HOW DO MNCs VOTE IN DEVELOPING COUNTRY ELECTIONS?

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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, I develop and test a framework for understanding MNC risk and investment behavior based on political business cycle considerations. Analyses of 408 MNC investments worth $199 billion in 18 developing countries holding 35 presidential elections from 1987 through 2000 are consistent with these considerations: MNCs perceive higher (lower) risk and announce fewer (more) investment projects as right-wing (left-wing) incumbents appear more likely to be replaced by left-wing (right-wing) challengers.

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. 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. Vernon (1971) called attention to political risk associated with "obsolescing bargains" between investing MNCs and developing country host governments over time. Kobrin (1979, 1987) articulated different components of political risk associated with a "bargaining hypothesis" and different MNC responses intended 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 these topics: how governments matter for business investment incentives (Ring, Bigley, D'Aunno, & Khanna, 2005); how MNC investment decisions in emerging economies differ from those in industrialized democracies generally (Hoskisson, Eden, Lau, & Wright, 2000) and, in particular, how MNCs' investment willingness (Henisz & Delios, 2001) and modes of investment (Delios & Henisz, 2000) evolve with their experience in managing local policy environments in emerging economies; and how MNCs identify and mitigate risks associated with investing in and transforming formerly state-owned enterprises (Zahra, Ireland, Gutierrez, & Hitt, 2000).

With such richly developed research streams, it is surprising that there are, to date, no theoretical models or quantitative empirical evidence to guide 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 has not necessarily been 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 is little likelihood of policy changes linked to voter preferences. But the last two decades saw substantial democratization in developing countries, often carried out with the expectation that political modernization would enhance country attractiveness for foreign investment and economic growth (Goldsmith, 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, I develop and test hypotheses derived from a framework of election-period MNC risk and investment behavior based on political business cycle theory, which is more familiar to political economy than management researchers. Since the seminal work of Nordhaus (1975), political business cycle 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 that opportunistic incumbent politicians use expansionary fiscal, monetary, and related policies during election periods to garner voter support, even though such policies often have detrimental postelection economic consequences. 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 "partisan models" in this stream differ from the earlier "opportunistic models." In partisan models, right-wing and left-wing politicians implement different types of expansionary policies. Right-wing politicians put in place policies promoting lower inflation and the interests of investors, but left-wing politicians implement policies promoting lower unemployment and the interests of workers. Thirty years of empirical work summarized recently by Drazen (2000) and Block and Vaaler (2004) have shown mixed support for both the opportunistic and partisan political business cycle models in industrialized democracies but consistent support for both types of models during the last decade in recently democratizing countries from the developing world.

My study builds on these foundations. It extends the political business cycle domain beyond interactions among elected officials, voters, and local economies. It 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. My study provides management researchers with the first theoretical framework for understanding MNC risk and investment behavior during election periods in developing countries where political business cycle theories suggest that local politicians have incentives to vary economic policies to suit their electoral aspirations. My 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 on the basis of opportunistic and partisan considerations. In keeping 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 postelection investment environments. In keeping 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 postelection investment environments. Unlike previous political business cycle research, which has followed either an opportunistic or a partisan logic, I combine both logics into an integrated theoretical framework to derive hypotheses about election-period MNC risk and investment behavior—or voting—in developing countries.

My integrated theoretical framework finds precedents in previous studies by Vaaler, Schrage, and Block (2005, 2006), who developed similar frameworks to explain election-period risk assessments by investors in "sovereign" bonds issued by developing country governments (Vaaler et al., 2005) and election period sovereign risk assessments of national government creditworthiness by major credit-rating agencies (Vaaler et al., 2006). Although noteworthy, these previous frameworks and related evidence about foreign financial actors and election-period risk may not easily extend to MNC managers and the investment 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 that of strategic managers working in MNCs. Bondholders determining sovereign bond yields and credit agencies rating government creditworthiness operate in institutional settings that permit fast, low-cost responses to changes in local politics. But strategic managers in MNCs assess risks and take decisions about whether to construct and operate hydroelectric dams, automobile man-

ufacturing plants, and hotel resorts whose construction and operating costs run in the millions or billions of U.S. dollars and whose expected lifespans are measured in years or decades. These investment decisions are exemplars of the kind of difficult-to-reverse commitment that Ghemewat (1991) labeled "the dynamic of strategy" and highlighted as 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, my research proposition about significant opportunistic and partisan political business cycle effects on MNC risk and investment behavior competes with a plausible alternative expectation of no political business cycle effects.

In this research context, a second empirical contribution is promised. I test two hypotheses derived from the integrated political business cycle framework using a novel empirical context. I analyze election-period trends in announcements of project investments, a form of foreign direct investment (FDI) MNCs frequently choose in developing countries. Project-finance-based FDI typically involves creating a company in which "sponsoring" MNCs become equity investors with limited liability if the project company fails. Most of the capital for project companies comes from debt provided by lenders, who agree in advance to limit their recourse to project company assets (but not other assets of sponsoring MNCs) in the event of failure. MNCS often use this approach to fund large-scale, long-term infrastructure, manufacturing, and service investment opportunities. I 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 through 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 my sample. As will be seen below, this empirical context also proves advantageous for assessing the robustness of empirical model assumptions, including whether and how election-period political business cycle considerations affect or are affected by MNC project announcements.

My analyses yield results consistent with both hypotheses and the broader theoretical framework linking election-period MNC risk and investment behavior to political business cycle 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 left-wing challengers with less investor-friendly policies are likely to replace right-wing incumbents. By contrast, the count and implied dollar amount of announced investment projects increase significantly and substantially as more investor-friendly right-wing challengers appear more likely to defeat left-wing incumbents, an indication that partisan considerations dominate contrary opportunistic 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 political business cycles have statistically significant and economically substantial effects on long-term infrastructure, manufacturing, and service projects sponsored by MNCs that are similar to political business cycle effects documented previously (Vaaler et al., 2005, 2006) for developing country bondholders and major credit agencies. More broadly, these results suggest that political business cycle theoretical models and developing country empirical settings provide management researchers with new lenses and evidentiary sources for broadening and deepening understanding of often divergent but perhaps at times convergent interests of investing MNCs and host governments.

EMPIRICAL CONTEXT

Additional explanation of institutional practices associated with project investment in developing countries provides helpful context for building a theoretical framework to predict changes in MNC risk and investment behavior linked to opportunistic and partisan political business cycle considerations. For this description, I 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 by nonrecourse debt. Typically, a project company has a lead sponsor with the largest single equity stake, 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 the lenders in 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 its risk profile from those of the MNC parents of the lead sponsor and any junior sponsors in the syndicate. Under these conditions, sponsors can 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—a project—which typically has a construction and operation life span of 5–15 years in manufacturing and upwards of 30 years if it is an infrastructure project such as a hydroelectric generator or sewage treatment plant.

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 countries outside the Organisation for Economic Cooperation and Development has topped 2,200; these projects are worth more than US$1.6 *trillion*. In some developing countries, such as the Philippines and Indonesia, more than 75 percent 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 a 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, Bougainville Copper Ltd. in Papua New Guinea (Hammond & Allan, 1974), is also one of the most popular cases used in management education to analyze issues of MNC investment and risk related to host government politics. United Kingdom– and Australia-based Rio-Tinto Zinc sponsored a project company in the mid 1960s to construct a multimillion 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 renegotiation of the original mining concession terms. Case study interest extends into the 1990s with Enron Development Corporation's Dahbol Power Project misadventure in Maharashtra State, India (Wells, 1997). State elections and a change in government led to renegotiation of Enron's earlier concession agreement and the project's eventual abandonment. My 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 political business cycle considerations.

THEORETICAL FRAMEWORK AND HYPOTHESES

With this institutional context, I develop a theoretical framework of MNC risk and investment behavior integrating both partisan and opportunistic political business cycle considerations. From this framework, I derive two hypotheses. The framework follows similar ones explaining electoral period risk assessments by sovereign bondholders (Vaaler et al., 2005) and major credit rating (Vaaler et al., 2006). The framework builds on two important assumptions drawn from political business cycle theory. The first assumption relates to opportunistic incentives and MNC project investment. I follow Nordhaus's (1975) model and other opportunistic political business cycle models showing that elected politicians have incentives to engage in expansionary economic policies in the run-ups to elections and contractionary policies in postelection environments, the net effect of which can be detrimental to sustained economic development.[1]

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[1] The assumption underlying the Nordhaus (1975) opportunistic model, for example, is 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 it peaks and is observed by voters after the election. At that time, incumbents (or successful challengers) typically reduce inflation with fiscal austerity policies that also lower output and increase unemployment. Alternatively, politicians tolerate permanently higher inflation and the erosion of gains in nominal wages, salaries, and fixed asset values. Supporting his opportunistic political business

But I assume in my framework that the likelihood of incumbent electoral victory modifies opportunistic political business cycle incentives. Incumbents certain of victory have fewer incentives to resort to opportunistic policies than those facing either close elections or likely defeat. This assumption follows Schultz (1995), who showed that expectations of incumbent party victory in British parliamentary elections were negatively correlated with the likelihood of pre-election expansionary economic policies, and Block, Singh, and Feree (2003), who observed similar trends in sub-Saharan Africa.

Opportunistic political business cycle incentives moderated in intensity by incumbent popularity may have substantial impact on MNC willingness to invest, even when the projects involved have life spans of 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 contraction in the aftermath of an election may decrease the pool of government funds available to subsidize MNC project construction. Higher construction costs require higher future operating returns. Together, these arguments suggest that postelection investment environments become less attractive for MNCs to the extent that incumbents resort to expansionary economic policies during election years.

My second assumption relates to partisan political business cycle incentives and MNC project investment. I assume that right-wing policies favor MNC project investment more than left-wing policies. Partisan political business cycle research since Hibbs (1977) has articulated differences in right- versus left-wing economic policies in terms of a Phillips curve, whereby right-wing policies favor less inflation at the expense of more unemployment and left-wing policies favor the opposite trade-off. More recent partisan political business cycle research (Alesina et al., 1997) has expanded this simple distinction to contrast the broader in-

vestor friendliness of right-wing policies lowering inflation and taxes, and preserving fixed asset values to the broader worker friendliness of left-wing policies permitting more inflation, taxes, and asset devaluation if such policies also lower unemployment. Leblang and Mukherjee (2005) documented movements in U.K. and U.S. stock market prices consistent with right- versus left-wing policy preferences in U.S. and U.K. governments from 1930 through 2000. In the run-up to developing country elections in which right-wing (left-wing) incumbents were likely to lose to left-wing (right-wing) challengers, Vaaler, Schrage, and Block (2005) showed that the credit risk premium demanded by investors in developing country sovereign bonds increased (decreased) in line with partisan political business cycle considerations of higher (lower) credit risks when a left-wing (right-wing) party victory was likely.

Partisan political business cycle incentives may also have substantial impact on MNC willingness to invest in projects with life spans of years or decades. Job creation policies stoking inflation in the aftermath of a right- to left-wing switch can also erode the real value of nominal returns from the early years of a project's 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-wing switch. Such a partisan policy switch 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 postelection 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.

Guided by these two assumptions, I define in Figure 1 an integrated political business cycle 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 (expressed as "λ") regarding the likelihood that a right-wing party candidate will prevail. Values range from zero to one ($0 \leq \lambda \leq 1$); "$\lambda \cong 1$" indicates MNC expectations of a right-wing victory, "$\lambda \cong 0$" indicates MNC expectations of a right-wing defeat; and "$\lambda \cong 0.5$" indicates balanced MNC expectations (an election that is a close call). The six political business cycle scenarios in this two by three matrix (I–VI) summarize predicted effects that incumbent

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cycle model, Nordhaus documented economic expansion *cum* contraction associated with U.S. presidential elections in the 20th century, and Block, Singh, and Ferree (2003) documented 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) reviewed other empirical research documenting pre- and postelection trends consistent with opportunistic and partisan political business cycle models in other country contexts.

FIGURE 1
Integrated Political Theoretical Model of MNC Investment during Election Years[a]

MNC Electoral Expectation	Incumbent Partisan Orientation	
	Right-Wing	Left-Wing
Right-wing incumbent expected to win ($\lambda \cong 1$)	(0, 0) I Right-wing base-case scenario	(+ +, − −) II Left-wing switch scenario
Closely balanced expectations ($\lambda \cong 0.5$)	(−, −) III Right-wing close call scenario	(+, −) IV Left-wing close call scenario
Left-wing incumbent expected to win ($\lambda \cong 0$)	(− −, − −) V Right-wing switch scenario	(0, 0) VI Left-wing base case scenario

[a] The predicted direction of MNC investment is based on either partisan or opportunistic considerations.

partisan orientation and incumbent reelection likelihood have on MNC willingness to sponsor project investments, as indicated by increasing (+) or decreasing (−) willingness. I depict these two effects in pairs in which the first sign summarizes partisan political business cycle effects and the second sign summarizes opportunistic political business cycle effects on MNC willingness to invest. For example, a "0, 0" pair indicates an election-year scenario with no political business cycle effects, but a "+, −" indicates an election-year scenario in which partisan effects increase but opportunistic effects decrease MNC willingness to invest.

For right-wing incumbents, a shift from likely reelection (I, $\lambda \cong 1$) to a close call (III, $\lambda \cong 0.5$) and then to a partisan switch through a left-wing victory (V, $\lambda \cong 0$) decreases 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 political business cycle 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 decreases as the likelihood of

reelection decreases (as the scenario shifts from likely reelection [I] to a close call [III] to a switch [V]).

For left-wing incumbents, partisan and opportunistic political business cycle considerations oppose rather than reinforce each other as an electoral scenario shifts from likely left-wing reelection (VI, $\lambda \cong 0$) to a close call (IV, $\lambda \cong 0.5$) and then to likely partisan switch (II, $\lambda \cong 1$). Increasing prospects of investor-friendly right-wing victory increase MNC willingness to invest, but they 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). Therefore, no a priori basis exists for determining whether partisan or opportunistic political business cycle effects will dominate. Accordingly, I formulate alternative hypotheses. If partisan political business cycle effects dominate, then I expect election-year MNC investment to increase relative to the base-case left-wing reelection scenario (VI):

Hypothesis 2a. Given a left-wing incumbent, MNC investment increases as the likelihood of reelection decreases (as the scenario shifts

from likely reelection [VI] to a close call [IV] to a switch [II]).

Given previous research indicating the dominance of partisan political business cycle effects on risk and investment behavior among developing country sovereign bondholders (Vaaler et al., 2005) and major credit-rating agencies (Vaaler et al., 2006), I pay particular attention to Hypothesis 2a. Yet I do not dismiss the other theory-driven prediction, that opportunistic political business cycle effects will dominate, in which case, election-period MNC investment is expected to decrease (not increase) relative to the base-case left-wing reelection scenario:

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

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

METHODOLOGY

MNC Project Investment Empirical Model and Implied Hypothesis Tests

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

$$\textit{Project count}_{it} = \beta_0 \textit{intercept} + \gamma_{1-17} \textit{country}_i$$

$$+ \xi_{1-13} \textit{year}_t + \psi_{1-15} \textit{macroeconomic factors}_{it}$$

$$+ \beta_1 \textit{election year}_{it} + \beta_2 \textit{right-wing incumbent}_{it}$$

$$+ \beta_3 \textit{right-wing incumbent} \times \textit{election year}_{it}$$

$$+ \beta_4 \textit{expectations} \times \textit{election year}_{it}$$

$$+ \beta_5 \textit{expectations} \times \textit{right-wing incumbent}$$

$$\times \textit{election year}_{it} + \beta_6 \textit{election year}_{it+1}$$

$$+ \beta_7 \textit{right-wing incumbent} \times \textit{election year}_{it+1}$$

$$+ \beta_8 \textit{election year}_{it-1}$$

$$+ \beta_9 \textit{right-wing incumbent} \times \textit{election year}_{it-1}$$

$$+ \beta_{10} \textit{project count}_{it+1} + \textit{error}_{it}. \quad (1)$$

The dependent variable, *project count*, is defined as the count of project investments announced by foreign-domiciled MNCs for developing country i in year t. To explain project count, I first include controls for unobserved effects related to individual countries (*country*) and years (*year*). The first country in the sample, Argentina, is omitted, and 17 0–1 dummies for the other countries in the sample are included. I omit the last year of observation, 2000, and include 13 0–1 year dummies for the other years. Next, I include 15 macroeconomic and related country control variables (*macroeconomic factors*) that previous researchers have used to explain the broader attractiveness of countries for lending, investment, and economic development (Cantor & Packer, 1996; Humphreys & Bates, 2005; La Porta et al., 1998; Vaaler & McNamara, 2004; Vaaler et al., 2006). The data on these variables are updated on an approximately annual basis; thus, final data on each of the 15 terms may not be available in each year t in which MNCs make investment project decisions. To reflect that possibility, I measure these controls as rolling two-year averages using observations from years t and $t-1$. The 15 macroeconomic factors include the following:

External balance is measured as the average current account balance (exports less imports) divided by gross domestic product (GDP) and expected to be positively related to project count.

External debt is measured as the sum of public, publicly guaranteed, and private nonguaranteed long-term debt, use of International Monetary Fund (IMF) credit, and short-term debt divided by GDP, stated as a percentage (multiplied by 100) and expected to be negatively related to project count.

Per capita income is measured as average GDP in constant (1995) thousands of U.S. dollars divided by the average midyear country population and expected to be positively related to project count.

Economic size is measured as the natural logarithm of average GDP and expected to be positively related to project count.

Economic growth is measured as the average annual real GDP percentage growth rate and expected to be positively related to project count.

Inflation is measured as the average annual per-

centage of consumer price inflation, divided by 100, and expected to be negatively related to project count.

Fiscal balance is measured as the average annual overall budget balance (receipts less expenditures) divided by GDP and expected to be positively related to project count.

Fuel exports is measured as the value of all energy exports (e.g., coal, oil, natural gas) in current U.S. dollars divided by GDP and expected to be negatively related to project count.[2]

Government size is 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 project count.

Openness is measured as the sum of exports and imports of goods and services divided by GDP and expected to be positively related to project count.

Currency crisis is a dummy (1 if in crisis, 0 otherwise) indicating whether a country's local currency has depreciated at least 20 percent against the U.S. dollar in the current year and expected to be negatively related to project count.[3]

Recent default is a dummy variable (1 if in default, 0 otherwise) indicating whether a national government has defaulted on its foreign-currency-denominated debt (excluding bank debt) in the last five years, and expected to be negatively related to project count.

Investment grade rating is a dummy (1 if investment grade, 0 otherwise) indicating whether a national government has an investment-grade credit

rating according to the Standard & Poor's credit-rating agency (where an 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 project count.

Lack of political and civil rights is measured as the average of political rights (1–7 integral measure; 1 = "strong political rights," and 7 = "weak political rights") and civil rights (1–7 integral measure; 1 = "strong civil rights," and 7 = "weak civil rights") and expected to be negatively related to project count.

Political checks is measured as the extent of checks on political authority, derived from an assessment of the number of relevant veto holders in a national polity (1–18 integral measure; 1 = "no/minimal checks on political authority" and 18 = "substantial checks on political authority") and expected to be positively related to project count.

These 15 controls generally follow intuition. Countries will attract more MNC investment projects 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, an investment grade rating by a major credit-rating agency, and stronger political and civil rights.

In keeping with my integrated political business cycle theoretical framework, the variables of central interest relate to the occurrence of elections, the partisan orientation of incumbents during elections, and MNC electoral expectations. Nine such variables are defined. I first include *election year* (β_1), a dummy coded 1 if the year of an election, 0 otherwise, to probe for current election year t effects on project count. I also include one-year leading and lagged election-year dummies, *election year*$_{it+1}$ and *election year*$_{it-1}$ (β_6 and β_8). They permit investigation of the duration of election-year effects on project count. Next, I include *right-wing incumbent* (β_2), 1 if incumbent is right-wing, 0 if left-wing, to control for the partisan orientation of elected incumbents. When right-wing incumbent is interacted with election year as *right-wing incumbent × election year*$_{it}$ (β_3) and when right-wing incumbent is interacted with leading and lagged election year as *right-wing incumbent × election year*$_{it+1}$ and *right-wing incumbent × election year*$_{it-1}$ (β_7 and β_9), I can partition current, leading,

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[2] 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 & Bates, 2005). Given my focus on foreign projects across a range of industry settings, I resolved this ambiguity by predicting a net negative impact on project count for fuel exports.

[3] I 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 percent. Thus, in the first year, if there is a 20 percent depreciation, then the country is in currency crisis. In the next year, depreciation must increase to at least 22 percent to continue in currency crisis (Vaaler & McNamara, 2004).

and lagged election year effects on project count by the partisan orientation of the incumbent.

Two additional variables, *expectations × election year$_{it}$* and *expectations × right-wing incumbent × election year$_{it}$* (β_4 and β_5), deal specifically with MNC electoral expectations. Expectations takes on three possible values related to three expected electoral outcomes MNCs might consider. A value of 1 (expectations = 1) indicates MNC expectations that right-wing parties and policies will prevail. A value of –1 (expectations = –1) indicates MNC expectations that left-wing parties and policies will prevail. A value of 0 (expectations = 0) indicates there is no clear MNC expectation of either right- or left-wing parties and policies coming to power—a close call. I interact expectations with election year and with the election year and right-wing incumbent terms to examine MNC expectations under different conditions of incumbent partisanship (right-wing and left-wing).

A final term in the empirical model is a one-year lagged dependent variable, *project count$_{i-1}$*. This term acts as a catch-all control for other unspecified past factors influencing current-year project count. 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 as right-wing base-case scenarios of likely reelection ($\beta_1 + \beta_3 + \beta_4 + \beta_5$)[4] shift to close call scenarios ($\beta_1 + \beta_3$), and then to switch scenarios ($\beta_1 + \beta_3 - \beta_4 - \beta_5$). A test of differences in this hierarchy reduces to Hypothesis 1: $\beta_4 + \beta_5 > 0$.[5] Hypothesis 2a predicts that partisan political business cycle 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 reelection ($\beta_1 - \beta_4$) give way to a close call scenarios (β_1) and then to switch

scenarios ($\beta_1 + \beta_4$). Hypothesis 2b predicts that opportunistic political business cycle effects will dominate. Accordingly, Hypothesis 2b predicts decreasing annual MNC investment project announcement counts for left-wing incumbent elections as one moves from base case to close call to switch. A test of differences in these alternative hierarchies reduces to Hypothesis 2a: $\beta_4 > 0$ or Hypothesis 2b: $\beta_4 < 0$.[6]

Ideally, MNC expectations would be measured with data from pre-election polls of MNC managers considering investment projects. Alternatively, pre-election polls of likely voters would be used. Both measures are problematic. First, pre-election polling data for likely voters are not widely available in all developing countries. Polling data for MNC managers are nonexistent. Aside from Shultz (1995), a study that used regular, comparable, and reliable U.K. pre-election polling data, only a handful of published studies have examined the moderating effect of electoral expectations and exploited such empirical luxury. These studies are exclusive to industrialized country contexts such as the United States (Alesina et al., 1997) and the United States and United Kingdom (Leblang & Mukherjee, 2005). Second, even if pre-election polling data were available, MNC investment project announcements occur throughout election years. Researchers would be challenged to decide appropriate weights for various polling results, including the most important polling results on election day.

I deal with these measurement issues by assuming that MNC expectations during election year *t* are not systematically different from results observed on election days. This approach follows Vaaler, Schrage, and Block (2005, 2006), who used election day results as retrospective proxies for investor expectations shaping 60- and 90-day pre-election trends in credit premia on national government bonds and as proxies for major credit-rating agency expectations affecting the likelihood of changes in country creditworthiness throughout election years. I then review available pre-election polling and related prognostications 30–90 days prior to each election in this sample to confirm that there are no "surprise" differences between pre-election trends and election day results. Using this approach, I measure MNC expectations by noting

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[4] In this scenario, election year is 1, right-wing incumbent is 1, and expectations is 1. Thus, in my fully partitioned empirical model, the set of coefficients corresponding to this scenario becomes election year (β_1) + right-wing incumbent × election year (β_3) + election year × expectations (β_4) + right-wing incumbent × election year × expectations (β_5). Appropriate variable measures, equation terms, and corresponding coefficients are derived for the other five political business cycle electoral scenarios similarly.

[5] Hypothesis 1 is derived from reduction of the following inequality: $\beta_1 + \beta_3 + \beta_4 + \beta_5 > \beta_1 + \beta_3 > \beta_1 + \beta_3 - \beta_4 - \beta_5$. This inequality reduces to: $\beta_4 + \beta_5 > 0 > -\beta_4 - \beta_5 = \beta_4 + \beta_5 > 0$.

[6] Hypothesis 2a is derived from reduction of the following inequality: $\beta_1 - \beta_4 < \beta_1 < \beta_1 + \beta_4$. This inequality reduces to $-\beta_4 < 0 < \beta_4 = \beta_4 > 0$. Hypothesis 2b is derived from reduction of the following inequality: $\beta_1 - \beta_4 > \beta_1 > \beta_1 + \beta_4$. This inequality reduces to: $-\beta_4 > 0 > \beta_4 = \beta_4 < 0$.

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 a final round of voting, typically the general election day vote. Right-wing victories by substantial margins are coded as 1. Left-wing victories by substantial margins are coded as −1. Victory margins of less than 3 percent are close call elections no matter the winner and coded as 0.[7]

Data Sources and Sampling

I collected several types of data to estimate my empirical model. Data from the World Bank's Database of Political Institutions (DPI), Version 4 (Beck, Clarke, Groff, Keefer, & Walsh, 2001) and the International Foundation for Election Systems (2006) were my primary sources of information on presidential elections held in developing countries with competitive electoral systems from 1987 through 2000. I sampled only from presidential electoral systems with fixed election dates to avoid issues of endogeneity in election timing that are possible with parliamentary systems. Countries had to have competitive presidential systems to be sampled, meaning that they had to score a 6 or a 7 on a DPI scale of 1–7 for competitiveness. The DPI sets criteria for incumbent and challenger partisan orientation with left-wing, centrist, right-wing, and other classifications based primarily on content analysis of party titles and secondarily on content analysis of party platforms and historical commitments to investor (right-wing and centrist) versus worker (left-wing) interests. Following these criteria, I aggregated electoral incumbents and challengers from right-wing and centrist party orientations into a single right-wing bloc.

For the 15 macroeconomic factors in my empirical model, I collected annual data from the following sources: the World Bank's World Development Indicators (World Bank, 2006) provided data on external balance, external debt, per capita income, economic size, economic growth, inflation, fiscal balance, fuel exports, government size, openness and currency crisis; Standard & Poor's (S&P's; 1999, 2000) yielded data on recent default;

Bloomberg International's (2006) online services yielded data on investment grade rating; Freedom House (2006) online sources provided information on lack of political and civil rights; and the DPI gave information on political checks.

Data on MNC project announcements were collected from the Thomson Securities Data Corporation (2006) online project investment database, which Thomson Financial compiles from regulatory filings and media reports covering dates of project announcement, financing and construction, estimated dollar costs, and lead and junior sponsor syndicate information. I identified 18 countries with competitive presidential electoral systems, fixed election dates, parties with discernible partisan distinctions, reliable final voting results, and conditions sufficient for investment projects sponsored by foreign-domiciled MNCs in the period 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 typically require major credit-rating agency ratings of project companies and of the sovereign governments in the countries where the projects are to be located. Country sampling thus begins in the first year that countries had sovereign ratings published by one of the six major credit-rating agencies active in the sovereign credit-rating business from 1987 through 2000: Moody's, Standard & Poor's, Fitch, Duff Credit Rating, Thomson Bank Watch, and Investment Bank Credit Analysis.

My sampling approach results in 154 annual observations of MNC investment project announcement counts in 18 countries, an average of approximately 9 annual observations per country. The sample includes 408 project announcements worth approximately $199 billion sponsored by MNCs domiciled outside project host countries. On the basis of the partisan orientations of incumbent parties and electoral expectations and outcomes, I categorize the countries (election years) into the integrated political business cycle theoretical framework.[8] The sample distributes itself into all

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[7] I 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 I use that legislative vote information. When close call election victory margins are redefined as less than 5 percent, I obtain consistent results (These results are available on request).

[8] The sampled countries (election years) 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 (V); Mexico (94), Poland (95, 00), South Africa (99), Venezuela (88, 00) in the left-wing

six scenarios of the framework. Not surprisingly, most countries and elections fall into the two incumbent base-case scenarios (I, VI) with the right-wing base case (likely reelection; I) including 16 of the 35 elections sampled. Yet there is representation in the five other cells, permitting testing for differences in project count hierarchies predicted by Hypotheses 1, 2a, and 2b.

Estimation Strategy

To analyze this study's cross-sectional (country *i*) time series (year *t*) panel data, I use three different estimators, all of which are available in Stata Version 9.2 (StataCorp, 2005). Analysis begins with panel generalized least squares (GLS) regression estimation of project count with only the 15 macroeconomic control variables and the country and year dummies. Since the dependent variable is an annual count and the data are overdispersed, I also use negative binomial regression (NBR) estimation to regress project count on the same set of basic controls and then on an increasing number of political business cycle–related terms.

Hypothesis tests based on interaction terms alone or in linear combination can yield inconsistent estimates when derived from nonlinear models like NBR (Ai & Norton, 2003; Hoetker, 2007). Thus, I complement the NBR-based hypothesis tests with investigation of predicted trends based on simulation methods developed by King, Tomz, and Wittenberg (2000). Their Clarify Version 2.1 software, an add-on to Stata, permits Monte Carlo simulation of project count results under different election scenarios. I run 1,000 NBR-based simulations for each given equation specification and then set variables at their mean values, except for political business cycle–related terms, which I set at values corresponding to different election scenarios. I then assess the probability of a project announcement under these scenarios and compare it with NBR-based hypothesis test results.

In addition to GLS and NBR estimators, I use a third generalized method of moments (GMM) dynamic panel regression estimator developed by Arellano and Bond (1991) to evaluate the robustness of key results to reasonable changes in equation specification and sampling. Although not based on negative binomial distributional assumptions and thus not ideal for count data, this GMM estimator is ideal for inclusion of a lagged depen-

dent variable, project count$_{it-1}$, to address year-to-year serial correlation in the panel error structure and to act as a catch-all control variable for current year project count. The Arellano-Bond GMM estimator yields consistent estimates in the presence of fixed country and year effects and permits hypothesis tests using interaction terms alone or in linear combination. Lagged dependent variable and other GMM estimation requirements reduce the sample size from 154 to 118. GLS, NBR, and GMM estimators include robust (to panel heteroskedasticity) Huber-White sandwich standard errors (Huber, 1967; White, 1980).

RESULTS

Descriptive Statistics and Pairwise Correlations

The mean value of the dependent variable, project count, is 2.65, with a standard deviation of 3.40, a minimum value of 0, and maximum value of 19. On average, MNCs announce two to three investment projects in a country annually. The mean value of project count in an election year is 2.60, with a standard deviation of 4.16. At first glance, elections and the political business cycle incentives they may engender appear to have little impact on the count of investment projects announced by MNCs. The average U.S. dollar value of an announced investment project is approximately $500 million, which translates to annual dollar value of $1.3 billion in new project announcements per sampled country. If this trend does not vary significantly and substantially in election years, then political business cycle assumptions and frameworks may provide little explanation of MNC risk and investment behavior.

Table 1 provides descriptive information and pairwise correlations for terms in my empirical equation. Approximately 76 percent of the country-year observations involve countries with right-wing incumbents, a statistic consistent 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 midrange per capita incomes ($3,895) and higher (as compared to industrialized countries) inflation rates (133%) and external debt and fiscal deficits (respectively, 41.63 and 1.80 percent of GDP). About one-fifth of the observations come from countries that had recently been in default of their financial obligations to investors holding foreign-currency-denominated government bonds (21%) or experiencing currency crises

base-case scenario (IV); Ecuador (98) in the left-wing close call scenario (IV); and Bulgaria (96), Mexico (00), and Venezuela (93) in the left-wing switch scenario (II).

TABLE 1
Descriptive Statistics and Pairwise Correlations[a]

Variables	Mean	s.d.	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. Project count	2.65	3.40																									
2. External balance	−0.49	5.75	−.03																								
3. External debt	41.63	19.30	.03	.03																							
4. Per capita income	3.89	2.56	−.08	.19	−.61																						
5. Economic size	25.38	1.29	.29	.37	−.52	.47																					
6. Economic growth	1.64	3.67	.12	−.11	−.27	.24	.15																				
7. Inflation	1.33	4.16	−.18	.18	−.18	.07	.24	−.24																			
8. Fiscal balance	−1.80	3.25	.04	−.08	.25	−.00	−.29	.33	−.30																		
9. Fuel exports	0.04	0.06	−.07	.53	.34	−.24	−.08	−.21	−.13	.08																	
10. Government size	12.50	4.12	.05	−.04	−.20	−.03	.18	−.08	−.01	−.46	.18																
11. Openness	49.91	22.44	−.02	−.07	.43	−.29	−.37	−.04	−.40	−.34	.13	−.11															
12. Currency crisis	0.18	0.39	−.12	.16	−.03	−.04	.16	−.36	.33	−.39	.13	−.02	−.00														
13. Recent default	0.21	0.41	−.18	.37	.04	−.05	.12	−.23	.49	−.22	.23	−.12	−.28	.29													
14. Investment grade rating	0.25	0.43	.14	−.03	−.31	.36	.04	.46	−.17	.26	−.22	−.01	.07	.20	.30												
15. Lack of political-civil rights	2.91	0.90	.28	−.16	.20	−.48	.04	−.10	.08	−.25	.11	.06	−.01	−.01	−.13	−.11											
16. Political checks	3.50	1.33	−.10	.15	−.18	.30	.09	−.01	.18	−.20	.12	−.19	.05	.24	−.05	−.45	.01										
17. Election year (β_1)	0.23	0.42	−.01	.00	.01	.00	−.01	−.07	.03	−.12	.03	.08	−.05	.03	.02	−.07	−.02	.01									
18. Right-wing incumbent (β_2)	0.76	0.43	.00	−.09	−.06	.14	−.07	.02	.15	.00	−.26	−.12	−.14	−.01	.22	.15	.04	−.01	−.06								
19. Right-wing incumbent × election year (β_3)	0.16	0.36	−.04	.01	−.06	.05	.01	−.05	.08	−.09	−.07	.05	−.11	.02	.07	−.01	.04	−.01	.81	.25							
20. Election year × λD (β_4)	0.05	0.42	.10	−.02	−.01	.04	.01	−.02	.15	−.13	−.11	−.06	−.11	.14	.05	−.04	.06	.14	.23	.18	.40						
21. Right-wing incumbent × election year × λD (β_5)	0.07	0.34	.04	−.02	−.07	.05	.05	−.01	.16	−.11	−.12	.02	−.21	.05	.08	−.03	.04	.11	.38	.12	.47	.82					
22. (Election year$_{t-1}$) (β_6)	0.19	0.39	−.06	−.06	−.03	.03	−.00	.11	−.05	.01	.00	−.01	−.01	.07	.07	−.01	−.08	.02	−.26	.04	−.21	−.06	−.10				
23. Right-wing incumbent × election year$_{t-1}$ (β_7)	0.15	0.36	−.08	−.05	−.08	.02	−.06	.05	−.02	−.02	−.01	−.07	−.03	.04	.14	.01	.01	.02	−.23	.19	−.18	−.05	−.09	.82			
24. (Election year$_{t-1}$) (β_8)	0.21	0.41	−.11	−.00	.01	.01	−.05	−.27	.10	−.08	−.04	.06	.02	.08	−.00	−.05	−.07	.07	−.28	−.00	−.23	−.06	−.11	−.25	−.22		
25. Right-wing incumbent × election year$_{t-1}$ (β_9)	0.15	0.36	−.03	−.01	−.05	.09	.02	−.17	.14	−.07	−.09	.04	−.12	−.01	.05	.01	−.04	.09	−.23	.15	−.18	−.09	−.20	−.18	−.18	.80	
26. Project count$_{t-1}$ (β_{10})	2.31	3.10	.59	−.04	.06	−.08	.27	.07	−.20	.04	−.04	.09	.05	−.03	−.12	.17	.27	−.18	−.07	.05	−.06	−.06	−.05	.03	−.03	.06	−.00

[a] n is 154 except for the lagged dependent variable, project count$_{t-1}$, for which n is 118. Correlations greater than approximately .13 or less than −.13 are significant at $p < .10$; Correlations greater than approximately .16 or less than −.16 are significant at $p < .05$; Correlations greater than approximately .20 or less than −.20 are significant at $p < .01$ (all one-tailed tests).

(18%). Another quarter (25%) come from countries with national governments deemed investment grade in creditworthiness by major credit-rating agencies. Political and civil rights are middling, scoring 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 project count with country and year fixed effects as well as the macroeconomic controls leads to intuitive results, presented in columns 1 and 2 of Table 2. GLS estimation in column 1 yields macroeconomic controls with the predicted sign in 9 of 15 instances and statistical significance at the 10 percent level or better in three instances. The country, year, and macroeconomic controls alone explain substantial variation in the dependent variable (overall model $R^2 = 0.60$). The NBR estimation, presented in column 2, yields expected signs in 11 of 15 instances, with statistical significance at 5 percent or a higher level in six instances. In columns 2–5 of Table 2, the signs on fiscal balance, external debt, inflation, fuel exports, government size, and recent default are consistent with predictions, statistically significant at commonly accepted levels, and practically substantial.[9]

The GLS and GMM results in presented in columns 1 and 6–8 are interpreted in terms of annual project investment announcement levels, but the NBR results in columns 2–5 should be read in terms of annual project investment announcement rates. Thus, in column 1, recent default decreases

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[9] On the other hand, I note two anomalous controls with consistently contrary signs at commonly accepted levels of significance: country economic size (natural log of GDP) and lack of political and civil rights. I predict a positive sign for economic size and observe this in pairwise correlations with project count in Table 1. Yet I observe significant negative coefficients after several multivariate estimations, reported in Table 2. 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. I also predict a negative sign on lack of political and civil rights but observe significant positive coefficients in both pairwise and multivariate analyses. This anomaly also surprises me, 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 some scholars that political modernization improves the business investment climate (Goldsmith, 1994).

the number of project investment announcements by 3.21, effectively reducing project count from its sample mean of 2.65 to 0. In column 6, recent default decreases the number of project investment announcements by 1.58. In column 2's NBR results, recent default has a −0.77 coefficient estimate. I transform the NBR estimate into a percentage using the following formula: 100% × (exp[−0.77] − 1) = −53.6%. After transformation, I infer that recent default decreases the rate of new project announcements by 53.6 percent, holding other factors at their mean levels. Similarly, transforming the coefficient estimate of −0.08 for external debt (100% × (exp ([−0.08] −1) = −7.5%) implies that a one-unit increase in external debt decreases project count by approximately 7.5 percent, again with other factors held at their mean levels. These and other controls exhibit statistically significant and practically substantial effects on developing country attractiveness for MNC investment projects worth, on average, more than $1 billion annually.

Column 3 of Table 2 shows the results of reestimating project count after addition of the current election year dummy. The coefficient sign is negative but statistically insignificant at commonly accepted levels. Additions of the variables for right-wing incumbent and the interaction of right-wing incumbent and election year in column 4 permit partitioning current year election effects on project count into those related to elections with left-wing incumbents (where election year = 1, right-wing incumbent = 0, and right-wing incumbent × election year = 0) and elections with right-wing incumbents, where the same three terms take the value of 1. After NBR estimation, coefficients for election year (β_1), for right-wing incumbent × election year (β_3), and for their linear combination ($\beta_1 + \beta_3$) are not significantly different from zero at commonly accepted levels. Complementary investigation based on Monte Carlo simulation also indicates no substantial change in the probability of project announcements during election years. After 1,000 simulations, I set all column 4 variables at their mean values and estimate a 10.8 percent probability of a project being announced in a given year and country sampled. This probability decreases only slightly, to 10.6 percent, if I reset election year, right-wing incumbent, and right-wing incumbent × election year to values of 1, representing a country holding an election with a right-wing incumbent. The probability of project announcement decreases again only slightly, to 10.4 percent, if election year is kept at 1 but right-wing incumbent and the interaction term are set equal to 0, to represent a country holding an election with a left-wing incumbent. Were one to stop here, the conclusion

TABLE 2
Results of Regression Analyses for Annual MNC Investment Projects Announced, 1987–2000[a]

Variables	Column 1: Controls; GLS	Column 2: Controls; NBR	Column 3: Controls, Election; NBR	Column 4: Controls, Election, Partisan; NBR	Column 5: Controls, Political Business Cycle Effects; NBR	Column 6: Controls, Political Business Cycle Effects; GMM	Column 7: Domestic Projects; GMM	Column 8: Foreign Project Syndicates; GMM
Constant	269.11 (241.16)	227.88** (75.59)	225.46** (77.35)	211.47** (75.49)	173.44** (72.92)	0.20 (0.30)	−0.01 (0.24)	0.04 (0.21)
External balance	0.01 (0.11)	0.01 (0.04)	0.01 (0.04)	0.02 (0.04)	0.03 (0.04)	0.13 (0.12)	0.03 (0.11)	−0.02 (0.10)
External debt	−0.15* (0.07)	−0.08** (0.02)	−0.08** (0.02)	−0.07** (0.02)	−0.06* (0.02)	−0.13* (0.07)	0.04 (0.04)	−0.11+ (0.06)
Per capita income	0.90 (0.96)	1.34** (0.40)	1.33** (0.40)	1.23** (0.37)	1.00** (0.34)	0.73 (1.55)	−0.31 (0.93)	0.56 (1.01)
Economic size	−9.29 (8.96)	−8.29** (2.80)	−8.20** (2.86)	−7.70** (2.79)	−6.29** (2.68)	−0.23 (10.69)	5.87 (7.93)	1.89 (7.25)
Economic growth	0.03 (0.10)	−0.03 (0.03)	−0.03 (0.02)	−0.03 (0.03)	−0.05** (0.02)	−0.05 (0.11)	0.00 (0.04)	−0.00 (0.08)
Inflation	−0.12 (0.09)	−0.06 (0.04)	−0.06 (0.04)	−0.06 (0.04)	−0.09+ (0.05)	−0.11+ (0.07)	−0.06 (0.05)	0.05 (0.04)
Fiscal balance	0.25+ (0.14)	0.16** (0.05)	0.16** (0.05)	0.15** (0.06)	0.15** (0.05)	0.31** (0.09)	0.09 (0.07)	0.02 (0.06)
Fuel exports	−41.07+ (23.75)	−15.84** (5.80)	−15.94** (5.86)	−17.69** (6.11)	−19.14** (5.95)	−62.72+ (34.36)	−35.90+ (19.83)	8.99 (15.56)
Government size	−0.42** (0.15)	−0.16** (0.04)	−0.16** (0.04)	−0.15** (0.05)	−0.15** (0.05)	−0.30+ (0.18)	−0.07 (0.11)	1.89 (7.25)
Openness	0.04 (0.04)	0.01 (0.01)	0.01 (0.01)	0.01 (0.01)	0.02* (0.01)	0.06+ (0.04)	0.07 (0.21)	0.02 (0.04)
Currency crisis	−0.33 (0.83)	−0.18 (0.22)	−0.19 (0.23)	−0.22 (0.23)	−0.42* (0.19)	−1.06+ (0.58)	−1.06** (0.40)	−0.52 (0.22)
Recent default	−3.21** (0.89)	−0.77** (0.28)	−0.78** (0.29)	−0.77** (0.30)	−0.57+ (0.32)	−1.58* (0.75)	−0.97+ (0.51)	−0.59 (0.66)
Invest grade rating	0.23 (1.08)	−0.14 (0.32)	−0.16 (0.32)	−0.01 (0.35)	0.20 (0.33)	1.55 (1.61)	0.61 (1.16)	0.72 (0.81)
Lack of political-civil rights	1.23* (0.89)	0.49** (0.17)	0.50** (0.18)	0.44** (0.17)	0.47** (0.17)	1.32* (0.65)	2.10** (0.37)	0.96 (0.69)
Political checks	0.11 (0.29)	0.06 (0.08)	0.07 (0.08)	0.05 (0.08)	−0.02 (0.08)	−0.16 (0.24)	−0.20 (0.15)	0.38** (0.13)
Election year (β_1)			−0.05 (0.19)	0.22 (0.36)	0.14 (0.26)	2.50 (1.93)	−0.04 (0.89)	0.73 (1.13)
Right-wing incumbent (β_2)				0.43 (0.40)	0.59 (0.45)	2.56+ (1.41)	0.93 (0.69)	1.49** (0.55)
Right-wing incumbent × election year (β_3)				−0.38 (0.40)	−0.74+ (0.45)	−3.44 (2.28)	−0.16 (0.98)	−1.95 (1.22)
Election year × λD (β_4)					1.05** (0.28)	4.44* (2.19)	0.23 (0.59)	2.45** (0.86)
Right-wing incumbent × election year × λD (β_5)					−0.46 (0.40)	−3.19+ (1.98)	−0.13 (0.50)	−1.61* (0.80)
Election year$_{t+1}$ (β_6)					−0.36 (0.34)	−0.89 (1.51)	0.00 (0.43)	−1.13+ (0.62)
Right-wing incumbent × election year$_{t+1}$ (β_7)					−0.08 (0.40)	0.54 (1.66)	0.61 (0.52)	0.88 (0.67)
Election year$_{t-1}$ (β_8)					−1.00** (0.37)	−1.96** (0.64)	0.77+ (0.43)	−0.66 (0.49)
Right-wing incumbent × election year$_{t-1}$ (β_9)					0.99** (0.40)	2.19** (0.88)	−1.18* (0.57)	0.24 (0.42)
Project count$_{t-1}$ (β_{10})					0.02 (0.06)	−0.01 (0.07)	−0.51** (0.09)	
Country year dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
n	154	154	154	154	154	118	118	118
Wald χ^2 (R^2)	(0.60)	6,494**	7,254**	6,338**	6,710**	115**	570**	940**

+ $p < .10$
* $p < .05$
** $p < .01$

[a] Columns 1–10 report regression coefficients and Huber-White robust standard errors (in parentheses). "GLS" refers to generalized least squares models; "NBR," to negative binomial regression models; and "GMM," to generalized method of moments models. Regression results for country and year dummies are available on request.

might be that short-term electoral politics and economic policies, no matter their impact on various foreign financial actors like bond investors and credit-rating agencies, have little relevance for MNC managers with a long-term or strategic perspective on risk and investment.

But the political business cycle theoretical framework of interest here suggests finer-grained partitioning of election-year effects on MNC risk and investment behavior, and my empirical equation permits such analysis. Columns 5–8 of Table 2 provide additional terms sufficient for such partitioning as well as construction and evaluation of differences in project count predicted by Hypotheses 1 and 2. The base case scenario of likely right-wing incumbent reelection (I) implies that election year (β_1), right-wing incumbent (β_2), right-wing incumbent $\times$ election year (β_3), expectations $\times$ election year (β_4), and expectations $\times$ right-wing incumbent $\times$ election year (β_5) all equal 1. The right-wing base-case trend is given by the linear combination of β_1 plus β_3 plus β_4 plus β_5. Based on the NBR results in column 5, this linear combination is −0.01, but it is not significant at commonly accepted levels. I then run 1,000 simulations and set all column 5 terms at their mean value except the five terms above, all of which take the value of 1 consistent with a likely right-wing reelection scenario. I observe a 10.7 percent probability of a project announcement under this base case.

When expectations shift from likely reelection to a close call (III), the project count trend is given by the linear combination of β_1 plus β_3. This linear combination decreases to −0.60, which is significant at the 10 percent level. The political business cycle variables also change for NBR-based simulation of project count in a close call scenario (election year = 1, right-wing incumbent = 1, right-wing incumbent $\times$ election year = 1, expectations $\times$ election year = 0, and expectations $\times$ right-wing incumbent $\times$ election year = 0), and the probability of a project announcement drops to 7.3 percent. This negative trend continues as one moves from a close call to a switch (V), and the project count trend is given by the linear combination β_1 plus β_3 minus β_4 minus β_5. This linear combination decreases to −1.20, which is significant at the 5 percent level. The political business cycle variable terms again change for NBR-based simulation of project count in a switch scenario (election year = 1, right-wing incumbent = 1, right-wing incumbent $\times$ election year = −1, expectations $\times$ election year = −1, and expectations $\times$ right-wing incumbent $\times$ election year = −1), and the probability of a project announcement drops to 4.6 percent.

In keeping with my integrated political business

cycle theoretical framework, I observe decreasing NBR-based simulated probabilities of project announcement in moving from likely right-wing incumbent reelection to close call to switch scenarios. Similarly, I observe estimated trends indicating decreasing rates of project announcement as reelection prospects dim for more investor friendly right-wing incumbents. This difference in trends is positive and statistically significant at the 10 percent level, supporting Hypothesis 1 (H1: $\beta_4 + \beta_5 = 0.59 > 0$, $p < .10$).

What about MNC project investment trends for countries with left-wing incumbents facing reelection? The base-case scenario of likely left-wing incumbent reelection (VI) implies that election year equals 1, that right-wing incumbent equals 0, right-wing incumbent $\times$ election year and expectations $\times$ right-wing incumbent $\times$ election year equals 0, and that expectations $\times$ election year equals −1. The left-wing base-case trend is given by the linear combination of β_1 minus β_4. NBR results in column 5 indicate that this base-case linear combination is −0.91, which is significant at the 1 percent level. When I set the five terms at the values as noted immediately above and leave all other variables set at their mean values, a 3.3 percent probability of a project announcement is observed.

When expectations shift from likely reelection to close call (IV), the appropriate project count trend is given by the coefficient β_1, which equals 0.14 but is not significant at commonly accepted levels. The political business cycle variable terms change for NBR-based simulation of project count in a close call scenario (election year = 1, right-wing incumbent = 0, right-wing incumbent $\times$ election year = 0, expectations $\times$ election year = 0, and expectations $\times$ right-wing incumbent $\times$ election year = 0), and the probability of a project announcement jumps to 8.4 percent. This increasing trend continues as one moves from a close call to a switch scenario (II). The appropriate trend is now given by the linear combination β_1 plus β_4, which is 1.42 and significant at the 1 percent level. The political business cycle variable terms change again for NBR-based simulation of project count in a switch scenario (election year = 1, right-wing incumbent = 0, right-wing incumbent $\times$ election year = 0, expectations $\times$ election year = 1, and expectations $\times$ right-wing incumbent $\times$ election year = 0), and the probability of a project announcement jumps again, to 20.1 percent.
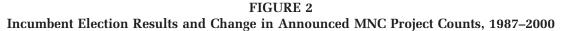
In keeping with partisan political business cycle considerations in the current study's theoretical framework, I observe increasing NBR-based simulated probabilities of project announcement in going from likely left-wing incumbent reelection to

close call to switch. Similarly, I observe estimated trends indicating increasing rates of project announcement as prospects brighten for more investor-friendly right-wing challengers. This difference in trends is positive and statistically significant at the 1 percent level, supporting Hypothesis 2a (H2a: $\beta_4 = 1.05 > 0$, $p < .01$).
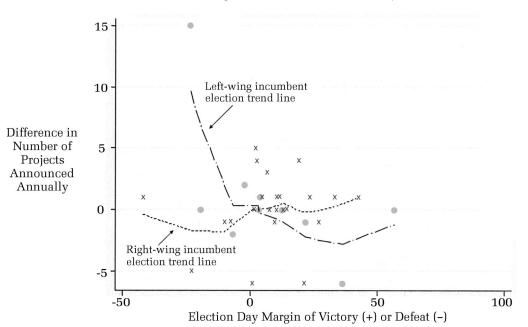
The GMM results in column 6 of Table 2 provide additional support for Hypotheses 1 and 2a.[10] The right-wing base-case linear combination is 0.32, the right-wing close call linear combination is −0.94, and the right-wing switch scenario is −2.19. Although none of these estimates are significant at commonly accepted levels individually, the test statistic for Hypothesis 1 and the *difference* over these estimates is significant at the 5 percent level (H1: $\beta_4 + \beta_5 = 1.25 > 0$, $p < .05$). For left-wing incumbent elections, annual project counts drop by about two ($\beta_1 − \beta_4 = −1.94$, $p < .10$) when reelection is likely. A close call increases the number of projects to 2.50 (β_1), but this estimate is not significant at commonly accepted levels. When left-wing incumbents are likely to be ousted by more investor friendly right-wing challengers, however, project announcements increase by approximately seven ($\beta_1 + \beta_4 = 6.94$, $p < .10$). These differences are

significant at the 5 percent level, consistently with Hypothesis 2a and the dominance of partisan over opportunistic political business cycle considerations (H2a: $\beta_4 = 4.44 > 0$, $p < .01$). These differences are also practically substantial. Given that the average estimated project cost is approximately $500 million, a swing in left-wing electoral scenarios results in project investment increases or decreases worth as much as $4.5 billion annually.

Figure 2 summarizes these trends graphically, by presenting two nonparametric, locally weighted scatterplot smoother (Lowess) analyses (StataCorp, 2005). Lowess analyses compute linear regressions around each observation, x_{it}, with neighborhood observations chosen within some sampling bandwidth and weighted by a tricubic function. Values for y_{it} are based on the estimated regression parameters. Connecting these x_{it}, y_{it} combinations then yields a Lowess curve. A higher bandwidth results in a smoother Lowess curve.

Figure 2 presents two Lowess analyses using a 90 percent sampling bandwidth. The x-axis represents the winning (+) or losing (−) percentage margin of victory on election day. The y-axis represents the change in the number of investment projects announced in country *i* in year *t* compared to the prior year ($t − 1$). Supporting my integrative political business cycle theoretical framework and Hypothesis 1, increasingly positive year-to-year changes in the number of project announcements can be observed as one moves from losing to winning margins for more investor friendly right-wing

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[10] Dynamic panel GMM model assumptions are met, including group exogeneity of all instruments generated in estimation, and absence of higher (than first-order) serial correlation in the error structure. These results are available on request.

FIGURE 2
Incumbent Election Results and Change in Announced MNC Project Counts, 1987–2000

incumbents. Consistently with my political business cycle framework and Hypothesis 2a, I observe increasingly negative year-to-year changes in the number of project announcements in moving from losing to winning margins for less investor friendly left-wing incumbents. These nonparametric results provide additional support for my overall research proposition as well as more empirical confirmation that actual election day results are good proxies for MNC expectations during election years.

Related Results

Results in Columns 5 and 6 of Table 2 also permit examination of lagged and leading election effects for right- and left-wing incumbents. Although not related directly to my two hypotheses, they nonetheless shed light on the duration of election-year effects. NBR results for election year$_{it-1}$ (β_8) and right-wing incumbent $\times$ election year$_{it-1}$ (β_9) in column 5 suggest that partisan differences matter for MNC project risk and investment behavior a year *after* elections take place. The -1.00 coefficient on election year$_{it-1}$ (β_8) is significant at the 1 percent level. After transformation, this result implies a 63 percent decrease in the rate of project announcement in the year after elections resulting in left-wing presidents. There is no such decrease in the case of lagged effects for right-wing presidents, where the linear combination of β_8 plus β_9 yields an estimate of -0.01 but is not significant at commonly accepted levels. A similar picture emerges from NBR-based simulation under a lagged left-wing president scenario (election year$_{it-1}$ = 1, right-wing incumbent = 0, right-wing incumbent $\times$ election year$_{it-1}$ = 0) and a lagged right-wing president scenario (election year$_{it-1}$ = 1, right-wing incumbent = 1, right-wing incumbent $\times$ election year$_{it-1}$ = 1). The probability of a project announcement the year after elections resulting in right-wing presidents is 10.2 percent but is only 3.1 percent after elections resulting in left-wing presidents. Column 6's GMM results are similar. Announced investment project counts drop by approximately two (-1.96, $p < .01$) a year after elections resulting in left-wing presidents.[11] Rather than irrelevance, political business cycle considerations appear to be significant, practically substan-

tial, and for elections resulting in left-wing incumbents, persistent over years for MNCs.

Robustness and Heterogeneity

These results prove robust to reasonable variation in equation specification and sampling. I obtain consistent results regarding both hypotheses if I reestimate after: (1) adding additional controls for elections involving a "right-wing" party that the DPI categorizes as centrist; (2) substituting measures of inflation, lack of political and civil rights, and political checks with their natural log values; (3) partitioning external debt into bank and nonbank components; or (4) standardizing external balance, external debt, fiscal balance, fuel exports, and government size with country population rather than GDP.[12]

Reestimation after reasonable alternative sampling strategies complements the core results presented in columns 5 and 6 of Table 2. Recall that one assumption of my theoretical framework is that MNC willingness to sponsor investment projects is related to partisan and opportunistic political business cycle considerations. Investment projects led by *domestic* sponsors may not carry with them a liability of foreignness (Zaheer, 1995) sensitizing MNCs to political business cycle–related risks during election periods. Column 7 of Table 2 reports results from brief empirical investigation of that framework assumption. I resample from the Thom-

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[11] Lagged right-wing incumbent effects in column 6 are significantly different from left-wing effects (right-wing incumbent $\times$ election year$_{it-1}$ (β_9) = 2.19, $p < .01$) but not significantly different from zero at commonly accepted levels when assessed as a linear combination.

[12] I again obtain results supporting my political business cycle theoretical framework with an alternative empirical equation specification eschewing reliance on dummy-term interaction effects. With this alternative specification, I drop the election year, right-wing incumbent, and expectations terms (β_{1-5}) and replace them with seven 0/1 dummy terms corresponding to seven of eight political business cycle–related electoral scenarios: (1) right-wing incumbent in a nonelection year, (2) left-wing incumbent in a nonelection year, (3) right-wing incumbent in an election year and likely to be reelected, (4) right-wing incumbent in an election year and facing a close call, (5) right-wing incumbent in an election year and likely to be ousted by left-wing challenger, (6) left-wing incumbent in an election year likely to be reelected, (7) left-wing incumbent in an election year and facing a close call, and (8) left-wing incumbent in an election year and likely to be ousted by a right-wing challenger. I omit scenario 1 and then compare coefficient estimates for the seven dummies to this omitted category. I find decreasing (increasing) coefficients indicating fewer (more) project investment announcements as the right-wing (left-wing) incumbent election scenario shifts from likely reelection to likely ouster. These results are available on request.

son SDC project finance database annual counts with lead sponsoring organizations from the same country as the announced project. One hundred fifty-four country-year project count observations are now based on 230 domestically sponsored project announcements for the 18 developing countries from 1987 through 2000. GMM results reveal many controls and political business cycle–related terms neither signed nor statistically significant as before. Trends corresponding to the six different election scenarios no longer support Hypotheses 1 and 2a. A year after elections resulting in left-wing presidents, domestic project announcements increase by about one (election year$_{it-1}$ = 0.77, $p <$ .10) rather than decrease as with MNC-sponsored project announcements. Together, these results vindicate a focus on MNCs in my political business cycle theoretical framework and suggest an important source of organizational heterogeneity in response to electoral dynamics and political business cycle considerations.

Column 8 of Table 2 reports another set of complementary results. This time, I explore the possibility that results might differ if I redefine "foreignness" on the basis of the weighted nationality of all sponsoring firms in a project syndicate rather than the nationality of the lead sponsoring MNC alone.[13] The Thomson SDC project finance database does not have complete information on many of the previously sampled projects. Even so, I am able to assemble 154 country-year project count observations based on 230 syndicate-based foreign project announcements for the 18 developing countries from 1987 through 2000. The distribution of these 230 project announcements over countries and years is similar to the distribution of the 408 project announcements comprising my core sample. Pairwise correlation between the two counts is 0.84 ($p <$ .01). GMM results in column 8 are consistent with the core results. Test statistics for hierarchical differences in the right-wing incumbent (H1: $\beta_4 + \beta_5 = 0.84 > 0$, $p <$ .01) and left-wing incumbent (H2a: $\beta_4 = 2.45 > 0$, $p <$ .01) election scenarios are again positive, significant at commonly accepted levels, and consistent with Hypotheses 1 and 2a. Whether defined by the nationality of a lead-sponsoring MNC or the weighted nationality of lead and junior sponsors in a syndicate, foreign investment project counts vary based on political business cycle considerations.

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[13] Here, I define a project as "foreign" when more than 50 percent of the project equity is held by syndicate members located outside the project's country.

DISCUSSION AND CONCLUSION

Key Findings

I set out to understand whether and how local electoral factors might shape MNC risk and investment behavior in developing countries, positing that local factors linked to opportunistic and partisan political business cycles and the (dis)incentives they create for a foreign-based constituency that votes economically might moderate global MNC investment trends. I found substantial support for this proposition. MNCs sponsoring investment projects act consistently with political business cycle considerations, with special emphasis on partisan considerations. In developing country election scenarios involving right-wing incumbents under substantial threat from 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 to levels potentially worth billions of dollars in investment and economic development. Partisan political business cycle considerations seem to be especially important for understanding how MNCs view local elections and their investment implications. Such considerations persist over time. In the year after elections resulting in left-wing presidents, I find evidence of continued increase in MNC risk and lower investment project announcement rates and levels. Short-term election periods and the political business cycle 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 worth billions of dollars. MNCs and their strategic managers apparently think about risk and investment during election periods similarly to bond investors, credit-rating agencies, and perhaps other foreign actors important to supplying capital and capabilities to developing countries.

Implications

I draw several research, practice, and public policy implications from these findings. For management research, these findings underscore the value of reexamining 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, one begins to understand how dynamics related to

democratization and elections shape MNC risk and investment behavior.

Almost 30 years ago, Kobrin (1979: 77) challenged management researchers to identify "which events matter," to analyze how "environmental processes affect investor perceptions," to develop "a conceptual structure relating politics to the firm." In response, I identified elections as critical events for shaping host government politics and economic policies in democratizing countries of the developing world. I identified opportunistic and partisan political business cycle considerations potentially affecting MNC risk and investment behaviors during these increasingly frequent events. After developing a theoretical framework for integrating these political business cycle considerations, I documented support for my theoretical framework in a broad sample of MNC investment projects, elections, countries, and years. These findings contribute to a broader reexamination 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) already noted, management research in this context will benefit substantially from crossing disciplinary boundaries to draw on political economy concepts and theories, as was done in this political business cycle–motivated study.

My results have implications for MNC executives and public policy makers. MNC managers apparently take political business cycle–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- and left-wing distinctions explained significant and substantial variance in MNC risk and investment behavior, even after I controlled 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 away from constraints on developing country political authorities and toward partisan (and opportunistic) policy changes these same authorities may implement with the appropriate electoral mandate.

I speculate that MNC partisan presumptions may be rebutted if developing country governments and political parties communicate credibly about their election-period and prospective postelection policies. Managers charged with evaluating countries for major investment projects may speculate simi-

larly. Perhaps I have observed here merely presumptive MNC risk perceptions, which may evolve substantially through additional study and sustained engagement with politicians of differing partisan perspectives. If that is 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.

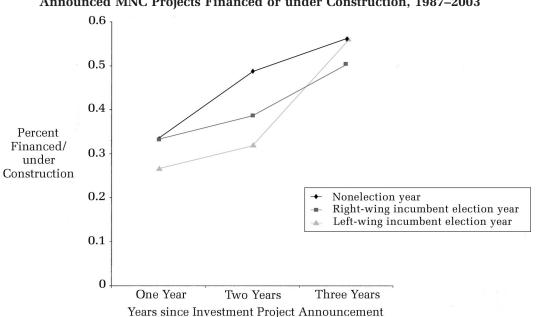## Limitations and Future Research Directions

This study makes important contributions to management theory and empirical work on political risk, investment, and democratization in developing countries. It also has limitations. I have already noted thorny issues related to collecting and categorizing information about partisan orientation and MNC expectations. Simple left-right partisan classifications follow from partisan political business cycle theory but are often coarse-grained in empirical applications. Mexico's Vicente Fox, Russia's Vladimir Putin, and the Philippines' Fidel Ramos fell into the right-wing category in my study, but their policy priorities almost certainly create substantial 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 finer-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. I also see room for improvement in modeling MNC expectations about who will win and lose during election years. Use of actual results is an admittedly second-best option, though empirical confirmation with pre-election polls and media reports as well as with Lowess analyses suggests that this second-best option works well. Going forward, I see opportunities for researchers to survey MNC managers on upcoming elections in the developing world and to develop the regular, comparable, and reliable pre-election polling data admittedly missing here.
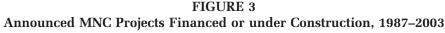
Another limitation relates to my use of investment project counts rather than dollar amounts. Information on the announced dollar value of investment projects is available and provides additional insight on the investment implications of

"democracy in action" in developing countries.[14] 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, substantial opportunity exists to extend these analyses to understand how the count *and* dollar amount of MNC project investment vary with political business cycle considerations.

A final limitation concerns model identification. I assumed that elections and the political business cycle 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 reelection prospects. Conspicuous silence by MNCs during left-wing incumbents' campaigns may undermine reelection prospects. My sample of project investments permits brief investigation of this possibility. The Thomson SDC project finance database reports not only the dates that investment projects are initially announced but also the dates that final terms for financing projects are concluded and the 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. I gain insight into the possibility of cheap talk by MNCs to promote reelection of right-wing incumbents by examining the percentage of announcements in which either project financing is concluded or construction is begun in the three years after an election year. Given MNC efforts to buttress right-wing candidates, under my cheap talk assumption, the percentage of financed or constructed projects announced during election years with right-wing incumbents would be lower than the same percentage during elections with left-wing incumbents. Figure 3 graphs average percentages under these two scenarios and a third nonelection year scenario.

Percentages of projects either financed or under construction are higher (not lower) one and two years afterward for right-wing incumbent elections compared to left-wing incumbent elections: 33 and 39 percent of projects are financed or under construction one and two years after a right-wing incumbent election; 27 and 31 percent are financed or under construction one and two years after a

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[14] Reestimation of my full empirical model using estimated (at time of initial announcement) project U.S. dollar cost and a panel feasible generalized least squares estimator yields results consistent with my core project count results. These results are available on request.

FIGURE 3
Announced MNC Projects Financed or under Construction, 1987–2003

left-wing incumbent election. Three years after left-wing incumbent elections, the percentage of projects either financed or under construction (55%) noses slightly ahead of the same percentage for right-wing incumbents (50%). 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 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 my political business cycle framework assumptions. They also suggest another future research avenue involving closer examination of electoral dynamics affecting MNC investment project financing and construction.

This final point invites further expansion of the political business cycle empirical domain to embrace other players important to the pricing and availability of capital and capabilities critical to developing country growth and modernization. I see value in building on research about developing country politics and bank lending by Dinc (2005) and applying political business cycle lenses to decisions by foreign bankers regarding loan limits and maturities during elections. I 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 future research along these lines should be why firms might differ in their responses to political business cycle considerations. I demonstrated that firm nationality is a crucial source of heterogeneity in response to electoral dynamics and incentives related to political business cycles. Delios and Henisz (2000, 2003) suggest that previous geographic experience moderates firm risk and investment in countries with uncertain policy environments. Previous geographic experience may also moderate the impact of political business cycle considerations. Such future research can direct political business cycle study further into the management research domain and guide management researchers crossing disciplinary boundaries into political economy and related domains.

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