \beta_1 + \beta_4$. This inequality reduces to: $-\beta_4 > 0 > \beta_4 = \beta_4 < 0$. 

8 Actual election-day results work as retrospective proxies for pre-election expectations and post-election expectations in election year $t$. Even if projects are announced in election year $t$ after voting, election-day results become useful prospective proxies for MNC expectations. Indeed, until winning parties take office and start governing, there is residual uncertainty as to which partisan policies will actually be enacted and which were merely part of the campaign trail rhetoric or sincerely proposed but destined to be stifled by checks on political authority.
Based on this assumption and evidentiary confirmation, we construct our MNC expectations operator, \( \lambda D \), by noting election-day victors, their partisan orientations, and their victory margins, which are defined as differences in percentage points between winning and second-place (runner-up) candidates in the final round of voting, typically the general election. Thus, right-wing victors winning by substantial margins result in \( \lambda D = 1 \), while left-wing victors by a substantial margin result in \( \lambda D = -1 \). Regardless of victor, if victory margins are less than 3\% then they are close call elections resulting in \( \lambda D = 0 \).\(^9\)

**Data Sources and Sampling**

We collect several types of data to estimate our empirical model. We rely primarily on the World Bank’s Database of Political Institutions (“DPI”) version 4 (World Bank, 2005) and the International Foundation for Election Systems (“IFES”) (IFES, 2006) to collect information on presidential elections held in developing countries from 1987-2000. The overall DPI scheme is described in Beck, Clarke, Groff, Keefer and Walsh (2001). The DPI provides information on election dates, electoral systems, electoral system competitiveness, candidate partisan orientations, and checks on political authority. We use this information and collect additional information on general election and related electoral results through IFES and IFES-related sources (e.g., CNN.com). We exclude parliamentary systems without fixed-term election dates to avoid problems of endogenously timed elections. We include only competitive elections indicated in the DPI by an executive electoral competitiveness system score of 6 or 7 on a 1-7 scale.

The DPI also provides guidance on partisan orientation with left-wing, centrist, right-wing and other classifications of incumbent and related country parties based primarily on

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\(^9\) We use percentage of votes cast or valid votes depending on availability. Legislative electors chose presidents in South Africa (1994, 1999), Bolivia (1997) and Indonesia (1999) after general elections, so we use those legislative vote information. When close call election victory margins are re-defined as less than 5\% we obtain consistent results available on request.
content analysis of party titles. For example, parties with words such as “socialist” or “worker” draw left-wing classifications. Parties with terms such as “conservative” or “Christian” draw right-wing classifications. If this threshold analysis fails, DPI analysts review party platforms and history for additional guidance. Not surprisingly, centrist parties are more difficult to categorize based on party title, and typically require review of party platforms and history. The DPI ultimately classifies parties as centrist if they exhibit substantial commitment to investor (property) interests. In rare instances where the DPI fails to provide information on party orientation, we turn to alternative IFES-related sources for a judgment. Based on these criteria, we aggregate right-wing and centrist parties into a single right-wing bloc categorization. Thus, we have right-wing (including centrist parties) where \( Rinc = 1 \) and left-wing parties lacking substantial commitment to investor interests where \( Rinc = 0 \).

For the 11 macroeconomic and related control variables (\( Macro \)) in our empirical model, we collect annual data from: the World Bank’s World Development Indicators (“WDI”) (World Bank 2005) for data on \( \text{External Balance} \), \( \text{External Debt} \), \( \text{Per Capita Income} \), \( \text{Economic Size} \), \( \text{Economic Growth} \), \( \text{Inflation} \), \( \text{Fiscal Balance} \), \( \text{Fuel Exports} \), \( \text{Government Size} \), \( \text{Openness} \) and \( \text{Currency Crisis} \); Standard & Poor’s Ratings Services (S&P 1999, 2000) for data on \( \text{Recent Default} \); Bloomberg International (2006) for data on \( \text{Investment Grade Rating} \); Freedom House (2006) on-line sources for information on \( \text{Lack of Political and Civil Rights} \); and the DPI for information on \( \text{Political Checks} \).

For MNC investment project announcement counts, we collect data from the Thomson-SDC Project Investment on-line database (Thomson-SDC, 2003). This source provides detailed

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10 The DPI provides and we use this same partisan orientation for multi-party coalitions that may form in an election year and then influence a successful candidate’s policies (e.g., all Chilean presidential elections).

11 We justify averaging our \( \text{Lack of Political and Civil Rights} \) measure based on the very high pair-wise correlation (0.82, \( p < 0.01 \)) of political rights and civil rights measures provided by Freedom House for our sample of countries and years.
Thomson-SDC gathers and updates these data through reviews of regulatory filings such as US Securities Exchange Commission 10K and 10Q filings, and through financial press stories media like *Wall Street Journal, Asian Wall Street Journal,* and *Financial Times.* Thomson-SDC information on project companies includes estimated costs, the lead sponsor, some of the other junior sponsors if there is a syndicate, information on project company ownership by lead and junior sponsors, and information on other stakeholders related to the project such as lending institutions, credit agencies and host governments. We identify 18 countries with competitive presidential electoral systems, fixed election dates, parties with discernible partisan distinctions, and conditions sufficient for investment projects sponsored by foreign-domiciled MNCs from 1987-2000: Argentina, Bolivia, Brazil, Bulgaria, Chile, Colombia, Ecuador, Indonesia, South Korea, Mexico, Paraguay, Peru, Philippines, Poland, Russia, South Africa, Uruguay and Venezuela. Project investments sponsored by MNCs generally require major credit agency ratings of the project companies and the sovereign governments of the country where projects are located. Country sampling thus begins in the first year that countries have sovereign ratings published by one of six major credit rating agencies active in the sovereign credit rating business from 1987-2000: Moody’s, Standard & Poor’s, Fitch, Duff Credit Rating, Thomson Bank Watch, or Investment Bank Credit Analysis.

Our sampling approach results in 154 annual observations of MNC investment project announcement counts in 18 countries—an average of approximately nine annual observations per country. The sample includes 408 project announcements worth approximately $199 billion sponsored by MNCs domiciled outside project host countries. Based on the partisan orientations of incumbent parties, and electoral expectations/outcomes, we categorize countries (election
years) based on the integrated PBC theoretical model.\footnote{The sampled countries (election years) (\textit{Election Scenario}) are placed in the following election scenarios: Argentina (89, 95, 99), Bolivia (97), Brazil (89, 94, 98), Chile (93), Colombia (98), Paraguay (98), Peru (95, 00), Russia (96, 00), Uruguay (99) in the Right-Wing Base Case Scenario (I); Chile (99), Colombia (94), Indonesia (99), Korea (92, 97), Uruguay (94) in the Right-Wing Close Call Scenario (III); Ecuador (96), Philippines (98), South Africa (94), Venezuela (98) in the Right-Wing Switch Scenario (I'); Mexico (94), Poland (95, 00), South Africa (99), Venezuela (88, 00) in the Left-Wing Base Case Scenario (II); Ecuador (98) in the Left-Wing Close Call Scenario (IV); and Bulgaria (96), Mexico (00), Venezuela (93) in the Left-Wing Switch Scenario (II).} The sample distributes itself into all six scenarios of our framework. Not surprisingly, most countries and elections fall into the two incumbent base-case scenarios (I, VI) with the right-wing base-case (likely re-election) scenario (I) including 16 of the 35 elections sampled. Yet, there is representation in the five other cells to test for differences in \textit{PCount} hierarchies predicted by Hypotheses 1 and 2.

\textbf{Estimation Strategy}

We have cross-sectional (country \textit{i}) time series (year \textit{t}) panel data, thus we use three different panel estimators, all of which are available in Stata Version 9.0 (StataCorp, 2005). We start with panel generalized least squares estimation of \textit{PCount}. Since the dependent variable is an annual count, panel Poisson or panel negative binomial estimators are appropriate. The possibility of over-dispersion in the sample suggests a panel negative binomial rather than panel Poisson estimator, yet both of these panel estimators lack options to permit use of robust (to cross-sectional heteroskedasticity) standard errors and clustering on countries to handle other error non-independence within country panels. An alternative panel generalized estimating equation (\textquotedblleft GEE\textquotedblright) provides these options and can be calibrated to use negative binomial distributional assumptions functionally equivalent to panel negative binomial estimator (Hardin and Hilbe, 2003). Accordingly, our main estimator is the panel GEE, which we use to estimate \textit{PCount} first with country, year and macroeconomic and related country (\textit{Macro}) controls alone, and then with an increasing number of PBC-related terms.
A dynamic panel estimator (Arellano & Bond, 1991) does not use negative binomial distributional assumptions, thus it is not ideal for count data. But it is ideal for inclusion of a lagged dependent variable, $PCount_{it-1}$ as a catch-all control variable for current year $PCount$, and thus serves as a robustness check on other estimation results. Inclusion of a lagged dependent variable also addresses year-to-year serial correlation in the panel error structure. Hsiao (2003) demonstrates that inclusion of lagged dependent variable terms in the presence of fixed effects, such as country fixed effects, can yield inconsistent estimates. In panels with finite time periods $T$, there is correlation of the order $1/T$ between a lagged dependent variable and residuals. Arellano and Bond (1991) develop a generalized method of moments (“GMM”) estimator that yields consistent estimates in this situation. Arellano and Bond (1991) treat the equation as a system of equations, one for each time period. Each equation in the system differs only in the instrument/moment condition sets. Endogenous (lagged dependent) variables are first differenced and instrumented with suitable lags of their own levels. Other strictly exogenous (independent) variables are simply first-differenced.

RESULTS

Descriptive Statistics and Pair-wise Correlations

The mean value of the dependent variable, $PCount$, is 2.65 with a standard deviation of 3.40, a minimum value of 0, and maximum value of 19. On average, MNCs announce 2-3 investment projects in a country annually. The mean value of $PCount$ in an election year is 2.60 with a standard deviation of 4.16. At first glance, elections and the PBC incentives they may engender appear to have little impact on the count of investment projects announced by MNCs. The average US dollar value of an investment project is approximately $500 million for an annual dollar value of $1.3 billion in new project announcements for a given country. If this
trend does not vary significantly and substantially in election years then PBC assumptions and models may provide little explanation of MNC risk and investment behaviors.

**** Insert Table 2 Approximately Here ****

Table 2 provides descriptive information and pair-wise correlations for terms in our empirical model. Approximately 76% of the country-year observations involve countries with right-wing incumbents, a statistic consistent with the substantial majority of right-wing incumbent elections and with the general dominance of right-wing parties in developing country governments during the 1990s. Other macroeconomic and related institutional terms present a profile of developing countries in the 1980s and 1990s consistent with most expectations. They have mid-range per capita incomes ($3895) with higher (compared to industrialized countries) inflation rates (133%), and external debt (41.63) and fiscal deficits (1.80) as percentages of GDP. About one fifth of the observations come from countries that were recently in default of their financial obligations to sovereign bondholders (21%) or experiencing currency crises (18%). Another quarter (25%) comes from countries deemed investment grade by major credit agencies. Political and civil rights are middling, about 3 on a 1-7 scale. Checks on political authority range from 1 (minimal constraints given a competitive system for electing the national executive) to 6 with a mean of 3.50.

Regression and Hypothesis Test Results

Estimating PCount with country and year fixed effects as well as Macro controls leads to intuitive results in Columns 1 and 2 of Table 3. Panel GLS estimation in Column 1 yields Macro controls with the predicted sign in nine of 15 instances and statistical significance at the 10% level or better in three instances. The overall model $R^2$ is 0.60, thus our country, year and Macro controls alone explain substantial variation in the dependent variable. Panel GEE estimation in
Column 2 yields expected signs in 11 of 15 instances with statistical significance at 5% or higher levels in seven instances. Indeed, across Columns 2-7 of Table 3, signs on *Fiscal Balance*, *External Debt*, *Inflation*, *Fuel Exports*, *Government Size* and *Recent Default* are consistent with predictions, statistically significant, and practically substantial.\(^{13}\)

Panel GLS and GMM results in Columns 1 and 7 are interpreted in terms of annual project investment announcement levels, but the panel GEE results in Columns 2-6 and 8-9 should be read in terms of annual project investment announcement rates. Thus, in Column 1, for example, recent default decreases the number of project investment announcements by 3.21, effectively reducing *PCount* from its sample mean of 2.65 to 0, *ceteris paribus*. In Column 2, recent default by a country decreases the rate of new project announcements by 85%, holding other factors at their mean levels. Also in Column 2, a 1% increase in a country’s external debt decreases *PCount* by approximately 7%. Again, recent default and external debt terms exhibit statistically significant and practically substantial effects on the attractiveness of developing countries for MNC investment projects worth, on average, more than $1 billion annually.

**** Insert Table 3 Approximately Here ****

In Column 3 of Table 3, we re-estimate *PCount* with the addition of the current election year dummy, *Elec*. The coefficient sign is negative, but statistically insignificant at commonly acceptable levels. Additions of *Rinc* and *Rinc*\(^{*}\)* *Elec* terms in Column 4 permit us to partition current year election effects on *PCount* into those related to elections with left-wing incumbents.

\(^{13}\) On the other hand, we note two anomalous controls with consistently contrary signs at commonly acceptable levels of significance: *Country Economic Size* (natural log of GDP) and *Lack of Political and Civil Rights*. We predict a positive sign for *Economic Size* and observe this in pair-wise correlations with *PCount* in Table 2. Yet, we observe significant negative coefficients after multivariate estimations reported in Table 3. These estimates include country dummies thus rendering them within-subjects (within-countries) estimates of the impact of economic size on annual project counts. In this context, increasing economic size does not correlate with higher annual investment project counts. We also predict a negative sign on *Lack of Political and Civil Rights* but observe significant positive coefficients in both pair-wise and multivariate analyses. This anomaly also surprises us as it signals at least an indifference to political openness and individual liberties among project investing MNCs, and further evidence contrary to a view held by many scholars (Goldsmith, 1994) that political modernization enhances the business investment climate.
(Elec) and elections with right-wing incumbents (Elec + Rinc*Elec). Neither coefficient is different from zero at commonly acceptable levels of statistical significance. Were we to stop here, we might conclude that short-term electoral politics and economic policies, no matter their impact on various foreign financial actors like bondholders or credit rating agencies, have little relevance for MNC managers with a “long-term” or “strategic” perspective on risk and investment.

But our integrated PBC theoretical framework suggests and our empirical model permits more fine-grained partitioning of election-year effects on MNC risk and investment behavior. We partition election-year effects based on both incumbent partisan orientations and electoral expectations/outcomes. Columns 5-7 of Table 3 provide additional terms sufficient for such partitioning as well as construction and evaluation of the hierarchy of $PCount$ slopes predicted by Hypotheses 1 and 2. Columns 6-7 add one-year lead and lagged election year dummies permitting us to probe for the persistence of any PBC effects on $PCount$. Table 4 uses estimates from Table 3 to calculate slopes corresponding to the six election scenarios in our integrated PBC theoretical model. It also presents results from of tests of differences in the slope hierarchies consistent with our two hypotheses. The top three rows of Table 4 report slopes for elections with right-wing incumbent governments facing one of three election scenarios.

Against the base case scenario of likely right-wing incumbent re-election ($I$) we see that point estimates in Columns 5-7 of Table 4 decrease indicating greater MNC risk and decreasing investment project announcement counts as expectations shift from likely re-election of right-wing incumbents to close calls ($III$) and then to likely ouster of right-wing incumbents by less investor-friendly left-wing challengers ($V$). Point estimates for this hierarchy are consistent with our theoretical framework where partisan and opportunistic PBC considerations trend negatively as prospects of right-wing incumbent re-election dim.
Some point estimates are not different from zero at commonly acceptable levels of statistical significance, but tests of differences in the slopes hierarchy at the bottom of Table 4 do yield results with the predicted sign and statistical significance at 10% or higher levels. For example, in Column 5 of Table 4 the annual rate of MNC investment project announcement counts given the right-wing base case scenario is -0.02, but the estimate is not statistically different from zero. The point estimate decreases to -0.84 and becomes significant at the 5% level in the right-wing close call scenario. It doubles in decrease to -1.66 and remains statistically significant at the 5% level where right-wing incumbents are likely to be replaced by less-investor friendly left-wing challengers. Holding other terms at their respective mean values, MNC investment project announcement rates drop by 166% -zeroing out an important segment of inward FDI in election years. Differences in this hierarchy for elections with right-wing incumbents are statistically significant at the 5% level (0.82, p < 0.10) consistent with Hypothesis 1. Reinforcing partisan and opportunistic PBC considerations apparently increase MNC risk and decrease willingness to invest during election years as prospects of right-wing incumbent re-election dim.

Table 4 also organizes results from Table 3 into slopes corresponding to the three election scenarios for left-wing incumbents. Against base case scenarios of likely left-wing incumbent re-election (VI) we find point estimates indicating lower MNC risk and higher investment project counts as MNC expectations shift to close call scenarios (IV) and then to switch scenarios (II). Again, certain point estimates do not exhibit statistically significant differences from zero, but differences across the predicted hierarchy of slopes are positive and statistically significant at 10% or higher levels consistent with Hypothesis 2a and the dominance of partisan PBC considerations for left-wing incumbents. For example, in Column 6, the left-wing base case scenario slope is -
0.40, the left-wing close call scenario increases to 0.31, while the left-wing switch scenario increases further to 1.01. None of these point estimates is statistically significant at commonly acceptable levels. Yet, differences in this hierarchy of left-wing incumbent election scenarios and slopes prove positive and statistically significant at the 10% level (0.71, p < 0.10) consistent with Hypothesis 2a and the dominance of partisan over opportunistic PBC considerations.

Panel GEE results in Column 6 of Table 4 parallel those in Column 5. Consistent with Hypothesis 1, the test statistic for hierarchical differences is again positive and statistically significant at the 5% level (0.86, p < 0.05) for elections with right-wing incumbents. For left-wing incumbent elections, annual rates of investment project announcements decrease by 74% with the prospect of left-wing incumbent re-election (-0.74, p < 0.05). When the left-wing incumbent scenario shifts to a close call or likely replacement with more investor-friendly right-wing challengers the decrease disappears. Consistent again with Hypothesis 2a and the dominance of partisan PBC incentives, the test statistic for hierarchical differences in left-wing incumbent election scenarios is again positive and significant at the 10% level (0.72, p < 0.10). Recall that our integrated PBC framework highlights a tension between partisan and opportunistic PBC incentives for left-wing incumbent elections. In this context, it is not surprising that levels of statistical significance for differences in the left-wing incumbent hierarchy might be lower than for differences in the right-wing incumbent hierarchy where our framework highlights reinforcing partisan and opportunistic PBC incentives.

Dynamic panel GMM model estimation results in Column 7 of Table 3 and 4 provide additional support for Hypotheses 1 and 2a. Test statistics for hierarchical differences in both right-wing (1.25, p < 0.05) and left-wing incumbent election scenarios (4.44, p < 0.05) are positive and
significant at the 5% level. For left-wing incumbent elections, annual project counts drop by about two (1.98, p < 0.10) when left-wing incumbents are likely to be re-elected, but increase by approximately seven (6.94, p < 0.10) when left-wing incumbents are likely to lose to more investor-friendly right-wing challengers. Given that the average estimated project cost is approximately $500 million, a swing in PBC electoral scenarios results in project investment increases or decreases worth as much as $4.5 billion.

We summarize these trends graphically in Figure 1, which presents two non-parametric locally-weighted scatter-plot smoother (“Lowess”) analyses. Lowess analyses compute linear regressions around each observation, $x_{it}$, with neighborhood observations chosen within some sampling bandwidth and weighted by a tri-cubic function. Based on the estimated regression parameters, $y_{it}$ values are computed. These $x_{it}, y_{it}$ combinations are then connected yielding a Lowess curve. A higher bandwidth results in a smoother Lowess curve.

****  Insert Figure 1 Approximately Here  ****

Figure 1 presents two Lowess analyses using a 90% sampling bandwidth. The $x$-axis represents the winning (+) or losing (-) percentage margin of victory on election day. The $y$-axis represents the change in number of investment projects announced in country $i$ in year $t$ compared to year $t-1$. Consistent with our integrative PBC theoretical framework and Hypothesis 1, we observe increasingly positive change in the number of project announcements as we move from losing to winning margins for more investor friendly right-wing incumbents. Consistent with our PBC framework and Hypothesis 2a, we observe increasingly negative change in the number of project announcements as we move from losing to winning margins for less investor friendly left-wing incumbents. These non-parametric results provide additional support for our overall research

14 Dynamic panel GMM model assumptions are met, including Sargan tests confirming the group exogeneity of all instruments generated, and tests for the presence of higher (than first order) serial correlation in the error structure. These results are
proposition as well as more empirical confirmation that actual election-day results are a good retrospective proxy for MNC expectations during the election year.

Related Results

Results in Columns 6-7 of Table 3 permit examination of lagged and lead election effects for right-and left-wing incumbents. While not related directly to our two hypotheses, they nonetheless shed light on the persistence of election-year effects observed using the integrated PBC theoretical framework. Results suggest no significant leading election effects, but for left-wing incumbents, investment project announcement counts decrease significantly in the year after an election. The decrease is statistically significant at 5% or higher levels. In Column 6’s panel GEE results we see that annual project investment announcement rates decrease 93% (-0.93, p < 0.05) a year after elections where left-wing parties gain or maintain office. In Column 7’s panel GMM results, announced investment project counts drop by approximately two (-1.96, p < 0.01) a year after elections where left-wing presidents are the result. It is helpful to pair these results with earlier results indicating a significantly negative impact on project investment counts in the current election year if left-wing incumbents are likely to be re-elected. We interpret this pair of results as indicating persistence in partisan PBC effects shaping MNC risk and investment behaviors. Rather than irrelevance, PBC considerations appear to be significant, economically substantial and, in certain electoral scenarios, persistent over years for MNCs.

Robustness and Heterogeneity

These results prove robust to reasonable variation in model specification and sampling. For example, we obtain consistent results regarding our two hypotheses if we re-estimate after: 1) adding to empirical models additional controls for elections involving a “right-wing” party that the

available on request.
DPI categorizes as centrist;¹⁶ 2) replacing existing controls such as Inflation, Lack of Political and Civil Rights and Political Checks with their natural log values; 3) partitioning our External Debt control into bank and non-bank components; or 4) standardizing External Balance, External Debt, Fiscal Balance, Fuel Exports and Government Size controls with country population rather than GDP.¹⁷

Re-estimation after reasonable alternative sampling strategies complements our core results in Columns 5-7 of Tables 3-4. Recall that one assumption in our integrated PBC theoretical framework is that MNC investment willingness is related to partisan and opportunistic PBC considerations. Projects led by domestic sponsors do not carry with them a liability of foreignness (Zaheer, 1995) that apparently sensitizes MNCs to PBC-related risks during election periods. In Column 8 of Tables 3-4 we report results from brief empirical investigation of that framework implication. We re-sample from the Thomson-SDC project finance database annual counts with lead sponsoring organizations from the same country as the announced project. 154 country-year PCount observations are now based on 230 domestically sponsored project announcements for our 18 developing countries from 1987-2000. Panel GEE results in Column 8 of Table 3 reveal many controls and PBC-related terms that are no longer signed or significant at commonly acceptable levels. In Table 4, we observe no statistically significant support for our hypotheses. Some Table 4 results contrast sharply with core results. Together, these results vindicate focus on MNCs in our theoretical framework, and highlight an important source of organizational heterogeneity in response to electoral dynamics and PBC incentives.

Column 9 in Tables 3-4 provides yet another set of complementary results. This time, we

¹⁵ Lagged right-wing incumbent effects in Columns 6 and 7 are significantly different from left-wing effects (Column 6: 2.15, p < 0.01; Column 7: 2.19, p < 0.01) but not significantly different from zero when assessed as a linear combination.
¹⁶ We re-estimate empirical models with dummies for elections involving a “centrist” party. These results are available on request.
¹⁷ These results are available on request.
explore the possibility that results might differ if we redefine “foreignness” based on the weighted nationality of all firms in the project syndicate rather than based on the nationality of the lead sponsoring MNC alone. The Thomson-SDC project finance database does not have complete information on many of the projects we previously sampled. Even so, we are able to assemble 154 country-year PCount observations based on 230 syndicate-based foreign project announcements for our 18 developing countries from 1987-2000. These 230 project announcements are distributed across countries and years similarly to the 408 project announcements comprising our core sample. Pair-wise correlation between the two counts is 0.84 (p < 0.01). Panel GEE results in Column 9 or Table 4 are consistent with our core results. Test statistics for hierarchical differences in the right-wing incumbent (1.36, p < 0.01) and left-wing incumbent (1.03, p < 0.05) election scenarios are again positive, significant at commonly acceptable levels and consistent with Hypotheses 1 and 2a. Whether defined by lead sponsoring MNC or collective syndicate nationality, foreign investment project counts vary based on PBC considerations.

**DISCUSSION AND CONCLUSION**

**Key Findings**

We set out to understand whether and how MNC risk and investment behavior in developing countries might be shaped by local electoral factors. Global MNC investment trends might be significantly and substantially moderated by local factors linked to opportunistic and partisan PBCs and the (dis)incentives they create for a foreign-based constituency that votes economically. We found substantial support to sustain this conjecture. MNCs sponsoring investment projects act consistently with PBC considerations, with special emphasis on partisan considerations. In developing country election scenarios involving right-wing incumbents under substantial threat from

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18 Here, we define a project as “foreign” when more than 50% of the project equity is held by syndicate members located outside the project’s country.
left-wing challengers, the rate and number of new investment project announcements decrease significantly and substantially. With elections involving left-wing incumbents, it is just the opposite. The growing prospect of a partisan shift to the right apparently emboldens MNCs and increases project announcement rates and numbers potentially worth billions of dollars in investment, economic growth and development. Partisan PBC considerations seem to be especially important in understanding how MNCs view electoral dynamics and economic policies. Such considerations persist over time. In the year after elections resulting in left-wing presidents, we find evidence of continued increase in MNC risk and lower investment project announcement rates and levels.

“Short-term” election periods and the PBC incentives they create apparently have significant, substantial and sometimes persistent effects on MNC investments with life-spans measured over many years or decades and (lost) value potentially in the billions of dollars. MNCs and their strategic managers apparently think about risk and investment during election periods similarly to sovereign bondholders, credit rating agencies and perhaps other foreign actors important to supplying capital and capabilities to developing countries.

**Implications**

We draw several research, practice and public policy implications from these findings. For management research, our findings underscore the value of re-examining with novel (to management) political economy theories and project investment empirics a venerable but still critical research issue related to the divergent interests of MNCs and developing country host governments. In the process, we start filling an important gap in our understanding about how democratization and elections shape MNC risks and investment behavior.

Kobrin (1979: 77) challenged management researchers more than 25 years ago to identify “which events matter,” to identify how “environmental processes affect investor perceptions,” and to
identify “a conceptual structure relating politics to the firm.” In response, we identified elections as critical events for shaping host government politics in democratizing countries of the developing world. We identified opportunistic and partisan PBC considerations potentially affecting MNC risk and investment behaviors during these increasingly frequent events. We provided a conceptual structure for integrating these patently political considerations and documented support for the conceptual structure in a broad sample of MNC investment projects, elections, countries and years. These findings contribute to a broader re-examination of the bargaining hypothesis for MNCs active in developing countries currently experiencing the twin stresses of political and economic modernization. As Henisz and Zelner (2003, 2005) have already noted, management research in this context will benefit substantially from crossing disciplinary boundaries to draw on political economy concepts and theories as we did in this PBC-motivated study.

These results also have implications for MNC executives and public policy-makers. Our results suggest that MNC managers take PBC-related factors into account, particularly partisan factors, when mulling over investment projects during and sometimes after election years. Election-period presumptions about investor friendliness based on right-wing and left-wing distinctions explain significant and substantial variance in MNC risk and investment behavior, even after we control for the checks and balances on political authority in a given country. Henisz (2000) and others (e.g., Beck et al., 2001; Humphreys & Bates, 2005) have already demonstrated the importance of political checks and policy uncertainty on foreign investment and economic development. Perhaps elections temporarily redirect MNC attention from constraints on developing country political authorities to the partisan (and opportunistic) policy changes these same authorities may implement with the appropriate electoral mandate.
We speculate that MNC partisan presumptions may be rebutted if developing country
governments and political parties communicate credibly about their election-period and prospective
post-election policies. Managers charged with evaluating countries for major investment projects
may speculate similarly. Perhaps we are observing merely presumptive MNC risk perceptions,
which may evolve substantially through additional study and sustained engagement with politicians
of differing partisan perspectives. If true, then more studious MNC managers are also more
strategic. Close study of local parties and policies beyond simple “left-wing” and “right-wing” labels
could lead a select few managers and MNCs to differ from competitors and identify undervalued
investment and overvalued divestment opportunities during election periods.

**Limitations and Future Research Directions**

We think this study makes important contributions to management theory and empirical
work on political risk, investment and democratization in developing countries. It also has
limitations. We have already noted thorny issues related to collecting and categorizing
information about partisan orientation. Simple left-right partisan classifications follow from
partisan PBC theory but are often coarse-grained in empirical applications. Mexico’s Vicente Fox,
Russia’s Vladimir Putin, and the Philippines’ Fidel Ramos fall into the right-wing category in our
study, but their policy priorities almost certainly create distance between them from the standpoint
of MNCs mulling over investment projects in their countries. Future research exploiting an ever
increasing sample of developing country elections will permit greater power in estimation\(^{19}\), and
along with that, more fine-grained partisan categorization schemes to capture not merely left- and
right-wing but also more extreme and more moderate left-wing, centrist and right-wing partisan
positioning by candidates and parties. This expanding domain should also help researchers

\(^{19}\) We obtain consistent support for our hypotheses at commonly acceptable levels of significance notwithstanding relatively low
estimation power. Full model panel GEE (GMM) results are based on only 3.3 (2.5) observations per parameter.
analyze MNC risk and investment behavior during occasions when candidates and their policies might conflict with policies traditionally championed by their nominating parties.

We also see room for improvement in modeling MNC expectations about who will win and lose during election years. Retrospective use of actual results is an admittedly second-best option, though empirical confirmation with media reports as well as with Lowess analyses suggests that this option works well. Going forward, we see opportunities for researchers to survey MNC managers on upcoming elections in the developing world, and develop the regular, comparable and reliable pre-election polling data admittedly missing here.

Yet another limitation relates to our use of investment project counts rather than dollar amounts. Information on the announced dollar value of investment projects is available and provides additional insight on the investment implications of “democracy in action” in developing countries. On the other hand, cost estimates provided at the time of a project’s initial announcement often prove less reliable than the basic intent to move forward with the project itself. Even so, with appropriate controls for factors that might encourage understatement or overstatement of initial project cost estimates, we see substantial opportunity to extend our analyses to understand how the count and dollar amount of MNC project investment varies based on PBC considerations.

A final limitation concerns model identification. We assume that elections and the PBC incentives they create shape MNC risk and investment behavior, but the opposite relationship is also possible. MNC investment project announcements during election years may buttress right-wing incumbents’ claims of good economic stewardship and increase their re-election prospects. Conspicuous silence by MNCs during left-wing incumbents’ campaigns may undermine their re-

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20 Re-estimation of our full empirical model using estimated (at time of initial announcement) project US dollar cost and a panel feasible generalized least squares estimator yields results consistent with our core project count results. They are available on request.
election prospects. Our sample of project investments permits brief investigation of this possibility. The Thomson-SDC project finance database reports not only dates that investment projects are initially announced but also dates that final terms for financing projects are concluded and dates that project construction begins. Assume that MNCs are trying to influence election outcomes by making investment project announcements designed to buttress claims of good economic stewardship by investor-friendly right-wing incumbents. MNCs would then have incentives for “cheap talk” whereby they announce many new projects that they have little interest in actually carrying out. Cheap talk incentives are high in an election years with right-wing incumbents, and low in election years with less investor-friendly left-wing incumbents. We gain insight on the possibility of cheap talk by MNCs to promote re-election of right-wing incumbents by examining the percentage of announcements where either project financing is concluded or construction is begun in the next three years. Cheap talk implies that the percentage of financed or constructed projects announced during election years with right-wing incumbents will be lower than the same percentage during elections with left-wing incumbents. Average percentages under these two scenarios and a third non-election year scenario are graphed in Figure 1.

**** Insert Figure 2 Approximately Here ****

One and two years after elections, percentages of projects either financed or under construction are higher (not lower) for right-wing incumbent elections than left-wing incumbent elections. 33% and 39% are financed or under construction one and two years later for elections with right-wing incumbents. 27% and 31% are financed or under construction one and two years after elections with left-wing incumbents. Three years after elections with left-wing incumbents, the percentage of projects either financed or construction noses slightly ahead of the same percentage for elections with right-wing incumbents. 55% are financed or under construction for left-wing
incumbents compared to 50% for right-wing incumbents. This descriptive evidence reveals no clear pattern consistent with cheap talk by MNCs designed to influence election outcomes. MNCs seem as willing to move ahead with investment projects announced during elections with right-wing incumbents as they are with projects announced during elections with left-wing incumbents. These results provide further support for our PBC model assumptions. We also think they suggest another future research avenue involving closer examination of links between MNC investment announcements, financings and construction of projects on the one hand and local electoral dynamics on the other hand.\footnote{We also suggest extending this work beyond the domain of just large investment projects with “public goods” characteristics.}

This final point invites further expansion of the PBC empirical domain to embrace other players important to the pricing and availability of capital and capabilities critical to developing country growth and modernization. We see value in building on research about developing country politics and bank lending by Dinc (2005), and applying PBC lenses to decisions by foreign bankers regarding loan limits and maturities during elections. We also see value in examining not only broad election-period risk across firms, but also firm-specific differences in response to such risk. If a key question in strategic management is why firms differ (Nelson, 1991), then a key question for our future research should be why firms might differ in their responses to opportunistic and partisan PBC considerations. We demonstrated that firm nationality is a crucial source of heterogeneity in response to electoral dynamics and PBC incentives. Delios and Henisz (2000, 2003) suggest that previous geographic experience moderates firm risk and investment in countries with uncertain policy environments. Closer examination of this and other factors may uncover similarly moderating effects related to PBC considerations. Such future research can direct PBC study further into the management research domain even as it stimulates interest among management researchers to cross disciplinary boundaries to political economy and related domains.
REFERENCES


Stata Corp. 2005. *Stata statistical software: Release 9.0*. Stata Corporation: College Station, TX.


TABLE 1
Integrated PBC Theoretical Model of MNC Investment During Election Years

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Predicted direction of MNC investment based on PBC considerations: (Partisan, Opportunistic).
# TABLE 2

Descriptive Statistics and Pair-wise Correlations

| Variables                              | Mean   | St. Dev   | 1     | 2     | 3     | 4     | 5     | 6     | 7     | 8     | 9     | 10    | 11    | 12    | 13    | 14    | 15    | 16    | 17    | 18    | 19    | 20    | 21    | 22    | 23    | 24    | 25    |
|----------------------------------------|--------|-----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 1. Dep Var: Project Count (PCount)    | 2.65   | 3.40      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 2. External Balance                   | -0.49  | 5.75      | -0.03 |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 3. External Debt                      | 41.63  | 19.30     |       | 0.03  |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 4. Per Capita Income                  | 3.89   | 2.56      |       |       | -0.08 |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 5. Economic Size                      | 25.38  | 1.29      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 6. Economic Growth                    | 1.64   | 1.29      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 7. Inflation                          | 1.33   | 1.26      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 8. Fiscal Balance                     | -1.80  | 3.25      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 9. Fuel Exports                       | 0.04   | 0.06      | -0.07 |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 11. Openness                          | 49.91  | 22.44     |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 12. Currency Crisis                   | 0.18   | 0.39      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 13. Recent Default                    | 0.21   | 0.41      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 14. Investment Grade Rating           | 0.25   | 0.43      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 15. Lack of Political-Civil Rights   | 2.91   | 0.90      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 16. Political Checks                  | 11.00  | 2.35      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 17. Election Year (Elec) [β]          | 0.23   | 0.42      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 18. Right-Wing Inc (Rinc) [β]         | 0.76   | 0.43      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 19. Rinc*Elec [β]                     | 0.16   | 0.36      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 20. Elec*ID [β]                       | 0.05   | 0.42      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 21. Rinc*Elec*ID [β]                  | 0.07   | 0.34      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 22. Lead Election Year (Elec-1) [β]   | 0.19   | 0.39      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 23. Rinc*Elec-1 [β]                   | 0.15   | 0.36      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 24. Lagged Election Year (Elec-2) [β] | 0.21   | 0.41      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 25. Rinc*Elec-2 [β]                   | 0.15   | 0.36      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |
| 26. Lagged Dep Var (PCountt-1) [β]    | 2.31   | 3.10      |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |

N = 154 except for the Lagged Dep Var ((PCountt−1)) for which N = 118. Correlations greater than approximately .13 or less than -.13 are significant at 10% level (p < 0.10) (one-tailed test). Correlations greater than approximately .16 or less than -.16 are significant at 5% level (p < 0.05) (one-tailed test). Correlations greater than approximately .20 or less than -.20 are significant at 1% level (p < 0.01) (one-tailed test).
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Wald $\chi^2 (R^2)$: 0.00

48

TABLE 3
Regression Results: Annual MNC Investment Project Counts Announced, 1987–2000

a. Columns 1-9 report regression coefficients and semi-robust standard errors (in parentheses). Regression results for country and year dummies are available on request.

† $p < 0.10$, * $p < 0.05$, ** $p < 0.01$
TABLE 4

Election Scenarios: Annual MNC Investment Project Counts Announced, 1987-2000a

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<tbody>
<tr>
<td>I. Right-Wing Base Case Scenario: Right-Wing Incumbent Expected to Win (( Rinc_1 = 1, A_D = 1 ))</td>
<td>GEE</td>
<td>-0.02</td>
<td>(0.27)</td>
<td>0.32</td>
<td>-0.36†</td>
<td>0.16</td>
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<td>Slope: ([\beta_1 + \beta_2 + \beta_3 + \beta_4] )</td>
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<td>III. Right-Wing Close Call Scenario: Right-Wing Incumbent and Closely Balanced Expectations (( Rinc_1 = 1, A_D = 0 ))</td>
<td>GEE</td>
<td>-0.84*</td>
<td>(0.42)</td>
<td>-0.94</td>
<td>-0.37</td>
<td>-1.20**</td>
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<td>Slope: ([\beta_1 + \beta_4] )</td>
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<tr>
<td>V. Right-Wing Switch Scenario: Right-Wing Incumbent Expected to Lose (( Rinc_1 = 1, A_D = -1 ))</td>
<td>GEE</td>
<td>-1.66*</td>
<td>(0.78)</td>
<td>-1.19</td>
<td>-0.38</td>
<td>-2.57**</td>
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<td>Slope: ([\beta_1 - \beta_2 - \beta_3 - \beta_4] )</td>
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<tr>
<td>VII. Left-Wing Base Case Scenario: Left-Wing Incumbent Expected to Win (( Rinc_2 = 0, A_D = 0 ))</td>
<td>GEE</td>
<td>-0.40</td>
<td>(0.32)</td>
<td>-1.94</td>
<td>1.43</td>
<td>-1.34**</td>
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<td>Slope: ([\beta_1 - \beta_3] )</td>
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<tr>
<td>IV. Left-Wing Close Call Scenario: Left-Wing Incumbent and Closely Balanced Expectations (( Rinc_2 = 0, A_D = 0 ))</td>
<td>GEE</td>
<td>0.31</td>
<td>(0.30)</td>
<td>2.50</td>
<td>1.58†</td>
<td>-0.31</td>
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<td>Slope: ([\beta_1] )</td>
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<tr>
<td>II. Left-Wing Switch Scenario: Left-Wing Incumbent Expected to Lose (( Rinc_2 = 0, A_D = -1 ))</td>
<td>GEE</td>
<td>1.01</td>
<td>(0.84)</td>
<td>6.94†</td>
<td>1.73</td>
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<td>Slope: ([\beta_1 + \beta_3] )</td>
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<td>Hypothesis 1 Test of Right-Wing Hierarchy Related to Reinforcing Partisan and Opportunistic PBC Considerations ( H_1: [\beta_1 + \beta_2 &gt; 0] )</td>
<td>GEE</td>
<td>0.82*</td>
<td>(0.41)</td>
<td>1.25*</td>
<td>0.00</td>
<td>1.36**</td>
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<td>Hypothesis 2 Test of Left-Wing Hierarchy Related to Opposing Partisan and Opportunistic PBC Considerations ( H_2: \text{Partisan PBCs Dominate} [\beta_3] &gt; 0 )</td>
<td>GEE</td>
<td>0.71†</td>
<td>(0.39)</td>
<td>4.44*</td>
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<td>( H_3: \text{Opportunistic PBCs Dominate} [\beta_3] &lt; 0 )</td>
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a. Table 4 first reports results from calculation of coefficients and linear combinations of coefficients estimated in Columns 5-9 of Table 3. Columns 5-7 are based on annual counts of announced investment projects where the largest sponsoring firm is located outside the country where the project will be located. Table 4 then reports on the significance of slope hierarchies as predicted in Hypotheses 1 and 2. The sampled countries (election years) (Election Scenario) include: Argentina (89, 95, 99), Bolivia (97), Brazil (89, 94, 98), Chile (93), Colombia (98), Paraguay (98), Peru (95, 00), Russia (96, 00), Uruguay (99) in the Right-Wing Base Case Scenario (I); Chile (99), Colombia (94), Indonesia (99), Korea (92, 97), Uruguay (94) in the Right-Wing Close Call Scenario (II); Ecuador (96), Philippines (98), South Africa (94), Venezuela (98) in the Right-Wing Switch Scenario (III); Ecuador (94), Poland (95, 00), South Africa (99), Venezuela (88, 00) in the Left-Wing Base Case Scenario (IV); Ecuador (98) in the Left-Wing Close Call Scenario (IV); and Bulgaria (96), Mexico (00), Venezuela (93) in the Left-Wing Switch Scenario (II).

b. \( H_2 \) is derived from reduction of the following inequality: \( \beta_1 + \beta_2 + \beta_3 + \beta_4 > 0 \). This inequality reduces to \( \beta_1 + \beta_2 > 0 > -\beta_3 - \beta_4 - \beta_5 - \beta_6 \). This inequality reduces to \( > \beta_1 > \beta_2 > 0 > -\beta_3 - \beta_4 - \beta_5 - \beta_6 \). This inequality reduces to \( < \beta_1 < \beta_2 < 0 < -\beta_3 - \beta_4 - \beta_5 - \beta_6 \).

c. \( H_3 \) is derived from reduction of the following inequality: \( \beta_1 > \beta_2 > \beta_3 > \beta_4 \). This inequality reduces to \( > \beta_1 > \beta_2 > \beta_3 > \beta_4 \). This inequality reduces to \( < \beta_1 < \beta_2 < 0 < -\beta_3 - \beta_4 - \beta_5 - \beta_6 \).

d. Annual counts of announced investment projects led by domestic sponsoring firm or domestic governmental agency.

e. Annual counts of announced investment projects led by foreign syndicate, that is, if the total percentage of project equity held by foreign sponsors is greater than 50%.

f. Annual counts of announced investment projects led by foreign syndicate, that is, if the total percentage of project equity held by foreign sponsors is greater than 50%.

† \( p < 0.10 \)

* \( p < 0.05 \)

** \( p < 0.01 \)
FIGURE 1

Incumbent Election Results and Change in Announced MNC Project Counts, 1987-2000

FIGURE 2

Percentage of Announced MNC Projects Either Finance or Constructed, 1987-2003