Democracy, Autocracy, and Expropriation of Foreign Direct Investment

Quan Li
Associate Professor
Department of Political Science
The Pennsylvania State University
University Park, PA 16802
Phone: (814)865-6575
Fax: (814)863-8979
Email: quanli@psu.edu

Acknowledgement: An earlier version of this paper was presented at the 2005 International Studies Association annual Meeting, the conference on The Political Economy of Multinational Corporations and Foreign Direct Investment at Washington University, St. Louis, MO, June 3-4, 2005, the 2005 American Political Science Association Annual Meeting, Washington D. C., Columbia University, and Penn State University. I thank Michael Bernhard, Jerry Cohen, Erik Gartzke, Witold Henisz, Nate Jensen, Francine Lamoriello, Pablo Pinto, Stephanie Rickard, Ken Scheve, Michael Winters, and seminar participants at Columbia University and Penn State University for helpful comments and suggestions. I also thank Steve Kobrin and Michael Minor for sharing the expropriation data. Tatiana Vaschilko, Andreea Mihalache, and Young Hun Kim provided research assistance.

Democracy, Autocracy, and Expropriation of Foreign Direct Investment

Abstract

What makes democracy more protective of foreign direct investment than autocracy? Under what conditions does a democratic government expropriate foreign assets? Under what conditions does an autocratic leader refrain from expropriating foreign assets? Is there a common logic that drives the expropriation of foreign assets across regime types? What causal factors set democracy and autocracy apart in expropriation of foreign direct investment? I argue that leaders must possess both the political incentive and the political capacity to expropriate foreign assets. Short time horizon and political insecurity, reflected by high chief executive turnover and short leader tenure to date, provide the host leader with an incentive to expropriate against MNCs; fewer veto players with diverse preferences make expropriation more likely. Fundamental institutional differences between democracy and autocracy account for their disparate expropriation behaviors. The relationship between chief executive turnover and expropriation is positive and strong in democracy, but it is not clear in autocracy; the relationship between leader tenure and expropriation is indeterminate in democracy, but it is negative and strong in autocracy; political constraints decrease expropriations in both regime types, but the level of political constraints is much higher in democracy than in autocracy. These expectations receive statistical support in an empirical analysis of 63 developing countries from 1960 to 1990. The findings have important theoretical and policy implications.

Democracy, Autocracy, and Expropriation of Foreign Direct Investment

Expropriation of foreign direct investment (FDI) is political and directly related to the nature of political institutions, yet the effect of political institutions on expropriation acts against multinational corporations (MNC) has received little systematic theoretical and empirical investigation in international business and political science. The lack of in-depth research on this important question is rather surprising, particularly in light of the large body of research of government expropriation behaviors in both disciplines and the growing importance of FDI in the global economy. This article fills this gap.

International business scholars have studied how host expropriation of FDI is affected by a variety of factors other than domestic political institutions, such as enterprise- or industry-specific factors, government capabilities and time horizon, national economic conditions, and temporal characteristics. For example, Truitt (1970) shows that from 1945 to 1970, both American and British firms suffered more expropriations in the oil-extractive sector than in such other sectors as manufacturing, public utilities, and services. Knudsen (1974) argues that the difference in the level of aspirations and the level of welfare and expectations increased the propensity of host government expropriations in Latin American countries from 1968 to 1971. Jodice (1980) finds that in a sample of 50 developing countries from 1968 to 1976, GDP per capita, state capacity, and civil war influence host expropriations of foreign-owned extractive firms, but collective protests and US foreign aid do not. Kobrin (1980) argues that enterprise specific factors, such as involvement in infrastructure activities, the sector of investment, the level of technology, and the percent owned by the parent company, affect the firm's expropriation risk. Wholly foreign owned firms and those with widely diffused technology in such sectors as petroleum and mining are most vulnerable. Kobrin (1984) further identifies the drastic decline in the number of expropriation acts after 1976. He attributes the decline to the completion of expropriations in the extractive sector by the mid-70s, the increased LDC government capabilities, and the deteriorating balance of payments conditions in many LDCs. Minor (1994) confirms the declining trend of expropriations, uncovering still fewer expropriation cases from 1980 to 1992. Despite the highly political nature of FDI expropriation, none of the business studies has examined the impact of domestic political institutions.

Political scientists have also researched extensively host expropriations against MNCs. For example, Moran (1973) suggests that the MNCs in the primary sector often cope with host expropriation by controlling the production, refining and processing, fabrication, marketing and distribution of the firm value chain, or by raising capital for its venture from the host government, customers, and international financial institutions, and building a transnational alliance with stakes in host expropriation. Lipson (1985) indicates that after 1960, expropriations were often less motivated by "sharp nationalist rhetoric or invectives against foreign exploitation" or the desire for radical social change, but more so by the desire for "a state-led push toward industrialization, combining national planning, state-owned enterprises, local capital, and foreign investment." Frieden (1994) argues that relative to those in manufacturing and public utilities, foreign investments in raw materials and agriculture are more easily appropriated and protected by force by the host government, and yet they are more difficult to elicit collective action among their owners. While these earlier political economy analyses of expropriation produce insights that are consistent with those in the business studies, they also do not consider the role of domestic political institutions.

More recently, political economists of FDI (e.g., Li and Resnick 2003; Jensen 2003, 2005, 2006) apply the logic of Olson (1993, 2000) and North and Weingast (1989) on political institutions and property rights protection to explain the effect of democracy on FDI flows. Their basic argument relevant to this analysis is that greater checks and balances that exist under democratic institutions prevent the state from predatory rent-seeking, making the government's commitment to private property credible, reducing expropriation risks for foreign investors and attracting more FDI to democracies. While the role of domestic political institutions is central to these studies, expropriation is not the focus of their analysis. As a result, they do not offer a complete theoretical story on how domestic political institutions influence expropriation of FDI. Their argument does not explain the existence of appropriative democracy or self-restrained autocracy in host-MNC interactions. Nor does their argument account for the opportunistic incentives on the part of politicians. Checks and balances do not reflect preferences. On the empirical side, because of their focus on FDI flows, these studies only offer limited evidence on the effect of the level of democracy on the investor perceived property rights protection or political risk insurance premium (e.g., Li and Resnick 2003; Jensen 2005). The aggregate indicator of democracy employed in these studies fails to tease out the potentially disparate effects of various aspects of the domestic political process. Furthermore, perception based measures of property rights protection or political risk are retrospective, based on past information, and are not forward looking; they also appear selective and tautological in the sense that they are influenced by past investment successes or failures. As such, they are not appropriate measures of actual expropriation behaviors.[1]

In this article, I focus on how political regime type affects actual expropriation acts by host governments against foreign multinationals. Motivated by stylized facts on the relationship between regime type and expropriation, I ask what factors cause both autocracy and democracy to expropriate foreign assets and what institutional conditions set the two regime types apart. I offer a set of theoretical arguments and hypotheses to explain when democracy and autocracy converge and diverge in expropriation behaviors. These expectations are tested empirically in a sample of about 63 countries over 30 years from 1960 to 1990. The hypotheses receive broad support from the statistical evidence and stand up to a variety of robustness tests.

---

[1] I thank Witold Henisz for drawing my attention to this issue.

Stylized Facts and Motivations

This section presents some stylized facts on the relationship between expropriation acts and regime type to motivate my research questions. Following Kobrin (1980, 1984) and Minor (1994), I define expropriation as the forced divestment of equity ownership of a foreign direct investor; such divestment is involuntary, against the will of the owners and/or managers of the enterprise, and must entail divestment of equity ownership that is across national borders and involves managerial control. An expropriation act by the host government is an expropriation event that applies to all of those firms taken in the same industry (typically a three digit Standard Industrial Classification code) in the same country during the same year.[2] According to Kobrin (1980, 1984) and Minor (1994), there were 575 expropriation acts from 1960 to 1992, committed by 79 developing host countries against foreign multinationals.[3]

To compare expropriation behaviors between democracy and autocracy, I use the minimalist definition of democracy in Alvarez et al. (1996) and Przeworski et al. (1996, 2000). A country is considered democratic if the opposition has some chance of winning and taking office through elections.[4] Otherwise, a country is treated as being autocratic.

Table 1 shows that between 1960 and 1990, among 520 expropriation acts, autocratic governments committed 423 acts while democratic governments 97 acts.[5] Democracy is associated with fewer expropriation acts than autocracy. This pattern, however, could be misleading, because as Table 1 shows, there were more autocratic regime years than democratic ones in the period.

---

[2] Kobrin (1980, 1984) and Minor (1994) provide justifications for why acts at the industry level allow greater comparability across expropriation events in different industries than occurrences at the individual firm level. As for regional, sectoral, and temporal distributions of these expropriation acts, see Minor (1994).

[3] This count excludes 4 expropriation acts whose years are missing values.

[4] Their minimalist definition requires that both the executive and the legislature are elected, that there is more than one party, and that the incumbent in office should have some chance of losing an election.

[5] We lose 55 expropriation acts in the comparison because of missing data on the democracy indicator. Also the ACLP data ends at 1990, though according to Minor (1994), there was no expropriation act in the two years of 1991 and 1992.

Taking this into account, I calculate the number of regime years per expropriation act. Table 1 indicates that on average, it takes 4.5 years for a democracy to perpetrate one expropriation act, but 3.3 years for an autocracy. While the contrast is not as sharp as that based on the raw count of expropriation acts, democracy remains less appropriative than autocracy.[6]

[Table 1 about here]

Table 1 also demonstrates the distributional pattern of expropriation acts for each regime type. The minimum-maximum range in the count of expropriation acts is 0-25 for autocracy and 0-16 for democracy. The sample variance is 1.47 for autocracy and 1.04 for democracy. These statistics indicate that both democracy and autocracy exhibit large variations in expropriation activities. Obviously, democracy could be aggressive in expropriating foreign assets, while autocracy could be quiescent.

These stylized facts compel us to raise several related research questions, some of which have never been addressed before. More specifically, what makes democracy more protective of FDI than autocracy? Under what conditions does a democracy expropriate foreign assets? Under what conditions does an autocratic leader refrain from expropriating foreign assets? Is there a common logic that drives the expropriation of foreign assets across regime types? What causal factors set democracy and autocracy apart in expropriating FDI?

Logic of Expropriation against FDI

In this section, I specify the conditions for expropriation by host governments of both regime types. My theoretical argument begins with the nature of FDI and its structural vulnerability to the risk of host expropriation. FDI is the purchase of physical assets or a significant amount of

[6] A similar pattern emerges if we code a country as democratic when the widely-used composite indicator of regime type POLITY2 from POLITY IV (Marshall and Jaggers 2000) is greater than 6. Among 564 expropriation acts, democracies committed 59 acts while the rest 505 acts were by non-democracies.

the ownership (stock) of a company in another country to gain a measure of management control.[7] Almost by definition, FDI is characterized by the *ex post* illiquid nature of investment and cross border jurisdiction, both of which have important implications for the property rights of foreign investors (see, e.g., Frieden 1994; Vernon 1971). Due to the long time horizon of investors, FDI is inherently illiquid *ex post* and does not move easily.[8] Also, because direct investment is foreign in the host economy, cross border jurisdiction is inevitable, with MNCs subjected to the laws and regulations of the host country. The host government monopolizes the coercive power to define and enforce property rights within its own territory. The prerogative makes the *ex ante* promise by the state to protect the assets of foreign investors questionable. In the absence of other higher legitimate authority in the country, the host government does not need to follow through on its promise to respect or protect foreign assets. Furthermore, because FDI is illiquid and the host-MNC contract is not complete, the state can renege on the agreement *ex post* by resorting to various contingencies (e.g., war). Finally, neither the legal status of expropriation nor the standard of compensation for expropriation has been clearly established in international law (Thomas and Worrall 1994; Easton and Gersovitz 1983). This leaves much discretion to host governments. Therefore, FDI is inherently vulnerable to the risk of host expropriation.

I argue that irrespective of its regime type, the host government's decision to expropriate foreign assets is contingent on two factors: the relative size of its short-term gains over long-term costs from expropriation and its political capacity to expropriate in the face of veto players with different preferences. For expropriation to occur, the host government, regardless of its regime

[7] About 3/4 of IMF nations use the 10% rule to define foreign direct investment in data collection, that is, 10% or more of the ordinary shares or voting power or the equivalent establishes a direct investment relationship.

[8] This is not to say that FDI is no longer mobile and that MNCs have an infinite time horizon. In fact, FDI remains liquid, divestment still is an option, and MNCs typically hold a finite time horizon, constantly adjusting firm strategies. However, in comparison with other forms of investment such as portfolio financial flows, FDI is relatively speaking more illiquid ex post and entails a longer time horizon.

type, must possess both the incentive and the political capacity to expropriate. This logic allows us to anticipate when democracy and autocracy converge in their expropriation behaviors.

Political Incentives to Expropriate

The host government's incentive to expropriate depends on the difference between its short-term gains from expropriation and its long-term benefits from non-nationalization (Thomas and Worrall 1994). The short-term gains are both financial and political. Expropriation immediately transfers output and physical asset ownership from the MNC to the host, often satisfies the populist demand for national pride and radical social change, leads to more stringent control and regulation of MNCs, and presumably gives the host leader greater autonomy in pursuing national political economic objectives (see, e.g., Thomas and Worrall 1994; Lipson 1985; Kobrin 1980, 1984). However, the long-term benefits from non-nationalization, in other words, the long-term opportunity costs of expropriation, could be quite large. In the long run, affiliate operation is most frequently less successful when managed by the host government instead of the MNC. This is especially likely where ownership-specific technological know-how and managerial skills are important to affiliate production. Less successful affiliation operation implies losses in revenue, technology spillovers in the host economy, reputation of the host country, and investment inflows. If the host government expects its long-term losses in expropriation to be larger than its short-term gains, the host-MNC contract is self-enforcing, and the host is unlikely to renege. But if the host expects its short-term gains to be larger, it has an incentive to expropriate the foreign asset.

Host leaders are likely to expect larger long-term benefits of leaving MNCs alone when they have a long time horizon and a low discount rate. But when their time horizons are short and their discount rates are high, they are likely to favor the short-term gains of expropriation. So, what affects the time horizons of leaders in power? Assuming that all leaders are interested in staying in power, their time horizons are a function of their sense of political security or insecurity. When they feel politically secure, leaders often are motivated to think in longer terms. Short-term gains from expropriation appear less attractive, especially when compared with the long-term opportunity cost. In contrast, when they find themselves politically insecure, leaders tend to have short time horizons. It then becomes expedient for leaders to operate for immediate political and economic gains that may improve their chance to remain in power.[9] Expropriation could be a desirable political instrument in such circumstances. To the extent that all leaders are interested in staying in power, this theoretical expectation applies to both democratic and autocratic leaders.

Political Capacity to Expropriate

Incentives alone are not sufficient to compel expropriation. Leaders must also possess the political capacity to expropriate. The policymaking capacity of leaders is fettered by the number of veto players, and the preference heterogeneity among and within the veto players (Tsebelis 1995, 2002). When the number of veto players is large and their preferences are heterogeneous, policy change is difficult. In the case of government commitment to property rights protection, increasing the number of veto players who have stakes in property rights violations helps prevent government opportunistic behaviors (North and Weingast 1989). The existence of multiple veto players with diverse preferences prevents any individual veto player from single-handedly changing the status quo, deters government predation, and reduces political hazards against businesses (Stasavage 2002a, 2002b; Henisz 2000a, 2000b).

[9] Focusing on the relationship among investment, political instability and property rights, Svensson (1998) argues that political instability reduces the incentive of the incumbent leader to invest in legal infrastructure for two reasons. First, the leader has to bear the cost of institutional reform, but may not necessarily claim its future benefits due to an unstable political environment. Second, as poor property rights protection causes rent-seeking and resources reallocated away from taxable activities, the incumbent that expects losing office to a competitor with a different preference refrains from institutional reform and thus, reduces the tax revenues available to the future government.

As the number of veto players with divergent preferences toward MNCs rises, the likelihood of expropriation should decline. This theoretical expectation applies to both democracy and autocracy for two reasons. First, FDI produces stake holders with competing interests in the host economy. Compared with host firms, MNCs possess ownership-specific advantages in terms of intangible assets such as product innovations, management skills, marketing techniques, and brand names. By establishing hierarchical control over production across borders, MNCs protect their intangible assets, achieve the economy of scale, and acquire internalization advantages over host firms (e.g., Caves 1996; Dunning 1988, 1993). Implications of these attributes divide interests within the host economy into groups of competing preferences over FDI. Certain individuals and groups in the host country benefit from foreign capital, their advanced technology and managerial skills, as well as higher employment and wage rates MNCs arguably bring to the host economy (see, e.g., Lipsey 2002). On the other hand, FDI marginalizes and harms certain other individuals and groups in the host country because MNCs threaten the survival of rival host firms, increase economic insecurity of workers, and widen income inequality (e.g., Gorg and Strobl 2003; Aitken and Harrison 1999; Scheve and Slaughter 2004; Reuveny and Li 2003). Competing interests over FDI exist in both democracy and autocracy.

Second, while on average, democracy tends to have a larger number of veto players, the number of veto players varies in both democracy and non-democracy. As Tsebelis (1995, 2002) argues, democracies such as Westminster systems, dominant party systems and single-party minority governments often have only one veto player, while many non-democratic regimes may have multiple veto players. Hence, the number of veto players is not necessarily a fundamental difference between democracy and autocracy (Tsebelis 2002). Democracy (or autocracy) does not perfectly correlate positively (or negatively) with the number of veto players.

Therefore, in the presence of a large number of veto players with competing preferences over MNCs, both regime types are unlikely to expropriate against multinationals. Conversely, in the presence of only one veto player or multiple veto players sharing the same preference against MNCs, both regime types have a higher likelihood to commit expropriation acts.

Empirical Analysis I

This section presents evidence from an empirical test of the above theoretical expectations. Recall that these expectations are: (1) Short (long) time horizon and political insecurity (security) should provide the host leader with an incentive (disincentive) to expropriate against MNCs. (2) A large (small) number of veto players with diverse preferences should make expropriation unlikely (likely). I test these hypotheses using regression analysis in a sample of about 63 countries from 1960 to 1990. A list of these countries is presented in appendix. In the regression analysis, the dependent variable is the annual number of expropriation acts by a given country. Data on the dependent variable are from Kobrin (1980, 1984) for the period of 1960-1979 and from Minor (1994) for the period of 1980-1990.

I use two measures to capture the host leader's time horizon and sense of political security. The first measure is the turnover rate of the chief executive per year of life of a regime. Specifically, it is calculated as the number of changes of the chief executive accumulated during the life of a particular political regime type, divided by the cumulative year of life of the regime from the first observation. The second measure is the chief executive's length of tenure to date. Data on both measures are from Alvarez et al. (1999). Leaders who are from countries with high chief executive turnover rates and who are relatively new in office are likely to feel politically insecure and to have short time horizons (see, e.g., Cheibub 1998). In contrast, leaders who have been in office for a long time and who are from countries with low chief executive turnover rates are likely to hold relatively long time horizons. Leaders in the former type of countries are likely to value more the short-term gains from expropriating FDI.

To measure the impact of veto players with diverse preferences, I use Henisz's (2000a) political constraints index. The index uses information on (1) the number of independent branches of government (including executive, lower and upper legislative chambers) with veto power over policy change, (2) the degree of alignment across branches of government based on party composition of each branch, and (3) the degree of preference heterogeneity within each legislative branch. For the index, each additional veto point not only has a positive but diminishing effect on the level of constraints on policy change but also causes the homogeneity (or heterogeneity) of party preferences within an opposition (or aligned) branch of government to raise the level of constraints. Because the Henisz index considers both the number of veto players and their preference distribution, it is most appropriate for testing my argument.

The control variables include the GDP per capita, the GDP per capita squared, economic growth, the lagged dependent variable, a linear trend variable, and the total number of past expropriation acts by a country till the previous year. All the economic variables are lagged one year behind the dependent variable to control for possible reserve causality. I discuss each of these control variables in turn. First, according to Jodice (1976), the effect of GDP per capita on expropriation is curvilinear, rising at the low level of economic development and declining after passing a certain threshold. Second, economic growth, measured by the annual growth rate of per capita income, reflects the overall economic conditions in a country. Low economic growth is associated with more expropriation acts. Third, the lagged dependent variable serves to control for not only duration dependence in the data but also other potentially relevant variables absent from the model.[10] Fourth, as shown earlier and by Kobrin (1984) and Minor (1994), host expropriation behaviors exhibit a secular decline since mid-1970s, for which the linear trend variable controls. Finally, investors are forward looking and avoid host countries that tend to expropriate foreign assets in the past. This causes the amount of FDI in such countries available for expropriation to be less than those without such a reputation. Hence, some countries expropriate less not because they prefer not to, but because the window of opportunities is narrower. I use the number of past expropriation acts by a country to control for the effect of spoiled reputation and strategic behaviors by forward looking investors.

Because the dependent variable is an event count, OLS estimates can be inefficient, inconsistent and biased. Negative binomial regression is employed (Long 1997). Because the countries in the sample have diverse endowment and structural conditions as well as expropriation experiences,[11] it is important to control for the cross-national heterogeneity. Therefore, I apply the conditional fixed effects negative binomial regression, where the joint probability of the counts for each group is conditioned on the sum of the counts for the group.

Table 2 presents the statistical findings. Model 1 includes the key independent variables only. Model 2 also includes the various control variables. Results for both models are consistent with my theoretical expectations. In both models, the effect of political constraints on the number of expropriation acts is negative and statistically significant. The number of veto players in a country reduces its government's expropriation acts against multinationals. The effect of executive turnover is positive and statistically significant. Governments with higher executive turnover rates are more tempted to expropriate foreign business. The effect of the leader's tenure is negative and statistically significant. The government whose chief executive has been in power for a long time is less likely to

---

10 This is a rather conservative control. Its exclusion does not affect inferences for the main variables.
11 The number of expropriation acts for this period ranges from 1 to 35 among the countries in the sample.

commit expropriation acts. The effects of these key independent variables remain significant and in the expected directions even when we include the various control variables in model 2.

[Table 2 about here]

Effects of the control variables in model 2 also are consistent with the expectations in the literature. The effect of real GDP per capita is positive and statistically significant while that of its squared term is negative and significant. As income rises, the number of expropriation acts first increases and then declines. Economic growth has a statistically significant negative effect on expropriation. As national economic conditions are favorable, the host is less likely to expropriate foreign investment. The effect of expropriation history is statistically significant and negative. This is consistent with the expectation that investors avoid countries that are known to have expropriated in the past and thus, give them fewer opportunities to expropriate in the future. The lagged dependent variable has a statistically significant positive effect, suggesting that countries that did not expropriate the previous year are less likely to do so this year, and vice versa. Finally, the linear trend variable is statistically significant and negative, confirming the trend toward less expropriation activities as expected in the literature.

What Separates Democracy and Autocracy in Expropriation?

Democracy and autocracy have several essential institutional differences. Dahl (1971; 1998) defines representative democracy as the political regime that allows free and fair elections of the executive and legislative offices, the right of citizens to vote and compete for public office, and institutional guarantees for the freedom of association and expression such as an independent judiciary and the absence of censorship. In contrast, autocracy does not allow competitive elections and is often associated with the existence of a single leader or small ruling clique, weak political mobilization, and legal limitation on pluralism (e.g., Linz 2000). These fundamental institutional differences account for disparate expropriation behaviors between the two regime types.

Difference in Distribution of Political Constraints across Regimes

Democracy and autocracy differ markedly in the degree of political constraints over the chief executive. In a democracy, the legislature consists of competing political interests and the size of the winning coalition is large. This is because representative democracy allows various interests to compete for office and be represented in the legislature. Politicians need to acquire enough votes from the electorate to win and stay in office. As Przeworski (1991, 13) noted, "since under the shared constraints outcomes are determined only by actions of competing political forces, democracy constitutes for all an opportunity to pursue their respective interests…modern representative democracy generates outcomes that are predominantly a product of negotiations among leaders of political forces rather than a universal deliberative process." As a result, checks and balances, multiple veto players, and the diversity of interests are more likely to emerge in the legislature in democracy. In comparison, the number of veto players is most often small in the single leader- or the small ruling elite-dominated autocracy.

Figure 1 compares the distribution of political constraints between democracy and autocracy for our sample of countries. The box-plot figure denotes the median, the 25th and the 75th percentile, the upper and lower adjacent values, and the outside values of political constraints for each regime type. For autocracy, the median, the 25th and 75th percentile values collapse to near zero, but there does exist a non-trivial number of outside values beyond the 75th percentile. In contrast, for democracy, the median political constraints value is near 0.4, and all values lie within the bounds of the two adjacent values.

[Figure 1 about here]

Figure 1 demonstrates that in general, democracy has a much higher level of political constraints than autocracy. This accounts for why democracy expropriates less than autocracy on average. But not all democracies have a high level of political constraints, just as not all autocracies have minimal political constraints on their chief executives. Therefore, we should also expect the following. Where the level of political constraints in democracy is low, the major deterrent against democratic expropriation is absent. Where the level of political constraints in autocracy is high, even the autocratic leader is deterred from expropriation.

Differential Effects of Executive Turnover and Leader Tenure across Regimes

The above empirical analysis shows that chief executive turnover and leader tenure to date, both of which measure the time horizon and political insecurity of leaders, affect host expropriation behaviors. Executive turnover increases expropriation acts while leader tenure to date decreases them. While theoretically, the leader's time horizon has a similar effect on expropriation in democracy and autocracy, regularized competitive election and term limit, as two defining institutional attributes that distinguish the two regime types, may cause executive turnover and leader tenure to affect the leader's incentive structure differently across the regimes.

Democracy provides "regular constitutional opportunities for changing the governing officials " (Lipset 1960, 27), while autocracy forbids regularized competitive election. The presence or absence of regular competitive election has important implications for losers in the contests for power. In democracy, while election and government turnover introduce "institutionalized policy uncertainty" (Przeworski 1991) and leaders compete vigorously for office to implement their preferred policies, competitors follow the rules of the game and government turnover is regular and often expected. The winners live and let live, and the losers concede their defeat and move on with their lives. In contrast, the stakes of losing office are much higher in autocracy, often involving the loss of wealth and even life. The autocratic leader has a strong incentive to repress opposition and hold onto power. This makes the chief executive turnover less frequent and more irregular in autocracy. Consequently, in a country that used to have a high government turnover rate, a democratic leader, bound by the institutionalized rules of the game, is likely to discount the future heavily and hold a short time horizon, while a forward-looking autocrat may employ every means possible to consolidate power, reduce political insecurity, and strive for a long time horizon. Hence, the chief executive turnover is more indicative of the leader's time horizon and political insecurity in democracy than in autocracy. Therefore, the chief executive turnover should explain expropriation acts in democracy, but not necessarily so in autocracy.

Figure 2 compares the distribution of the chief executive turnover between democracy and autocracy based on the sample analyzed above. The box plot shows that the median executive turnover rate is much higher in democracy than in autocracy. So is the 75th percentile value. In addition, the spread of the turnover rate is much wider in democracy than in autocracy. This provides some empirical basis for the expectation that executive turnover influences host expropriation acts differently between democracy and autocracy.

[Figure 2 about here]

The leader tenure in office to date, in contrast, should explain expropriation acts in autocracy better than in democracy. The existence of competitive election and term limit in democracy typically renders leadership turnover a regular phenomenon. Because of the existence of term limit, being in office for a long time does not imply that an individual democratic leader can continue to stay in power indefinitely. Where the chief executive's term limit is up and re-election is no longer a viable option, it is not clear how the leader will discount the future. To the extent that such leaders seek to help their own political parties win election, they may take a long-term view. Still, even in the interest of their own parties, such leaders may expropriate for political gains to strengthen the competitive position of their own parties in the short run. The effect of office tenure on host expropriation in democracy appears indeterminate.

The effect of office tenure in autocracy is likely to be much stronger and resembles Olson's (1993) "stationary bandit" effect. Olson (1993) suggests that compared with the roving bandit, the stationary bandit who has a firm grip on power and expects to reap revenues from his own subjects for a long period of time will often protect the rights of his subjects out of self interest for long-term gains. Stable autocracies with a long time horizon behave like the stationary bandit and may establish secure property rights (Olson 1993; McGuire and Olson 1996).[12] Given this logic, autocratic leaders who have been secured in power for a long time are less likely to expropriate FDI for expedient short-term gains. In this case, keeping MNCs safe from expropriation is likely to bring the autocrat a long steady stream of returns in the form of tax revenue and other positive externalities in the economy. The power centralized in the hands of the autocrat ensures that opposition to the MNCs remain repressed and at bay (e.g., O'Donnell 1978, 1988). The stationary bandit autocrat has the power to do so, but prefers not to expropriate the MNCs.

Figure 3 compares the distribution of leader tenure between democracy and autocracy. It is clear that the distribution of leader tenure is much more spread out in autocracy than in democracy. The median, 75th percentile value, and the outside values are all much smaller in democracy than in autocracy. The disparity in the distribution pattern is consistent with the institutional differences between the two regime types. This provides some empirical basis for the expectation that leader tenure explains expropriation acts in autocracy, but not necessarily so in democracy.

[Figure 3 about here]

Empirical Analysis II

[12] Empirical evidence based on the autocratic leader's tenure and a variety of property rights indicators appears to support this view (Clague et al. 1996).

This section tests the explanations that account for the differences between democracy and autocracy in expropriation behaviors. Recall that we expect (1) political constraints decrease expropriation acts in both regime types, but the level of political constraints is much higher in democracy than in autocracy; (2) the relationship between chief executive turnover and expropriation acts is positive and strong in democracy, but it is not clear in autocracy; (3) the relationship between leader tenure and expropriation acts is indeterminate in democracy, but it is negative and strong in autocracy. Empirical analysis of the hypotheses comes in two parts. First, I present preliminary evidence based on the raw data. Next, I provide rigorous statistical tests of these hypotheses in multiple regressions.

Table 3 presents evidence on the relationships between political constraints and expropriation acts in democracy and autocracy during the period of 1960-1990. Democracies whose levels of political constraints are above their sample mean (0.33) commit 46 expropriation acts, only 5 acts fewer than those with below-the-mean political constraints. But once we take into account the difference in the number of democratic regime years, it takes the more constrained democracy 5.7 years to commit one expropriation act while the less constrained 3.3 years only. For autocracies, the pattern is similar. Autocracies with above their own sample mean level of constraints (0.04) perform one expropriation act about every 8 years, while those less constrained about every 3 years.[13] Political constraints decrease the number of expropriation acts in both regime types, but the mean level of constraints in autocracy is much lower than that in democracy.

[Table 3 about here]

Table 4 compares the relationships between chief executive turnover and expropriation acts in democracy and autocracy during the period of 1960-1990. Democracies with high executive

[13] The contrast is even stronger if we separate the autocracies using the democracy sample mean level of political constraints. An autocracy as highly constrained politically as a democracy takes about 22 years to commit one expropriation act.

turnover (above mean level 0.18) commit 70 expropriation acts. These are more than 72% of the total 97 expropriation acts by democratic governments, and 43 expropriation acts more than those by the relatively secure democratic governments. With the number of regime years taken into consideration, to commit one expropriation act takes a democratic country with high executive turnover about 3 years, but one with low executive turnover about 9 years. In contrast, autocracies above their own sample mean turnover rate (0.12) commit one expropriation act every 3.5 years, which is actually longer than the 3.2 years for those with low executive turnover. Chief executive turnover encourages expropriation acts in democracy, but the relationship is not clear in autocracy.

[Table 4 about here]

Table 5 compares the relationships between leader tenure and expropriation acts in democracy and autocracy. Out of the 426 expropriation acts in autocracies, the autocrat with leader tenure above the sample mean of 8 years commit 93 acts, while the roving bandit autocrat (leader with tenure below the sample mean) 333 acts. With the regime years taken into account, it takes the former 5.5 years to commit one expropriation act, but the latter 2.7 years only. Among the 97 expropriation acts in democracies, 29 acts occurred under leaders with tenure above the sample mean (3.5 years) while 68 under leaders with tenure below the mean. It takes the former 5.9 years to commit one expropriation act and the latter 3.9 years. The preliminary evidence supports a negative relationship between leader tenure and expropriation acts in both regime types.

[Table 5 about here]

While informative, the above analysis does not provide rigorous statistical tests or control for the influences of possible confounding factors. The results could be artifacts of statistical disturbances and noise in the data. They also could be spurious if expropriation and the institutional factors were jointly driven by some other uncontrolled forces. Hence, a more rigorous multiple regression analysis is in order. In order to test the key hypotheses, several additional variables are constructed, including the level of political constraints in democracy, the level of political constraints in autocracy, the executive turnover rate in democracy, the executive turnover rate in autocracy, the leader tenure to date in democracy, and the leader tenure to date in autocracy.

Table 6 presents the same regression analysis as those in Table 2, except that the key independent variables are now broken into those in democracy and those in autocracy. Model 1 includes the key independent variables only, while model 2 also includes the various control variables. As expected, the effect of political constraints on expropriation acts is negative and statistically significant in both democracy and autocracy. While on average, democracy has a higher level of political constraints than autocracy, democratic countries with lower levels of political constraints are more likely to expropriate foreign assets than those with higher levels of constraints. And autocratic countries with higher levels of political constraints are less likely to expropriate foreign investment than those with lower levels of constraints. These effects remain robust even when we control for other confounding forces in model 2.

[Table 6 about here]

As expected, the effect of chief executive turnover on expropriation acts in democracy is positive and statistically significant in both models. Governments in democracies with high chief executive turnover are more likely to expropriate foreign investment. In contrast, the effect of chief executive turnover in autocracy is positive and statistically significant in model 1, but the effect is statistically not different from zero in model 2 that controls for other possible confounding forces. Under the more rigorous test, chief executive turnover does not influence expropriation acts in autocratic regimes.

Also as expected, the effect of leader tenure to date in autocracy on expropriation acts is negative and statistically significant in both models. The longer the autocratic leader has stayed in power, the less likely he is to expropriate foreign investment. In contrast, the effect of leader tenure in democracy is statistically insignificant in both models. Even though the preliminary results in Table 5 indicate that democratic leaders who have been in power for a long time also are less likely to expropriate foreign assets, the more rigorous statistical analysis in Table 6 demonstrates that once other causal factors are controlled for, the effect of leader tenure in democracy is statistically not different from zero.

How robust are the statistical findings from the full model in Table 6? Table 7 reports the results of nine robustness tests, which are discussed in turn below. Instead of the conditional fixed-effects negative binomial regression, model 1 applies the population-averaged negative binomial estimator with robust standard errors. The effects of political constraints, chief executive turnover, and leader tenure in both regime types remain consistent with those in Table 6. The results of Table 6 are robust under this alternative statistical estimator.

[Table 7 about here]

Model 2 controls for the possible positive impact of democratic transition on expropriation and assesses the competing argument that new democracy is more redistributive and appropriative. This argument focuses on the political incentive aspect in new democracy, but ignores the fact that most new democracies tend to have competing interests loosely tied together, often lacking the political capacity to adopt and implement controversial policies such as expropriating foreign investment. Not surprisingly, the democratic transition dummy in model 4 does not have any statistically significant impact on expropriation acts. Moreover, controlling for democratic transition does not alter the effects of political constraints, executive turnover, and leader tenure in both regime types from those reported in Table 6.

Model 3 examines the possible effect of democratic neighbors in a country's region. To the extent that democracies are generally less likely to expropriate than autocracy, a country that is surrounded by democratic neighbors may also be less appropriative. The effect of the percentage of democracies in a country's region is statistically significant and negative. Controlling for the democratic neighbors in a region does not change the statistical findings in Table 6 regarding political constraints, executive turnover, and leader tenure in both regime types.

Model 4 tests the possible confounding effect of the leftist ideology of the chief executive on expropriation in a country. Hawkin, Mintz and Provissiero (1976) suggest that communist or socialist governments are ideologically opposed to large private enterprises and tend to nationalize large foreign firms. Yet, Kobrin (1980, 1984) finds that ideologically motivated mass expropriations concentrated in only 10 countries (Algeria, Angola, Chile, Ethiopia, Indonesia, Mozambique, Peru, Tanzania, Uganda, and Zambia) from 1960 to 1979. Lipson (1985), however, argues that after 1960, expropriations were often less motivated by "sharp nationalist rhetoric or invectives against foreign exploitation" or the desire for radical social change. These previous studies pose conflicting views on the effect of leftist ideology on expropriation. In Model 4, the variable leftist ideology is coded 1 if the chief executive's party is communist, socialist, social democratic, or labeled as left-wing, and 0 otherwise (Beck et al. 2001). Unfortunately, data for the variable are only available for 47 of the 63 countries since 1975. So the sample is much smaller in size than that in Table 6. Model 4 shows that the effect of the leftist ideology variable is positive but statistically insignificant, reflecting the conflicting expectations in the literature. As for the key variables, the effects of leader tenure in democracy and autocracy remain consistent as in Table 6; the effect of political constraints is negative as expected in both regimes, but surprisingly, it is statistically insignificant in democracy. The effect of chief executive turnover is statistically insignificant in democracy, but negative and highly significant in autocracy.

Model 5 examines the possibility that income inequality motivates expropriation, confounding the effects of the regime variables. Income inequality is measured by the Gini coefficient from Deininger and Squire (1996), with the missing values filled with predictions from estimating GINI as a function of GDP per capita, GDP per capita squared, and regional dummies. The effect of income inequality on expropriation is statistically insignificant in Model 5. But the effects of political constraints, executive turnover, and leader tenure in both regime types remain consistent with those in Table 6.

Model 6 controls for the possible motivating effects of strikes, riots, and military warfare on expropriation. The variable riots is measured as the number of violent demonstrations or clashes of more than 100 citizens involving the use of physical force, and the variable strikes is the number of strikes of 1,000 or more industrial or service workers that involves more than one employer and that is aimed at national government policies or authority. War is a dummy variable indicating the presence of civil or international war. Data on all three variables are from Alvarez et al. (1999). Model 6 shows that riots, strikes, or wars do not have any systematic statistical effect on expropriation acts. Moreover, including these three variables does not change the inferences in Table 6 on the effects of political constraints, executive turnover, and leader tenure in both regimes.

One may argue that because many expropriations occurred in countries with rich oil and abundant natural resources, and because many such countries tend to be autocratic, the results of the autocracy-related variables in Table 6 may be spurious. Model 7 controls for national natural endowment conditions with two variables. Oil is a dummy variable coded 1 if the average ratio of fuel exports to total exports in 1984-86 exceeded 50% and 0 otherwise. Primary commodity also is a dummy variable coded 1 for countries that are primary commodity exporters and 0 otherwise. Data on both variables are from Alvarez et al. (1999). Model 7 shows that oil-rich countries do not necessarily experience more expropriation acts in the sample period, while primary commodity exporters tend to have more expropriation acts. The result regarding oil is not surprising, for Kobrin (1984) indicates that most oil-related expropriations had been completed before 1975. More important, controlling for national resource endowments does not change the statistical inferences in Table 6 regarding the effects of political constraints, executive turnover, and leader tenure in both regime types. The only exception is that autocratic executive turnover now has a positive and significant effect on expropriation.

Since the end of WWII, FDI has been increasing and is often related to the rising number of regional trade agreements (RTA). RTAs often include clauses that directly protect and facilitate FDI. Model 8 controls for the effect of the number of RTA memberships a country has in a given year. The result shows that RTA memberships are negatively correlated to expropriation acts. But controlling for the impact of RTA memberships does not change the statistical inferences regarding political constraints, executive turnover, and leader tenure in both regime types.

One may wonder if the results in Table 6 are related to decolonization, which may be associated with expropriation. Model 9 includes a dummy variable coded 1 for the first three years of a former colony after independence. The result shows that a former colony is less likely to expropriate in the first three years after independence. More important, controlling for decolonization does not change the statistical results in Table 6 for political constraints, executive turnover, and leader tenure in both regime types.

Is Expropriation Still Relevant?

One popular claim is that expropriation has become a past tense and lost relevance in contemporary global economy. Countries are wooing foreign capital, rather than driving multinationals away by expropriation. There is some truth to the point that countries are seeking more FDI (see, e.g., Li 2006). But one is overly optimistic to reject the relevance of expropriation.

Several reasons and facts should lead us to believe that expropriation remains relevant and it may even become a salient political issue under certain conditions. As argued earlier in the article, FDI is structurally vulnerable and exposed to the risk of expropriation. Regardless of how power has arguably shifted favorably toward MNCs, the structural vulnerability of foreign investment in the host country has not changed. Even the spread of international production across the globe now creates more opportunities for conflicts of interest between MNCs and host countries to arise.

Foreign investors are aware of their often precarious position in host countries, which is exactly why they pay attention to expropriation risk and purchase insurance against such risk (see, e.g., Jensen 2005). In fact, what is most relevant to a particular foreign investor is not the level of global expropriation risk, but the degree of risk in the particular host country she plans to invest in.

Figure 4 shows the box plot of the changes in the distribution of the investor-perceived level of expropriation risk from 1980 to 1997. Recall that this period witnessed only a few expropriation acts. Clearly, the median level of expropriation risk declined throughout the period. But even during the early 1990s, a number of outlying observations were considered to have high expropriation risks. For investors planning to invest in those countries, they will have to pay higher expropriation risk insurance premium, which is assessed based on the investor perception. Expropriation risk, even if it is unrealized, still imposes an economic cost on investors.

[Figure 4 about here]

Recently, there has been a rise in the number of expropriation acts. While systematic data are not available, various salient cases have been reported. Namibia initiated land reform in 2004 to redistribute land from white farmers to black landless people. By November 2005, the government had issued expropriation orders to 18 white commercial farmers and said the land would be given to almost 250,000 landless people (Agence France Presse 2005; Deutsche Presse-Agentur 2005). In April 2006, Venezuela President Hugo Chavez seized two oil fields from two foreign oil firms, France's Total and Italy's Eni, because both firms failed to reach an agreement by the April 1st deadline with the Venezuela government on agreeing new joint-venture contracts that would give a majority stake to the state-owned company, Petróleos de Venezuela (PDVSA) (Economist

Intelligence Unit 2006). In another recent example, Vestey Group, a British-owned meat producer, which for two centuries raised cattle on thousands of acres in Venezuela, found that the Venezuelan government declared ownership to the Vestey land under land-reform rules instituted by President Hugo Chavez (Pilla 2006). According to a report by Christine Hauser in the New York Times, Bolivian President Evo Morales decreed the nationalization of the country's natural gas industry on May 1, 2006, and ordered the military to occupy the natural gas fields and all companies to turn their production over to the state's Yacimientos Petroliferos Fiscales Bolivianos. Similar expropriation acts also occurred in various other countries.

Unfortunately, the legal apparatus on expropriation remains largely national, rather than international. In contrast to the failure of the Multilateral Agreement on Investment is the assertive attitude of the national authorities. At a news conference on December 20, 2005 in La Paz, two days after winning the presidential election, Bolivia's Evo Morales announced, "Many of these contracts signed by various governments are illegal and unconstitutional. It is not possible that our natural resources continue to be looted, exploited illegally, and as the lawyers say, these contracts are legally void and must be adjusted" (Hauser 2006). Similarly, on November 28, 2005, during a visit to Germany, Namibian President Hifikepunye Pohamba told German Chancellor Angela Merkel that the government amended the constitution after it realized that buying land from farmers for the landless on a "willing seller, willing buyer" basis, a policy adopted in 1991, "was not working at the pace we wanted." And "Our new constitutions allow the expropriation of land by the government in the interests of the public" (Agence France Presse 2005; Deutsche Presse-Agentur 2005). Today, the politics of expropriation is still relevant to both politicians and investors.

Conclusion

How do domestic political institutions affect the expropriation against MNCs? This is an interesting, important and relevant question. Many developing countries are seeking to attract foreign capital. And international production has been rising in quantity and expanding in scope. But there has been a recent rise in expropriation acts in the world economy. Even though expropriation of FDI is directly related to the nature of domestic political institutions, this question has received little theoretical and empirical scrutiny in two relevant disciplines, international business and political science.

I argue that irrespective of the regime type, leaders must possess both the incentive and the political capacity to expropriate foreign assets. Short (long) time horizon and political insecurity (security), reflected by high (low) chief executive turnover and short (long) leader tenure to date, provide the host leader with an incentive (disincentive) to expropriate against MNCs; a large (small) number of veto players with diverse preferences should make expropriation unlikely (likely). But fundamental institutional differences between democracy and autocracy help account for their disparate expropriation behaviors. The relationship between chief executive turnover and expropriation is positive and strong in democracy, but it is not clear in autocracy; the relationship between leader tenure and expropriation is indeterminate in democracy, but it is negative and strong in autocracy; political constraints decrease expropriation acts in both regime types, but the level of political constraints is much higher in democracy than in autocracy. These expectations receive strong statistical support in an empirical analysis of about 63 countries from 1960 to 1990.

These arguments not only explain what common causes drive expropriation acts in both regime types but also the conditions under which the two regime types differ in expropriation behaviors. Democracy is least likely to expropriate when the government experiences high political constraints in a country of low executive turnover, and vice versa. In contrast, autocracy is least likely to expropriate when the autocratic leader faces high political constraints and has stayed in power for a long time, and vice versa.

These findings have important implications for several issues in political economy. They shed light on the debate on the effects of domestic political institutions on FDI. In this debate, one view is that democracy encourages more FDI than autocracy (e.g., Jensen 2003, 2006); another view holds that democracy produces both positive and negative effects on FDI inflows (e.g., Li and Resnick 2003). All sides in this debate seem to agree that democracy is superior to autocracy in providing secure property rights and reducing risk for foreign investors. Analysis in this article shows that the nexus between regime type and property rights protection for foreign investors is more complex than currently asserted in the literature. As democracy generally has higher political constraints than autocracy, democracy does offer some premium in lowering expropriation risk. But democracy is not a panacea for eliminating such risk. Given the right conditions, democracy also expropriates against multinationals, and these conditions are systematic and predictable. In contrast, autocracy is not always appropriative. Under predictable conditions, autocratic leaders respect and protect foreign business. The causal channel from democracy to better property rights to more FDI, shared by different scholars in the debate, is overly simplistic.

In recent years, an issue that has attracted wide attention in the field of political economy is the importance of the rule of law. This is so because the rule of law affects the success of transitional economies, democratic transition and consolidation, and the effects of democracy on economic growth. Our analysis of how political institutions influence expropriation behaviors demonstrates that the rule of law is not associated with democracy or autocracy in a simple manner. Under particular conditions, the rule of law could deteriorate in democracy but improve in autocracy. Neither democracy nor autocracy always goes hand in hand with strong rule of law. Maintaining high levels of political constraints is important for safeguarding strong rule of law, particularly in transitional economies. Frequent chief executive turnovers, as orderly as they can be in democracies, do motivate leaders to hold short time horizons and infringe upon the rights of private businesses. Autocratic leaders who have stayed in power for a long time often are associated with lower investment risks.

To the extent that the rule of law is important for attracting investment and promoting economic growth, the lessons learned here suggest that under some conditions, democracy may experience less investment and slower economic growth than autocracy, while under other conditions, democracy may attract more investment and faster economic growth than autocracy. These lessons appear to be consistent with the growth experiences of many countries in contemporary global economy.

References

Agence France Presse. November 28, 2005 Monday 2:58 PM GMT. *HEADLINE: On German visit, Namibian president defends his land reform*. Berlin.

Aitken, Brian and Anne Harrison. 1999. "Do Domestic Firms Benefit from Direct Foreign Investment? Evidence from Venezuela." *American Economic Review* 89(3):605-18.

Alvarez, Mike, Jose Antonio Cheibub, Fernando Limongi, and Adam Przeworski. 1999. ACLP Political and Economic Database Codebook.

Alvarez, Mike, Jose Antonio Cheibub, Fernando Limongi and Adam Przeworski. 1996. "Classifying Political Regimes." *Studies in Comparative International Development* 31(Summer):3-36.

Beck, Thorsten, George Clarke, Alberto Groff, Philip Keefer, and Patrick Walsh. 2001. "New tools in comparative political economy: The Database of Political Institutions." *World Bank Economic Review* 15(September): 165-76.

Caves, Richard E. 1996. *Multinational Enterprise and Economic Analysis.* Cambridge: Cambridge University Press.

Cheibub, José Antonio. 1998. "Political Regimes and The Extractive Capacity Of Governments: Taxation in Democracies and Dictatorships." *World Politics* 50(3):349-376.

Clague, Christopher, Philip Keefer, Stephen Knack, and Mancur Olson. 1996. "Property and Contract Rights in Autocracies and Democracies." *Journal of Economic Growth* 1:243-76.

Dahl, Robert A. 1971. Polyarchy: *Participation and Opposition*. New Haven: Yale University Press.

Dahl, Robert A. 1998. *On Democracy*. New Haven: Yale University Press.

Deininger, K. and L. Squire. 1996. "A New Dataset Measuring Income Inequality." *World Bank Economic Review* 10:565-591.

Deutsche Presse-Agentur. November 28, 2005, Monday 13:55:39 Central European Time. *HEADLINE: ROUNDUP: Namibian President defends land policies on German visit*. Berlin.

Dunning, John. 1988. *Explaining International Production*. London: Unwin Hyman.

Dunning, John. 1993. *Multinational Enterprises and the Global Economy*. New York: Addison-Wesley.

Easton, J. and M. Gersovitz. 1983. "Country Risk: Economic Aspects", Ch. 2 in R. Herring ed. *Managing International Risk* Cambridge: Cambridge University Press.

Economist Intelligence Unit. 2006. "Venezuela Industry: New Blows for Oil Firms." April 6th 2006, *Country Briefing* Source: ViewsWire Latin America.

Frieden, Jeffry A. 1994. "International Investment and Colonial Control: A New Interpretation." *International Organization* 48:559-593.

Gorg, Holger and Eric Strobl. 2003. "Multinational Companies, Technology Spillovers and Plant Survival: Evidence for Irish Manufacturing." *Scandinavian Journal of Economics* 105(4):581-95.

Hauser, Christine. May 1, 2006. "Bolivia Nationalizes Natural Gas Industry." *New York Times*.

Hawkins, Robert G., Norman Mintz, and Michael Provissiero. 1976. "Government Takeovers of US Foreign Affiliates." *Journal of International Business Studies* 7(1):3-16.

Henisz, W. J. 2000a. "The Institutional Environment for Economic Growth." *Economics and Politics* 12(1):1-32.

Henisz, W. J. 2000b. "The Institutional Environment for Multinational Investment." *Journal of Law, Economics and Organization* 16(2):334-64.

Jensen, Nathan. 2003. "Democratic Governance and Multinational Corporations: The Political Economy of Foreign Direct Investment." *International Organization* 57: 587-616.

Jensen, Nathan. 2005. "Domestic Political Institutions and Political Risk Insurance Premiums." Paper presented at the American Political Science Association Annual Meeting, Washington D. C., September 2005.

Jensen, Nathan. 2006. *Nation-States and the Multinational Corporation: Political Economy of Foreign Direct Investment.* Princeton and Oxford: Princeton University Press.

Jodice, D. 1980. "Sources of Change in Third World Regimes for Foreign Direct Investment--1968-1976." *International Organization* 34:177-206.

Knudsen, Harald. 1974. "Explaining the National Propensity to Expropriate: An Ecological Approach." *Journal of International Business Studies* 5(1):51-71+86-89.

Kobrin, Stephen J. 1980. "Foreign Enterprise and Forced Divestment in LDCs." *International Organization* 34:65–88.

Kobrin, Stephen J. 1984. "Expropriation as an Attempt to Control Foreign Firms in LDCs: Trends from 1960 to 1979." *International Studies Quarterly* 28:329-48.

Li, Quan and Adam Resnick. 2003. "Reversal of Fortunes: Democracy, Property Rights and Foreign Direct Investment Inflows in Developing Countries." *International Organization* 57:175-214.

Li, Quan. 2006. "Democracy, Autocracy, and Tax Incentives to Foreign Direct Investors: A Cross-National Analysis." *Journal of Politics* 68(1):62-74.

Linz, Juan. 2000. *Totalitarian and Authoritarian Regimes*. Boulder, CO: Lynne Rienner.

Lipset, Seymour Martin. 1960. *Political Man: The Social Bases of Politics.* Garden City, NY: Doubleday.

Lipsey, Robert. 2002. "Home and Host Country Effects of FDI." NBER Working Paper 9293.

Lipson, Charles. 1985. *Standing Guard: Protecting Foreign Capital in the Nineteenth and Twentieth Centuries*. Berkeley and Los Angeles: University of California Press.

Long, J. Scott. 1997. *Regression models for categorical and limited dependent variables*. Thousand Oaks, CA: Sage Publications.

McGuire, Martin C. and Mancur Olson, Jr. 1996. "The Economics of Autocracy and Majority Rule: The Invisible Hand and the Use of Force." *Journal of Economic Literature* 34:72-96.

Marshall, Monty G. and Keith Jaggers. 2000. Polity IV Project: Political Regime Characteristics and Transitions, 1800-1999. http://www.bsos.umd.edu/cidcm.

Minor, Michael. 1994. "The Demise of Expropriation as an Instrument of LDC Policy." *Journal of International Business Studies* 25:177-188.

Moran, Theodore H. 1973. "Transnational Strategies of Protection and Defense by Multinational Corporations: Spreading the Risk and Raising the Cost for Nationalization in Natural Resources". *International Organization* 27:273-297.

North, Douglass C. and Barry R. Weingast. 1989. "Constitutions and Commitment: The Evolution of Institutional Governing Public Choice in Seventeenth-Century England." *Journal of Economic History* 49:803-832.

O'Donnell, Guillermo. 1978. Reflections on the Patterns of Change in the Bureaucratic Authoritarian State.

Latin American Research Review 13(1):3-38.

O'Donnell, Guillermo. 1988. *Bureaucratic Authoritarianism : Argentina, 1966-1973, in Comparative Perspective.* Berkeley: University of California Press.

Olson, Mancur. 1993. "Dictatorship, Democracy, and Development." *American Political Science Review* 87:567-76.

Olson, Mancur. 2000. *Power and Prosperity*. New York: Basic Books.

David Pilla. March 15, 2006. *Headline: Regulatory Risks Rise As Governments Increasingly Interfere With Foreign Investment.* Source: Bestwire.

Przeworski, Adam. 1991. *Democracy and the Market*. New York: Cambridge University Press.

Przeworski, Adam, Michael E. Alvarez, José Antonio Cheibub, Fernando Limongi. 1996. "What Makes Democracies Endure?" *Journal of Democracy* 7(1):39-55.

Przeworski, Adam, Michael E. Alvarez, José Antonio Cheibub, Fernando Limongi. 2000. *Democracy and Development: Political Institutions and Well-Being in the World, 1950-2000*. Cambridge University Press.

Reuveny, Rafael and Quan Li. 2003. "Economic Openness, Democracy and Income Inequality: An Empirical Analysis." *Comparative Political Studies*. 36 (5): 575-601.

Scheve, Kenneth and Matthew J. Slaughter. 2004. "Economic Insecurity and the Globalization of Production." *American Journal of Political Science* 48(4): 662-74.

Stasavage, David. 2002a. "Private Investment and Political Institutions." *Economics and Politics* 14:41-63.

Stasavage, David. 2002b. "Credible Commitment in Early Modern Europe: North and Weingast Revisited." *Journal of Law, Economics, and Organization* 18:155-186.

Svensson, Jacob. 1998. "Investment, Property Rights and Political Instability: Theory and Evidence," *European Economic Review* 42:1317-1341.

Thomas, Jonathan and Tim Worrall. 1994. "Foreign Direct Investment and the Risk of Expropriation." *Review of Economic Studies* 61:81-108.

Truitt, J. Frederick. 1970. "Expropriation of Foreign Investment: Summary of Post-World War II Experience of American and British Investors in Less Developed Countries." *Journal of International Business Studies* 1:21-34.

Tsebelis, George. 1995. "Decision Making in Political Systems: Veto Players in Presidentialism, Parliamentarism, Multicameralism and Multipartyism" *British Journal of Political Science* 25(3): 289-325.

Tsebelis, George. 2002. *Veto Players: How Political Institutions Work*. Princeton: Princeton University Press.

Vernon, Raymond. 1971. *Sovereignty at Bay: The Multinational Spread of US Enterprises*. New York: Basic Books.

Appendix: List of Countries in Sample

1	Algeria	33	Jamaica
2	Angola	34	Kenya
3	Argentina	35	Liberia
4	Bangladesh	36	Madagascar
5	Benin	37	Malawi
6	Bolivia	38	Malaysia
7	Brazil	39	Mauritania
8	Cameroon	40	Mexico
9	Central African Republic	41	Morocco
10	Chad	42	Mozambique
11	Chile	43	Myanmar
12	Colombia	44	Nepal
13	Congo, Dem. Rep.	45	Nicaragua
14	Congo, Rep.	46	Niger
15	Costa Rica	47	Pakistan
16	Dominican Republic	48	Panama
17	Ecuador	49	Peru
18	Egypt, Arab Rep.	50	Philippines
19	El Salvador	51	Senegal
20	Ethiopia	52	Sierra Leone
21	Gabon	53	Somalia
22	Gambia, The	54	Sri Lanka
23	Ghana	55	Sudan
24	Guatemala	56	Swaziland
25	Guinea	57	Syrian Arab Republic
26	Guyana	58	Tanzania
27	Haiti	59	Thailand
28	Honduras	60	Trinidad and Tobago
29	India	61	Uganda
30	Indonesia	62	Venezuela
31	Iran, Islamic Rep.	63	Zambia
32	Iraq		

Table 1 Expropriation Acts and Regime Type, 1960-1990

	Autocracy	Democracy	Whole Sample
# expropriations	426	97	523
# regime years	1403	439	1842
# regime years per expropriation act	3.3	4.5	3.5
minimum	0	0	0
maximum	25	16	25
variance	1.47	1.04	1.36

Table 2 Effects of Political Institutions on Expropriation Acts, 1960-1990

	Model 1	Model 2
Political constraints	-1.447***	-2.485***
	[0.547]	[0.608]
Executive turnover	1.102***	1.085***
	[0.327]	[0.321]
Office tenure to date	-0.053***	-0.024*
	[0.013]	[0.014]
Expropriation history		-0.054***
		[0.015]
Lagged dependent variable		0.129***
		[0.025]
GDP per capita		6.524e-04***
		[1.928e-04]
GDP per capita squared		-4.332e-08**
		[2.179e-08]
Growth rate		-0.022**
		[0.009]
Year		-0.046***
		[0.012]
Constant	-1.434***	89.619***
	[0.165]	[23.314]
Observations	1794	1737

Standard errors in brackets
Two-tailed test: * significant at 10%; ** significant at 5%; *** significant at 1%

Table 3 Effect of Political Constraints on Expropriations in Democracy and Autocracy, 1960-1990

Democracy Only	Political Constraints above mean (0.33)	Political Constraints below mean (0.33)	total
# expropriations	46	51	97
# regime years	260	167	427
# regime years per expropriation act	5.7	3.3	4.4

Autocracy Only	Political Constraints above 0.04	Political Constraints below 0.04	total
# expropriations	27	392	419
# regime years	220	1153	1373
# regime years per expropriation act	8.2	2.9	3.3

Table 4 Effect of Executive Turnover on Expropriations in Democracy and Autocracy, 1960-1990

Democracy Only	Executive Turnover above mean (0.18)	Executive Turnover below mean (0.18)	total
# expropriations	70	27	97
# regime years	201	238	439
# regime years per expropriation act	2.9	8.8	4.5

Autocracy Only	Executive Turnover above mean (0.12)	Executive Turnover below mean (0.12)	total
# expropriations	143	283	426
# regime years	502	901	1403
# regime years per expropriation act	3.5	3.2	3.3

Table 5 Effect of Leader Office Tenure to Date on Expropriation Acts, 1960-1990

Autocracy only	Autocratic leader tenure above mean (8)	Autocratic Leader tenure below mean (8)	total
# expropriations	93	333	426
# regime years	507	896	1403
# regime years per expropriation act	5.5	2.7	3.3

Democracy only	Democratic leader tenure above mean (3.5)	Democratic Leader tenure below mean (3.5)	total
# expropriations	29	68	97
# regime years	171	268	439
# regime years per expropriation act	5.9	3.9	4.5

Table 6 Effects of Political Institutions on Expropriation Acts: 1960-1990

	Model 1	Model 2
Democracy political constraints	-1.554**	-2.252***
	[0.696]	[0.743]
Autocracy political constraints	-2.933**	-3.932***
	[1.241]	[1.307]
Democracy executive turnover	1.062***	1.055***
	[0.365]	[0.353]
Autocracy executive turnover	1.173**	0.932
	[0.588]	[0.590]
Democracy leader tenure to date	0.015	-0.013
	[0.040]	[0.045]
Autocracy leader tenure to date	-0.055***	-0.024*
	[0.014]	[0.014]
Expropriation History		-0.053***
		[0.015]
Lagged dependent variable		0.128***
		[0.025]
GDP per capita		6.490e-04***
		[1.954e-04]
GDP per capita squared		-4.401e-08**
		[2.204e-08]
Growth rate		-0.022**
		[0.009]
Year		-0.046***
		[0.012]
Constant	-1.447***	89.589***
	[0.176]	[23.260]
Observations	1794	1737

Standard errors in brackets
Two-tailed test: * significant at 10%; ** significant at 5%; *** significant at 1%

Figure 1 Distribution of Political Constraints in Democracy and Autocracy

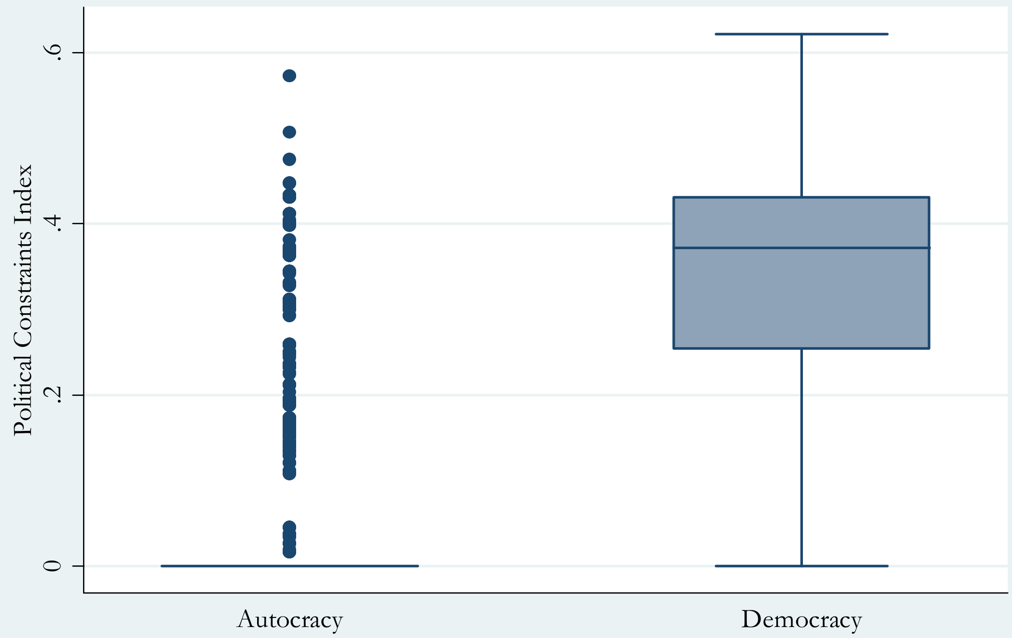


Figure 2 Distribution of Executive Turnover in Democracy and Autocracy

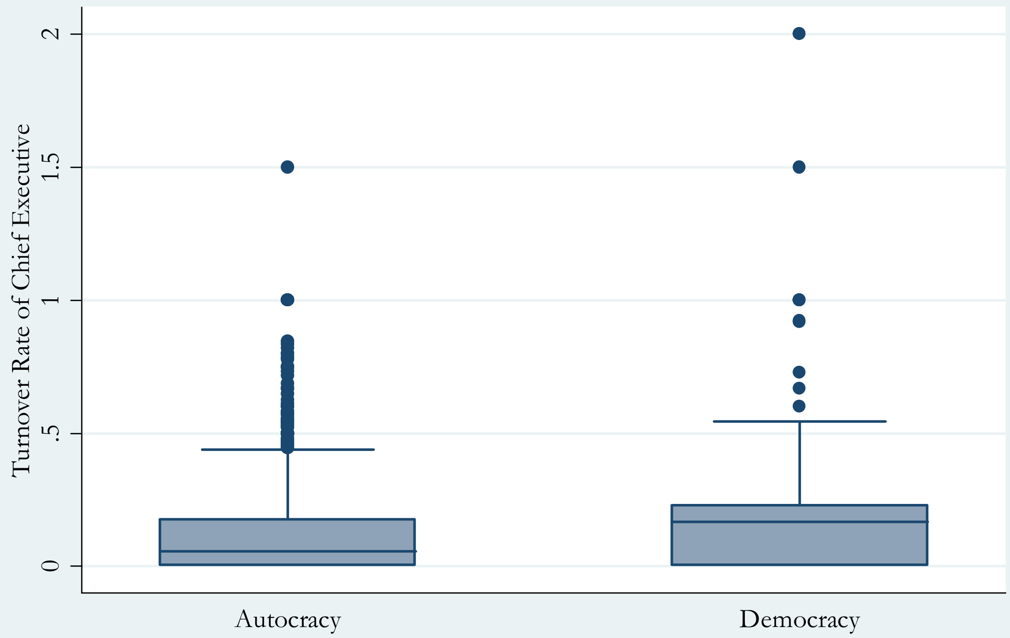


Figure 3 Distribution of Office Tenure in Democracy and Autocracy

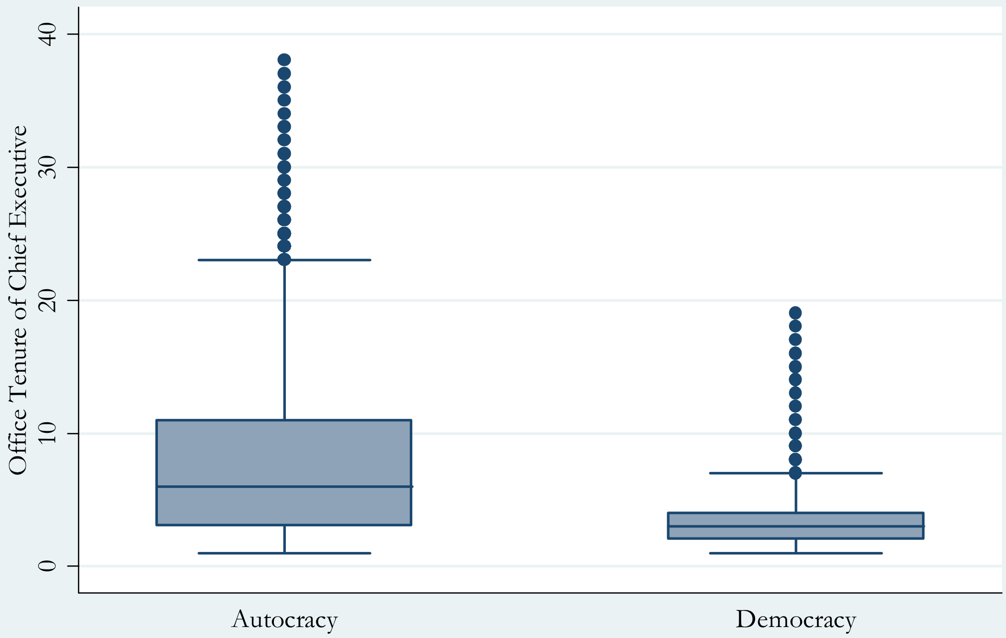
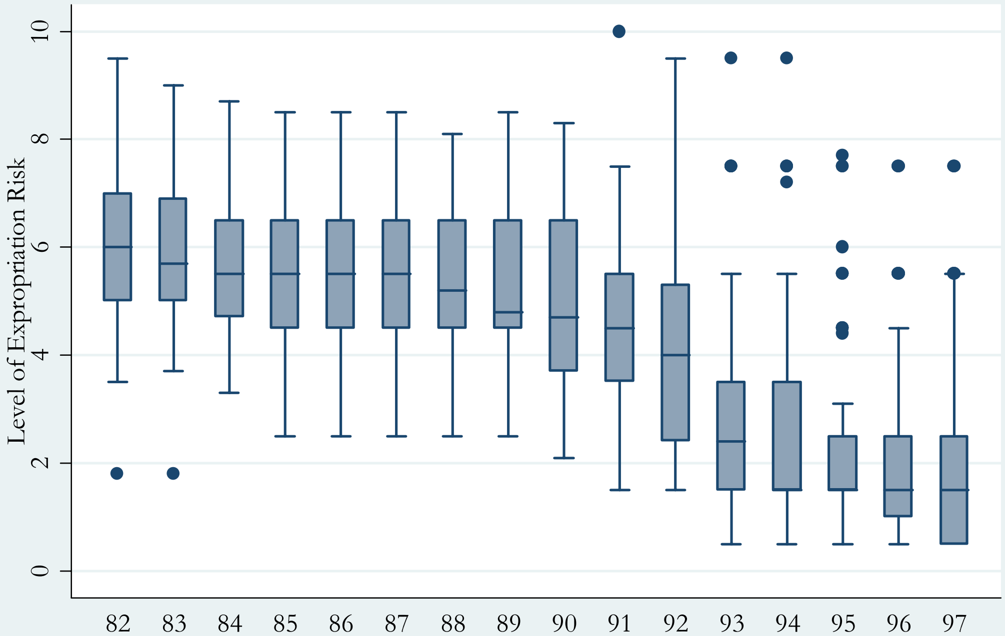


Figure 4 Perceived Level of Expropriation Risk: 1980-1997



Source: Political Risk Service Data

Table 7 Sensitivity Analyses: Effects of Political Institutions on Expropriation Acts, 1960-1990

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Democracy political constraints	-2.398***	-2.209***	-2.202***	-1.121	-2.370***	-2.395***	-2.239***	-2.285***	-2.348***
	[0.594]	[0.748]	[0.754]	[2.031]	[0.756]	[0.761]	[0.741]	[0.747]	[0.747]
Autocracy political constraints	-3.630**	-3.922***	-3.539***	-7.056*	-3.962***	-3.861***	-4.127***	-4.014***	-3.741***
	[1.487]	[1.308]	[1.287]	[4.062]	[1.313]	[1.352]	[1.335]	[1.315]	[1.318]
Democracy executive turnover	0.749***	0.921**	0.970***	-0.032	1.052***	1.042***	1.023***	1.049***	1.031***
	[0.222]	[0.445]	[0.357]	[0.839]	[0.354]	[0.364]	[0.356]	[0.353]	[0.358]
Autocracy executive turnover	-0.937	0.944	0.695	-5.918***	0.969	1.036	1.030*	0.960	0.934
	[0.588]	[0.589]	[0.609]	[2.120]	[0.592]	[0.639]	[0.600]	[0.588]	[0.608]
Democracy leader tenure	-0.028	-0.013	-0.014	-0.116	-0.015	-0.014	-0.007	-0.012	-0.018
	[0.042]	[0.045]	[0.047]	[0.071]	[0.045]	[0.045]	[0.045]	[0.045]	[0.045]
Autocracy leader tenure	-0.045**	-0.024*	-0.031**	-0.059*	-0.024*	-0.031**	-0.020*	-0.026*	-0.029**
	[0.023]	[0.014]	[0.014]	[0.032]	[0.014]	[0.015]	[0.015]	[0.014]	[0.014]
Expropriation History	0.015	-0.053***	-0.060***	-0.159***	-0.054***	-0.060***	-0.054***	-0.053***	-0.058***
	[0.020]	[0.015]	[0.015]	[0.037]	[0.015]	[0.015]	[0.015]	[0.015]	[0.015]
Lagged dependent variable	0.240***	0.129***	0.119***	-0.112	0.129***	0.129***	0.139***	0.121***	0.134***
	[0.036]	[0.025]	[0.026]	[0.070]	[0.025]	[0.026]	[0.026]	[0.026]	[0.025]
GDP per capita	-5.014e-05	6.436e-04***	1.030e-03***	1.100e-05	8.876e-04***	6.014e-04***	5.955e-04***	6.978e-04***	6.379e-04***
	[1.657e-04]	[1.952e-04]	[2.379e-04]	[7.747e-04]	[3.168e-04]	[2.003e-04]	[2.004e-04]	[2.008e-04]	[1.971e-04]
GDP per capita squared	1.525e-08	-4.348e-08**	-7.278e-08***	1.420e-08	-6.676e-08**	-3.961e-08*	-3.932e-08*	-5.117e-08**	-4.219e-08*
	[1.708e-08]	[2.200e-08]	[2.650e-08]	[4.963e-08]	[3.248e-08]	[2.216e-08]	[2.194e-08]	[2.311e-08]	[2.205e-08]
Growth rate	-0.030**	-0.022**	-0.024***	0.015	-0.022**	-0.023**	-0.021**	-0.022**	-0.025***
	[0.012]	[0.009]	[0.009]	[0.012]	[0.009]	[0.010]	[0.009]	[0.009]	[0.009]
Year	-0.077***	-0.046***	-0.045***	-0.366***	-0.052***	-0.042***	-0.046***	-0.036***	-0.049***
	[0.015]	[0.012]	[0.013]	[0.050]	[0.013]	[0.012]	[0.012]	[0.013]	[0.012]
Democratic transition		0.262							
		[0.528]							
# Democracies in region			-2.825***						
			[0.768]						
Left				0.705					
				[0.548]					
Income inequality					-0.029				
					[0.030]				
Riots						0.018			
						[0.044]			
Strikes						-0.129			
						[0.141]			
War						-0.291			

						[0.251]			
Oil exporter							0.439		
							[0.423]		
Primary commodity exporter							0.646*		
							[0.351]		
# RTA memberships								-0.227*	
								[0.131]	
First 3 years post independence									-1.317**
									[0.529]
Constant	151.982***	89.693***	88.059***	727.700***	100.936***	81.787***	87.451***	70.213***	95.043***
	[28.499]	[23.263]	[24.538]	[98.314]	[26.096]	[24.091]	[23.520]	[25.855]	[23.528]
Observations	1742	1737	1737	732	1737	1707	1737	1737	1737
Number of countries	64	63	63	47	63	63	63	63	63

Standard errors in brackets
* significant at 10%; ** significant at 5%; *** significant at 1%