

Measuring Risk: Political Risk Insurance Premiums and Domestic Political Institutions.

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Abstract:

There is a renewed interest in political science on how political risk affects multinational corporations operating in emerging markets. Most existing studies suffer from data problems where researchers can only offer indirect evidence of the relationship between political institutions and political risk. In this paper I utilize a new data resource to explore how domestic institutions affect political risks for multinationals. Utilizing price data from political risk insurance agencies I test how domestic political institutions affect the premiums multinationals pay for coverage against 1) expropriations and contract disputes and 2) government restrictions on capital transactions. I find that constraints on politicians lead to marginally lower expropriation and transfer risks. Democracy, on the other hand, greatly reduces expropriation risk but has no impact on transfer risk.

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1. Introduction

There is resurgence in the academic literature on the link between political institutions and political risks facing multinational corporations.¹ One explanation for this recent interest in the study of political risk is that the risks multinationals face in emerging markets has changed over time, but academic research has failed to account for these changes. Although the 1960s and 1970s heralded waves of nationalizations, Kobrin (1984) argues that this period was unique and nationalization wasn't common after 1975.² More recently, although the terrorist attacks on 9/11 caused major damage to the insurance industry, the largest political risk insurance claims in history were made in the wake of the financial crisis that struck Argentina in 2002 as national and state governments broke contracts and restricted the capital transactions of foreign firms (Moran 2003). Multinationals may not face the same risks of outright nationalizations that they faced in the 1960s-1970s, but political risks still affect multinationals.

In this paper I utilize both quantitative and qualitative research approaches to test the impact of political institutions on the levels of political risk facing multinationals in emerging markets. Specifically, I utilize cross-sectional data from political risk insurance agencies to test how domestic political institutions affect political risks for multinational investors. I supplement this empirical analysis with qualitative interviews with multinational investors, investment location consultants, and political risk insurances to justify assumptions I make in my statistical analysis and to further explore the micro-mechanisms of my argument. Specifically, I focus on how political institutions affect the premiums multinationals pay for 1) political risk insurance for expropriation and contract disputes and 2) for risks associated with government restrictions on

¹ See Henisz (2000, 2002a, 2002b), Jensen (2002, 2003, 2006), and Li and Resnick (2003) for domestic institutions and FDI inflows. See Correa and Kumar (2003) and Jensen (2003) for work on the role of international levels factors and political risk. For work on the relationship between democratic institutions and sovereign borrowing see Schultz and Weingast (2003) and Saiegh (2005).

² See also Minor (1994). See Kobrin (1980) for a breakdown of expropriations by sector.

capital transactions. I find that constraints on political actors (veto players) lower both types of political risks. Democratic institutions, on the other hand, dramatically decrease the risk of expropriation and contract disputes, but it has no effect on transfer risks.

2. Foreign Direct Investment and Political Risk

Despite the growing consensus on the importance of attracting foreign direct investment and the shift in developing countries from hostility to FDI to country promotion to attract FDI, governments still enact policies that have direct and indirect negative effects on the profitability of multinational firms. These risks have led to the development of an industry dedicated to providing insurance covering political risks for multinational operations. Political risk insurers charge premiums for political risk coverage against the confiscation of firms' assets (expropriation risk), restricting the repatriation of profits or other capital transactions (transfer risk) or risks associated with war or civil disturbance (political violence risk).

Using data from the United States Overseas Private Investment Corporation (OPIC), the U.S. government agency that provides investment insurance for U.S. firms, researchers at the World Bank's Multilateral Investment Guarantee Agency (MIGA 2004) analyzed political risk insurance claims from 1971-2000. They found that the period between 1971-1980 U.S. investors in emerging markets were exposed to both restrictions on transferring and repatriating funds (transfer risk) and were subject to a number of expropriations. The period of 1981-1990 saw an even larger increase in the number of transfer risks claims and major reductions in the number of expropriation claims. The period of 1996-2000 continued to be a risky time for multinationals, where political violence and civil war claims increased dramatically.³

Although political violence risks have received a tremendous amount of attention recently, expropriation risk remains the catastrophic claim that is most damaging for firms. The Organization for Economic Cooperation and Development notes, "disputes on direct expropriation—mainly related to nationalization that marked the 70s and 80s—have been

³ Interview #6.

replaced by disputes related to foreign investment regulation and *indirect expropriation*” (OECD 2004, 2). Issues involving restrictions on capital transfers and civil war related events are more common in terms of the number of claims, but expropriation dominates in dollar terms. Of all the dollars paid out by OPIC from 1970-1978, 96% of these claims were for expropriation. From 1991-2004, even after the major financial crises that triggered a number of transfer claims, 84% of the settlement amounts of OPIC claims were for expropriation.⁴

Although these complex forms of political risk vary over time, Vernon’s (1971) theory of “obsolescing bargaining” provides some insights into the relationship between nation-states and multinationals. Multinationals operations are imperfectly mobile, where MNEs can invest anywhere in the world, but once an investment has been made there are serious costs to disinvesting. Governments may openly expropriate assets (Kobrin 1979) or attempt to renegotiate contracts with multinationals after the investment has been made (Gatignon and Anderson 1988, Williamson 1996).⁵ The potential for host governments to change policies after investment tempers MNEs location decisions.

Even in countries with excellent records of contract enforcement, creeping expropriation plagues firms due to the difficulty of specifying complete contracts. In technology joint-ventures, for example, multinationals remain wary of how technological leakages or inadequate enforcement of property rights could threaten an investment. These contracts, even if there are fully enforced, prove difficult to specify given the complexity of writing a contract about assets that have yet to be created and the uncertainty of the pace and scope of technological innovation (Freeman 1982, Mowery and Rosenberg 1989, Oxley 1997). Also, writing contracts in the language of both the host and home country can be cumbersome, specifically in countries where lawyers play a minimal role in the drafting of contracts. For example, in China, many joint-venture contracts are extremely simple by Western standards due to the limited capacity of

⁴ See O’Sullivan (2004, 31).

⁵ See Harms (2000) for a review of the political risk literature.

Chinese joint venture partners to translate and craft multiple language contractual agreements and the lack of delegation to international lawyers.⁶

In other cases, issues arise between firms and local governments that are far from standard issues in investment contracts. Was the Mexican government's failure to renew the license of a foreign owned landfill site a breach of contract?⁷ Does a firm deserve compensation when rebels in Liberia eat the inventory of a U.S. pig farm?⁸ Who could have predicted that the Vietnamese government's ban on foreign language advertising would also pertain to the logo on Pepsi beverage foundations, threatening Pepsi's local beverage distribution network?⁹

Many multinational investors have turned to international arbitration as one mechanism of minimizing disputes over unspecified elements of these contracts. Bilateral investment treaties often give foreign investors the right to use international arbitration rather than utilize domestic courts and many multinational investors write arbitration clauses into joint venture contracts. The major arbitration centers such as the International Centre for the Settlement of Investment Disputes (ICSID), the Hong Kong International Arbitration Centre (HKIAC) and Singapore International Arbitration Centre (SIAC) have seen dramatic increases in the use of arbitration over investment disputes in recent years.¹⁰

Although arbitration is often less costly than utilizing domestic courts, it does not eliminate political risk. First, arbitration is generally seen as a last resort for investors and can have repercussions. In Vietnam, for example, many businesses are wary of utilizing arbitration

⁶ Interview #28.

⁷ This is basic disputes in *TECHMED v Mexico* 2003 ICSID dispute. The ICSID panel found that this failure to renew the license was an expropriation of the investment.

⁸ Truth is sometimes stranger than fiction. This is an actual OPIC claim where an investor, Keene Industries, had purchased OPIC political violence insurance and was paid a claim for this political event. See O'Sullivan (2005).

⁹ Interview #27.

¹⁰ Interviews with ICSID, SIAC, and HKIAC, all confirm dramatic increases in the number of arbitration cases. See interviews #4, #10, and #12.

since this could offend the local and national government.¹¹ Arbitration may be an exit option, but it may not be a viable option for a firm that wants to continue doing business in a market. Second, governments may simply ignore arbitration awards. Many of the high profile investment disputes over infrastructure projects involve governments not complying with arbitration awards.

For some firms the mitigating of political risks is fairly straightforward. These firms are in a unique position of sharing many of the same preferences as government officials. Intel Corporation in Costa Rica is a major employer, a vehicle for technology transfer, and driver of economic growth in Costa Rica. When the Costa Rican government proposed major tax changes, executives at Intel stressed that they would make their preferences known to government officials and that finding a common solution was in the best interest for everyone.¹² In Vietnam, Intel has much more limited operations, focusing on providing local computer manufacturers with microchips and helping facilitate the spread of computer literacy into rural areas.¹³ In both cases, Intel's preferences align with that of the national and local governments, assuring market friendly policies.¹⁴

In other cases, firms have to resort to lobbying and influence over politicians. Canadian aluminum manufacturer Alcan both directly lobbied the national government against proposed power prices increases in Brazil (for energy intensive smelting operations) and found support in the local aluminum manufacturing association.¹⁵ By sharing preferences with local firms, multinationals can indirectly lobby governments for preferred policies.

But for many multinationals, neither the government nor local firms share similar preferences as the multinational. One industry that has been recently affected by major political

¹¹ Interview #22.

¹² Interview #20.

¹³ Interview #25.

¹⁴ Similarly, for Chubb, a major political risk insurer, investments that have major positive spillovers are perceived as being less likely a target of expropriation or transfer disputes. Interview #8.

¹⁵ Interview #17.

events has been private investments in infrastructure. Some projects have been directly expropriated, such as the government of Thailand's seizure of a private expressway in 1993. Numerous other projects have been canceled after substantial initial investment, such as Enron's Dabhol power plan in India and a major airport project in the Philippines. Perhaps most damaging has been government renegotiating the pricing of power, electricity and water contracts after financial crises in Argentina, Indonesia, Pakistan, and the Philippines (See Moran 2003).

According to a confidential interview with an international lawyer specializing in drafting private infrastructure contracts in Asia, investors were well aware of the risks of investing in these capital intensive, illiquid investments, but that investors attempted to write complex contracts, often with international arbitration clauses.¹⁶ In the end, many governments simply violated these agreements and either refused arbitration or ignored arbitration awards. Firms were aware of these political risks, but writing detailed contracts and relying on arbitration failed to protect their operations.

3. Political Institutions and Political Risk

These enormous risks faced by multinational investors in emerging markets have led to an important question. What types of political institutions lower political risks for multinationals? One vein of the literature focuses on how checks on political actors affect the operations and investment decisions of multinational investors. Political institutions that reduce the ability of politicians to change government policy can reduce political risks for multinationals.¹⁷

¹⁶ Interview #26.

¹⁷ One existing measure of these checks is a variable constructed by Beck et al. (2001) which counts the number of independent veto players in a country. Alternatively, Henisz (2000, 2002a) constructs a new measure of political constraints. This variable, similar to the Beck et al. measure, attempts to capture the number of political constraints that affect policy change. Henisz measures how the number of formal checks affects the policy process (veto players) by taking into account the decreasing marginal impact of added veto players and the policy preferences of each veto player.

In a series of papers Henisz and co-authors find that multinationals are responsive to the level of constraints on politicians.¹⁸ Multinationals' decisions to enter emerging markets and their entrance strategies are colored by the level of political constraints. Henisz (2004) also finds that these political constraints are associated with higher levels of fiscal policy volatility.¹⁹

Arguments linking veto players and FDI are problematic in that policy stability is a double-edged sword. Countries with excellent policies towards FDI can credibly commit to a good investment environment, while countries with poor policies towards FDI can be locked into a set of policies that will deter investment. Jensen (2006) argues that veto players will not necessarily increase FDI inflows, but they will lead to policy stability, reducing political risks for multinational investors. Utilizing political risk insurance data we can directly test the impact of veto players on the reduction of political risks, without confounding the affects of veto players on other policies that may be positive or negative for multinationals.

Hypothesis 1: Political constraints will reduce expropriation risk.

Another set of papers have focused on the role of democratic institutions in affecting FDI inflows (Jensen 2003, Li and Resnick 2003).²⁰ First, as highlighted above, democratic regimes have more veto players than non-democratic regimes both formally in the number of veto players and in their effective number of political constraints. Democratic institutions provide a status quo bias in policy, reducing the ability of leaders to enact sweeping policy changes that could harm multinationals. A number of political risk insurers, location consultants, and international lawyers argue that this is a major advantage of investing in democracies.²¹

¹⁸ For work on the relationship between political constraints and infrastructure investment see Henisz and Zelner (2001) and Henisz (2002b)

¹⁹ Frye (2005) makes a similar argument on the impact of political polarization on investors' expectations of future economic policies.

²⁰ Democratic institutions are associated with protect property protections and stronger contract enforcement (Olson 1993, 2000, North and Weingast 1989, Bates 2001).

²¹ Interviews #15, #16, #19, and #21.

Second, democratic institutions provide formal avenues for lobbying of politicians. In most cases, private sector actors can influence policy decisions in democratic regimes. Some authoritarian regimes have also generated institutional mechanisms for multinationals to lobby the government for policy change. For example, in Singapore, the Economic Development Board regularly solicits opinions on proposed legal changes from multinationals and lobbies for preferred policies on behalf of the firms.²² Unfortunately, I don't know of any existing datasets that directly measure the strength of private sector actors in authoritarian or democratic regimes.

Finally, as argued by Jensen (2003, 2006), democratic leaders can suffer audience costs by renegeing on international agreements. For example, investors can play a Grimm-Trigger strategy where once a politician has expropriated from an investor, foreign investors refuse to invest until the executive is removed.²³ This strategy can be played on both democratic and authoritarian leaders. Both authoritarian and democratic leaders suffer reputation costs for renegeing on contacts, but in democracies voters have the ability and incentive to punish leaders with tarnished reputations at the polls. Thus political leaders in democratic countries will uphold property rights, not because of constraints or even the relationship between democracy and the rule of law, but democratic leaders will be wary of generating an unfavorable reputation in international markets.²⁴

It is important to point out that this audience cost argument is based on two assumptions. First, financial markets will punish elected officials for renegeing on contacts with multinationals, rather than simply punish the country. Although no studies have directly tested this argument in relation to multinational investment and elected officials, there is considerable evidence that financial markets respond and react to the probability of individual leaders being elected in

²² Interview #24. Vietnam is also an interesting case of an authoritarian regime that allows feedback from firms on proposed legislative change. Interview #23.

²³ McGillivray and Smith (2004)

²⁴ For an empirical analysis of the relationship between media openness and international disputes see Choi and James (Forthcoming).

democratic systems.²⁵ As the recent 2002 Presidential election in Brazil and the 2004 parliamentary election in India illustrate, the reputation of individual leaders in international financial markets affects policy, cabinet appointments, and even who is selected as Prime Minister.²⁶ Obviously both country level and individual level factors matter, but voters, at the time of election, have the ability to choose between officials with varying levels reputation in financial markets.

A second assumption is that voters will punish politicians for this backlash from financial markets. Can't politicians use the proceeds from these disputes to buy off voters? In some cases, such as the major expropriations of oil and mining in the 1960s and 1970s, and possibility a number of major infrastructure disputes in the last ten years, expropriations and contract disputes could entail a major redistribution to the median voters and be political popular. But, with the majority of foreign direct investment flowing to developing countries being manufacturing and service sector FDI, it is unclear if a major expropriation of a manufacturing facility that is a parts supplier for the automobile industry or textiles dedicated for a specific supplier, is valuable for voters if firms can cut expropriated facilities off from supplies and final markets. According to Kobrin (1984) by the mid-1970s, many of the industries that had the highest value for firms (mining, oil, etc) had already been expropriated or governments had built the capacity to regulate firms in ways that were more beneficial than expropriation. Most governments are attempting to sell government assets (privatization) not reassert control over firms via ownership.²⁷ In many cases the reasons foreign investors entered many of these industries was because governments

²⁵ For just a small selection of the vast amount of work on the responses of financial markets to domestic politics see, Bernhard and Leblang (2002a, 2002b, 2006), Freeman et al (2000), Herron et al (1999), Herron (2000), Leblang (2002), Leblang and Bernhard (2000), Leblang and Mukerjee (2004), and McGillivray (2003, 2004).

²⁶ In Brazil this led to the revolutionary Lula nominated a relatively conservative cabinet and in India the nomination of the relatively conservative former Prime Minister Manmohan Singh being installed as Prime Minister over Sonia Ghandi.

²⁷ Kobrin (1984) argues that the increasing regulatory capacity of developing countries makes regulation a more viable option than expropriation.

privatized inefficient enterprises that were a net drain on government resources. Although little work has been done in quantifying the net impact of major contract disputes on citizens, it is difficult to come up with many cases of expropriations or contract disputes that had a net positive impact on the median voter.²⁸

More importantly, even if these net benefits of expropriation outweigh the future losses of inward FDI, voters still have the incentive to remove politicians with tarnished reputations. Thus expropriations or contract disputes that are ex ante popular can still lead to democratic backlashes for elected officials. Rational voters will support an expropriation, but then replace the lead with the tarnished reputation in the next electoral cycle. If voters lack the ability to credibly commit to reelecting a politician after renegeing on a contract, in equilibrium we would expect that democratic leaders would refuse to renege on a contract.²⁹ Thus, even though expropriation entails redistribution from firms to voters, if markets punish individual leaders for renegeing on contracts, we should expect no expropriations.

Obviously, this argument is a generalization of the relationship between financial markets, voters and elected politicians. There are some exceptional cases of governments renegotiating contracts that clearly favor the median voters, but my argument is that the net impact of democratic institutions is in restraining politicians from making decisions that would harm their reputations in financial markets and voters have the incentive to elect politicians with good reputations. This leads to my second hypothesis.

Hypothesis 2: Democracy will reduce expropriation risk.

The existing literature linking political institutions and political risks has focused on issues of expropriation risk, but they have failed to account for the increased risks caused by currency inconvertibility, capital controls, or other sudden changes in the ability of firms to repatriate profits or transfer capital abroad. Although in many ways this is similar to

²⁸ See O'Sullivan (2003) for a list of OPIC claims.

²⁹ See Hershman (2005)

expropriation risk, where governments renege on contracts assuring convertibility, there is one major difference in these types of risks. Transfer risks emerge, in most cases, during periods of financial crisis.

To be clear, this risk is separate from a currency crises or devaluation. Sovereign governments control their own monetary policy, but multinational corporations often sign very specific agreements maintaining the right to hold financial assets in a strong currency (usually banks holding reserves in dollars or Euros) or collect fees either in directly in a strong currency or indirectly through a agreed upon exchange rate (for example, infrastructure projects charging for service in dollars). When governments convert a firm's savings into the local currency in violation of a contract or refuse to honor agreed upon prices and instead pays for services in devalued local currency this is transfer risk. These risks emerge when governments break contracts during a financial crisis.

I argue that during periods of financial crisis political constraints could be valuable for minimizing transfer risks. Political constraints limit the ability of politicians to swiftly enact policies that will restrict multinationals ability to restrict capital flows.

Hypothesis 3: Checks on government will reduce transfer risk.

Alternatively, democratic institutions are not a panacea for attracting international capital. One possible objection is that democratic institutions may lead to greater demands for redistribution. If politicians can increase their probability of maintaining power by expropriation or breaching contracts during a financial crisis, democratic institutions could increase risks for multinationals. I argue that under most circumstances, democratic institutions will reduce risk for multinational investors, but under periods of serious financial crisis, democratic institutions may fail to protect multinationals' investments.

One illustrative example is Argentina's changing risk environment for multinationals. In the 1990s Argentina was a relatively open economy in terms of foreign direct investment. FDI promotion became a central goal of both the national and subnational governments. Politicians

generally upheld contracts, provided property rights protections to foreign firms, and gave firms access to domestic means of contract adjudication. Argentina provided multinationals with a relatively low risk environment for their investments.

The investment environment changed dramatically during the financial crisis of 2001-2002. Although the Argentinean government didn't arbitrarily nationalize foreign industries or break all contracts with foreign firms, the government engaged in a form of "creeping expropriation" by restricting capital transactions and engaging in the "Pesoification" of contracts and financial assets. Foreign firms couldn't engage in capital flight, had funds forcibly converted into Pesos, and many contracts, especially in infrastructure, were rewritten or canceled.³⁰

The Argentinean case isn't unique. This role of financial crisis in changing FDI policy is recognized by political risk insurers and other practitioners. According to Ikawa (2004) in an introduction to a volume on political risk and the political risk insurance industry:

Economic crises appear to be pushing pro-FDI governments into taking a course that may cause expropriation, inconvertibility, or break of contract/contract frustration claims....In this sense, political risks are become more economic events rather than purely concerned with the political will of the host country.

Why do democratic governments engage in activities that harm multinational firms, and thus damage the politician's reputation in international markets? My central argument is that the costs of expropriating (in terms of reputation) are greatly decreased during a financial crisis. For example, did the act of Pesoification really tarnish President Kirchner's reputation any more than the financial crisis itself? The key point is that the marginal impact on an incumbent's reputation of a contract dispute is much smaller during a financial crisis. Thus politicians in democratic regimes, normally concerned with their reputation in international markets, are less sensitive to the reputation effects of breaking contracts during a financial crisis.³¹

³⁰ Details on these contract disputes can be found in Moran (2003) and through the International Centre for the Settlement of Investment Disputes website.

³¹ Also, during a financial crisis we would expect redistribution from investors to domestic citizens to have the largest marginal political impact. In a period when

Hypothesis 4: Democracy will have no impact on transfer risks.

In the following section I will argue that political risk insurance data is the most appropriate data resource to test these four hypotheses.

4. Utilizing Political Risk Insurance Data

A large and complex insurance industry has emerged to help multinationals mitigate political risk by purchasing insurance contracts. These providers of this political risk insurance include private market participants, including Sovereign, Zurich, Chubb, Lloyd's of London, Aon and AIG and government agencies such as OPIC, Export Development Canada, and a slew of newly privatized Export Credit Agencies.³²

All of these organizations offer political risk insurance for multinational investors. This insurance is distinct from other types of property insurance, where these contracts are designed to insure against political events that affect, large, illiquid investment projects. Specifically, the political risk insurance industry categorizes these political risks into three broad categories.³³

1. War and Political Violence
2. Expropriation/Breach of Contract
3. Transfers Risk/Inconvertibility.

War and political violence risks are associated with the direct or indirect impacts of political violence, such as civil war, uprisings, or some types of terrorist attacks. This political violence can be directly targeted at the firm, or the level of political violence in the country can make multinational operations unprofitable.³⁴ The second type of risk, expropriation risk, covers

individual incomes and real savings plummet, a small transfer from investors to citizens can have a large political benefit. We would expect that democracies, with already tarnished reputations, and with large marginal benefits to redistribution, to engage in activities that increase transfer risk.

³² Interview #9.

³³ Some organizations such as MIGA use four categories, while others such as EDC lump expropriation and breach of contract into the same category.

³⁴ I leave an exploration of the determinants of political violence premiums for future research.

direct nationalization and expropriation of assets. Breach of contract covers a government's failure to fulfill the terms of a contract, and some types of government policy changes that affect income streams and profitability. Finally, transfer risk encompasses the risk of governments restricting capital flows in ways that harm multinational corporations, usually during a financial crisis.

One of the largest providers of political risk insurance to emerging markets is the World Bank's Multilateral Investment Guarantee Agency (MIGA).³⁵ MIGA's mandate is to provide investment insurance and investment promotion to developing countries. From 1990-2000 MIGA has issued 473 "Guarantees" totaling \$7.1 billion (West and Tarazona 2001). These guarantees helped facilitate \$36 billion in FDI to some of the highest risk countries.

Another major provider is the U.S. Governments' Overseas Private Investment Corporation. In 2004 alone, OPIC provided political risk insurance for 72 projects in 42 countries, including infrastructure projects in Afghanistan, construction in Iraq, hotels in Uzbekistan, energy investments in Botswana, silver mining in Bolivia, and telecommunications in Brazil (OPIC 2004). OPIC investments have been subject to a number of political acts that have affected OPIC insured investments. Since 1971, OPIC has paid 271 claims totaling \$914.7 million (O'Sullivan 2005, 49). In some cases these are claims based on nation-wide expropriations, such as claims of expropriated U.S. investments in Iran and Vietnam in the 1970s. In other cases, OPIC paid claims for single event, some as major as a \$217 million expropriation claim by MidAmerican Energy Holdings against the government of Indonesia (O'Sullivan 2005).

Risk insurers, both public and private, have paid major claims in recent years. Just in the power sector alone, major claims have been made on the imposition of capital controls in Argentina, cancellation of power projects in India and Indonesia, and investment disputes in Venezuela and China (Martin 2004). These losses in the political risk insurance industry dwarf the insurance claims made from the events on 9/11.

³⁵ See Hansen (2004) for a brief overview and history of MIGA and OPIC.

Although I believe that these political risk insurance are most relevant for large, illiquid investments such as investments mining, oil and infrastructure the types of firms purchasing this insurance is quiet heterogeneous. A survey of past OPIC claims finds that firms purchased risk insurance and brought claims to OPIC in a number of industries including services, manufacturing, banking, and agriculture. Of the 279 OPIC claims from 1971-2004 only 30 claims were from extractive industries and 10 from infrastructure investments (O’Sullivan 2003).

Unfortunately for multinationals, political risk insurance is far from a panacea for eliminating political risks. Risk insurance does not cover all types of political risk, and coverage is expensive.³⁶ For example, “MIGA prices to risk, and premium rates are decided on a per project basis, usually ranging between 30 and 100 basis points per risk (up to 150 in some cases) per year” (MIGA 2004a, 5). Also, most coverage requires the multinational to “walk away” from their investment. For example, Canada’s political risk insurance agency, Export Development Canada (EDC), requires that for a country to claim their coverage they must turn over control of the assets to the EDC. In cases where multinationals are severely damaged by a government policy change, they are often forced to either make due with situation or to write off the whole investment. Finally, most organizations require the investors bear at least some of the risk, where OPIC, for example, covers a maximum of 90% of the investment.

Political risk insurance doesn’t completely insulate firms from political risk, but it does provide useful data on the premiums charged for risk insurance coverage in different countries. Although political risk insurance industry remains far less quantitative than other part of the insurance industry, many firms utilize country rating data for both the pricing of political risk and

³⁶ A study commissioned by the Federal Reserve Bank of New York found that the cost of political risk insurance coverage was one of the major reasons why most firms don’t purchase political risk insurance coverage. (Hamdani, Liebers and Zanjani 2005). An interview with an OPIC representative stressed that much of the political risk insurance coverage is essentially the same product used 50 years ago and it doesn’t appropriately cover a number of important risks faced by multinationals.

financial institutions to manage their country risk exposure. Country risk ratings are a tool used by industry professional to measure political risks.³⁷

Utilizing this political risk insurance data has a number of distinct advantages over previous studies. First, political risk insurance data allows us to isolate political risk from other components of firms' investment strategies. Most scholars attempt to explain political risk by the level for foreign direct investment flows or the type of entrance strategy utilized by multinationals.³⁸ Political risk insurance data is a direct measure of political risk.³⁹

Second, political insurance coverage is purchased for specific types of political risk (Violence, Expropriation, and Transfer Risk). Utilizing political risk insurance data allows us to differentiate the impact of political institutions on specific categories of risk. This allows researchers to go farther in specifying the specific types of risks that affect firms.

Third, these measures are built by market actors attempting to maximize profits by properly pricing and allocating political risk. Although these measures aren't generated in a market the same way stocks prices are determined through trading since the pricing of political risk contracts are confidential; the political risk insurance industry has a number of feedback mechanisms that allow for price convergence across insurers. Political risk insurers

³⁷ Interview #8, #11, #14, and #18.

³⁸ This approach provides a number of benefits over existing empirical analyses. The existing studies of political risk have focused on nationalization and expropriations (Kobrin 1980, Minor 1994), the entry decisions of multinationals (Gatignon and Anderson 1988, Murtha 1991, Oxley 1997, and Henisz 2000, 2002a) or flows of foreign direct investment (Oneal 1994, Wei 2000, Resnick 2001, Jensen 2003, Li and Resnick 2003). Although this is reasonable, this is far from a direct test of the causal link between politics and risk. A better measure of risk is necessary to test these theoretical arguments.

³⁹ Another strategy to explore the micro-factors that influence investor decisions is to focus on surveys of multinational decision makers to explore which sets of political risks affect firms and to rate countries on these specific risks. These surveys suffer from a number of shortcomings. First, these surveys don't directly ask multinationals about the link between political institutions. Second, these survey's are limited in country coverage and do not provide a historical time-series.

(underwriters) develop political risk contracts and utilize brokers to interface with clients.⁴⁰

These brokers convey information about competitors pricing to underwriters.

I contacted a number of government agencies, private risk insurance providers, and investment location consultants. The data presented in this study comes from ONDD, the Belgian Export Credit Agency. I choose this data for five reasons. First, ONDD makes this data publicly available via their website.⁴¹ Second, this data is disaggregated by type of political risk insurance (expropriation/breach of contract risk, transfer risk, and war/political violence risk). Third, after interviewing plant location consultants I found that this specific political risk insurance data is utilized for evaluating risks (and protecting against risk). One of the largest multinational investment location consultancies, IBM-Plant Location International uses this specific data to evaluate political risks. Even if firms do not purchase ONDD political risk insurance, major investment location consultants utilize their data for investment decisions. Fourth, interviews with political risk insurance brokers reveals price convergence across agencies.⁴² This is due to feedback mechanisms where brokers report to insurance underwriters if their prices for insurance contracts are out of line with other underwriters. The ONDD prices are representative of prices for similar contracts from other agencies. Finally, the head of the ONDD also serves as the head of the OECD's country rating service and is the price leader in export credit insurance.⁴³

ONDD categorizes countries into seven risk groups. Countries with the highest risks are coded 7 and countries with the lowest risk are coded 1. Countries received separate scores for expropriation risk, transfer risk, and war risk. For the remainder of this paper I focus on expropriation and transfer risk.

Insert Table 1

⁴⁰ Interview #7 and #11.

⁴¹ www.ducroire.be

⁴² Interview #7 and #14.

⁴³ The OECD ratings serve as a price floor for export credit insurance pricing.

A number of interesting patterns emerge from the data. First, few countries are clustered in the low risk or high risk categories. Only 23 of the 153 countries achieve the lowest risk score for both types of risk coverage. These countries are the usual suspects of advanced democracies, plus the wealthy authoritarian state Singapore. Only Iraq, Somalia, and Zimbabwe achieve the highest risk rating of 7.

Although these two measures of political risk are correlated at 0.79, a number of countries vary dramatically in the differences in their ratings on these two types of coverage. Countries that have experienced financial crisis have substantially higher transfer risk ratings than expropriation ratings. Surprisingly, other countries that have not experienced financial crisis also have much higher transfer risk ratings than expropriation/breach of contract ratings. EU accession countries Hungary, Latvia, Lithuania, Poland, and the Slovak Republic all have the lowest possible risk rating in terms of expropriation risk (1) but have much higher transfer risk ratings (3).

Although most countries were rated as less risky in terms of expropriation risk than transfer risk, a small set of mostly authoritarian regimes had lower transfer risks. Brunei, China, Kuwait, Saudi Arabia, Thailand, and the United Arab Emirates score a 2's in terms of transfer risk, but are scored as 3 in terms of expropriation risk. Algeria and Iran, two countries that are very risky in terms of expropriation (scores of 5 and 6) are both scored below the mean in terms of transfer risk (3).

What explains these complex patterns of political risk? I argue that political institutions, specifically political constraints and the level of democracy are the key independent variables. As highlighted earlier I focus on the relationship between democracy, political constraints, and political risk. Although measures of democracy and the level of executive constraints are highly correlated (0.76) not all democracies have high levels of executive constraints and not all authoritarian regimes are relatively unconstrained. In Table 2 I categorize all countries into four groups of democracy and executive constraints.

Insert Table 2

In the lower right hand box are 61 unsurprising countries that exhibit high levels of democracy and a high score on the number of executive constraints category.⁴⁴ This group contains most OECD countries and many middle income countries. At the other extreme, are the low democracy, low constraint countries which include Angola, Bahrain, and Cuba.

A total of 28 countries, or slightly over 18% of our observations, do not fall into either simple category. Ten countries, strange bedfellows such as Botswana, Mongolia, and Switzerland, exhibit high levels of democracy and low levels of executive constraints. Eighteen countries fall into the other category of low levels of democracy and high levels of executive constraints. How do these rough categories of democracy and political constraints relate to the existing measures of political risk? In Table 3 I present a two by two table that presents that average expropriation and transfer risk score for each of the four boxes.

Insert Table 3

This brief snapshot is informative, but the goal of this project is to build a theoretically informed empirical test of the determinants of expropriation risk and transfer risk. To accomplish this I build two Ordered Probit models utilizing the cross-sectional political risk data.

One serious concern is the high levels of multicollinearity between the measures of political constraints and the level of democracy. Multicollinearity doesn't violate any statistical assumptions, but it does cause problems in estimation by inflating the standard errors. To minimize the problems associated with multicollinearity I test relatively simple models of the determinants of political risk to maximize the sample size.

A second concern is that, on the surface, this cross-sectional data does not allow us to test the important causal mechanisms linking democracy and political constraints to expropriation and

⁴⁴ I use the standard 17 point Polity score for the cut off between high democracy and low democracy. For political constraints I classify countries above the mean level of political constraints as high, and at or the below the mean as low.

transfer risks. A dynamic tests using data that varies over time can test if political risks increase prior to democratic elections or

This concern misses the important decision calculus of multinationals and fails to recognize the complexity of political risk insurance pricing. Multinational investors are not purchasing coverage to cover events surround an upcoming election or a political event in the next year; they are purchasing insurance products that offer coverage for political events over the next 15 years. While the risk of an actual expropriation or transfer restriction varies across time, multinationals are attempting to evaluate the probability of these investments occurring over a long time horizon.

Interviews with political risk insurers highlight these concerns. Insurers must price coverage for events that could happen anytime during the next 15 years. For most insurers, political risk insurance prices do not vary dramatically over time. The ONDD's political risk ratings have varied little over time, and the Japanese political risk insurance agency (NEXI) has not changed their price ratings since the inception of their current rating system in 1996, covering overall country risk. This may be shocking to many scholars observing the waves of financial crises and contract disputes since the late 1990s, but to political risk insurers, many of the countries with major contract disputes were rated as risky investment locations well before the late 1990s.

In summary, political risk insurance data provides an accurate picture of the long-run risk environment for most countries. This cross-sectional data should be interpreted as the pricing for probability of specific types of political events within the next 15 years.

For the model on the determinants of expropriation risk I utilize a set of controls from the literature on the determinants of expropriations.

- Level of Development (*GDPPC*): Higher levels of economic development are associated with lower levels of expropriation and contract disputes.⁴⁵
- Economic Growth (*Growth*): According to Jodice (1980, 1992), “Expropriation is a reasonable response to economic discontent which is directly linked to the operations of foreign firms in the national economy.” In periods of low economic growth, politicians have the incentive to redistribute income from foreigners to domestic citizens.⁴⁶
- Foreign Aid (*Aid*): Countries dependent on foreign aid are less likely to expropriate from foreign investors (Jodice 1980).

To model the determinants of transfer restrictions, I include measures that control for the probability of a country being in a financial crisis. A vast literature in economics has built empirical models of currency crisis.⁴⁷

- Level of Development (*GDPPC*): Countries with higher levels of economic development are less likely to experience financial crises (Kumar et al 2003)
- Economic Growth (*Growth*): In period of low economic growth, politicians have the incentive to redistribute income from foreigners to domestic citizens. Periods of low economic growth are also strong predictors of financial crisis. (Frankel and Rose 1996)
- Present Value of Debt (*Debt*): Higher levels of debt are associated with a higher probability of financial crisis. (Frankel and Rose 1996).
- Foreign Aid (*Aid*): Countries dependent on foreign aid are less likely to expropriate from foreign investors.

⁴⁵ Jodice (1980) argues that more advanced economies are more likely to expropriate due to administrative capacity necessary to administer expropriated investments, but finds no empirical support for this argument.

⁴⁶ See also Bunn and Mustafaoglu (1978).

⁴⁷ See Kaminsky et al (1998) for a review of the literature.

- Central Bank Reserves (*Reserves*): Low levels of central bank reserves are both a symptom and a predictor of future financial crises (Frankel and Rose 1996, Kaminsky et al 1998).

My two key independent variables are *Political Constraints* and *Democracy*.

Henisz (2002) provides data on political constraints.⁴⁸ To measure the level of democracy I utilize the standard measure of democracy from the Polity IV dataset. Political constraints are a continuous variable ranging from 0 to 0.72. Democracy is an ordinal variable from 0 (low democracy) to 20 (highest democracy score).

Table 4: Determinants of Expropriation Risk

Table 5: Predicted Values

In Table 4 I present the results of a series of Ordered Probit model for 128 countries on the determinants of expropriation and breach of contract insurance premiums in models 1-3, and the results excluding the 28 OECD countries in the sample in models 4-6. As expected, higher levels of GDP per capita and dependence on foreign aid are associated with lower levels of risk. When estimated individually, both the level of democracy and the number of political constraints are highly statistically significant predictors of the level of political risk. These variables are insignificant when estimated at the same time due to issues of multicollinearity, although they are jointly significant at the 0.05 level. In Table 5 I present the estimated change in predicted values for each category of political risk.⁴⁹ In the first column I estimate the predicted change in a move from the minimum value of political regimes (0) to a mean value (13.18) and in the second column a move from the mean value (13.18) to the maximum democracy score (20). Clearly, both the level of democracy and political constraints has a dramatic impact on political risk ratings.

⁴⁸ I utilize his measure Political Constraints III.

⁴⁹ I utilize Clarify for all predicted values. See King et al (2000) and Tomz et al (2003).

I perform a parallel test on the determinants of transfer risk. I utilize a similar set of control variables and I include measures of the present value of debt and the level of foreign exchange reserves to control for the economic conditions associated with financial crisis. Including reserves as a variable reduces my sample size to 82 countries, removing a number of countries with less transparent government finances (reserves) such as Iran and North Korea, and a number of very small countries that do not report detailed information on foreign exchange reserves. Including a measure of the present value of debt also reduces the sample size due to a number of OECD countries not providing detailed debt data to the World Bank. I estimated all models without this reserve and debt variable on the full sample of 128 and 100 countries. My results on my two key variables of interest are unchanged.

Table 6: Determinants of Transfer Risk

Table 7: Predicted Values

In Table 6 I present the results of 6 models on the determinants of transfer risk. As expected, higher levels of GDP per capital are associated with lower levels of transfer risk. Contrary to earlier estimates, higher levels of economic growth and *lower* levels of foreign aid are associated with lower levels of transfer risk. I hesitate from reading too much into these results due to the fact that low growth and high inflows of foreign aid (including aid from multilateral institutions) could be the symptoms of a financial crisis, and not a causal determinant of transfer risk. Other predictors of financial crisis, such as high levels of debt and low levels of foreign exchange reserves are also associated with higher transfer risk.

The two key independent variables, democracy and political constraints, diverge in their impact on transfer risk. Political constraints, similar to earlier estimates, are associated with lower levels of transfer risk (models 8 and 11). Democracy, on the other hand is not a statistically significant predictor of the level of transfer risk (models 7 and 10). When both variables are included in the same regression, political constraints remains a statistically significant determinant of political risk and the coefficient increases dramatically. Democracy on the other

hand, has a positive coefficient, although it fails to achieve conventional levels of statistical significance.

In Table 7 I present the predicted values from changes in the level of democracy and political constraints. Both the level of democracy and the level of political constraints have a modest impact on the level of transfer risk. As recalled from Table 5, democracy is not a statistically significant predictor of transfer risks, and in these simulations, none of the estimates on the marginal impact of democracy is significant at the 90% level. Alternatively, political constraints are statistically significant (at the 0.05 level) in model 8 and in these simulations.

5. Discussion and Conclusion

In this paper I argue that political constraints do provide stability in policy and protect multinationals from government policy changes that will harm their operations or threaten their assets. Alternatively, I argue that the impact of democratic institutions on political risk is conditional on the economic performance. In periods of “normal” economic performance, democracy protects property rights by generating audience costs for political leaders that expropriate, renege, or harm multinational investments. Alternatively, in periods of financial crisis, politicians with already tarnished reputations have strong demands for redistribution and have small marginal costs to their reputation. It is during these periods when the risk reducing properties of democracy are weakest and the incentives for politicians to exploit multinationals are strongest.

In this study I test this theory utilizing a unique data set on the prices charged for political risk insurance and supplement this empirical analysis with qualitative data from 28 interviews. My findings point to some important differences between the relationship between both institutional measures of risk and the types of risks faced by multinationals. Although democracy and political constraints both reduce the risk of expropriation and breach of contracts, these two related by conceptually distinct institutional arguments have different impacts on the level of

transfer risk. Political constraints greatly reduce transfer risk, while democratic institutions have no impact on the level of transfer risk.

This paper provides an avenue for future research on the relationship between political institutions and political risks. By focusing on market based measures of political risk that are disaggregated by the type of risk, scholars can more appropriately test existing theories on how domestic political institutions can reduce political risks for foreign investors. These results also provide some insights in the empirical puzzle on how a number of pro-FDI governments have recently seen a wave of contract disputes between governments and foreign investors. Governments that have not been associated with contract disputes in the past have reneged on contracts with foreign investors during times of financial crisis. It is during these times when we see a divergence on the impact of political constraints on one hand and role of reputation costs on the other in their ability to constrain governments from engaging in activities that harm multinational investors.

Table 1: Distribution of Expropriation Risk and Transfer Risk for 153 Countries

Transfer Risk

Expropriation Risk	1	2	3	4	5	6	7	Total
1	23	6	10					39
2		2	6	5		2		15
3		6	5	3	4	1	5	24
4			3	4	9	13	11	40
5			1	1	4	4	12	22
6			1			2	7	10
7							3	3
Total	23	14	26	13	17	22	38	153

Note: Numbers indicate the number of countries contained in each cell according to their ONDD country risk ratings.

Table 2: Democracy and Political Constraints

	Low Constraints (0-0.25)	High Constraints(0.25-0.71)
Low Democracy (0-16)	63 Countries	18 Countries Algeria (7, 0.42) Bangladesh (16, 0.39) CAR (15, 0.51) Ecuador (16, 0.55) Estonia (16, 0.55) Fiji (15, 0.46) Georgia (15, 0.33) Ghana (16, 0.31) Iran (13, 0.35) Malawi (15, 0.42) Malaysia (13, 0.54) Mozambique (16, 0.33) Namibia (16, 0.27) Nepal (6, 0.39) Nigeria (14, 0.39) Sri Lanka (16, 0.41) Uganda (6, 0.33) Zimbabwe (3, 0.34)
High Democracy (17-20)	10 Countries Botswana (19, 0.10) Brazil (18, 0.14) El Salvador (17, 0.19) Jamaica (19, 0.20) Korea, Rep. (18, 0.24) Lesotho (18, 0) Mauritius (20, 0.16) Mongolia (20, 0.07) Russian Federation (17, 0.12) Switzerland (20, 0.16)	61 Countries

Source: Polity IV and Heinsz (2002a)

Table 3: Relationship between Democracy, Constraints and Political Risk

	Low Constraints 0.25	High Constraints
Low Democracy	Expropriation Risk 4.31 Transfer Risk 5.76	Expropriation Risk 4 Transfer Risk 5.06
High Democracy	Expropriation Risk 2.78 Transfer Risk 3.8	Expropriation Risk 2.18 Transfer Risk 3.25

Table 4: Determinants of Expropriation Premiums

	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>	<i>Model 5</i>	<i>Model 6</i>
GDPPC	-0.0927*** (-9.76)	-0.941*** (-9.67)	-0.926*** (-9.67)	-0.758*** (-6.63)	-0.755*** (-6.53)	-0.755*** (-6.53)
Growth	-0.039 (-1.38)	-0.035 (-1.46)	-0.040 (-1.34)	-0.035 (-1.31)	-0.034 (-1.37)	-0.036 (-1.44)
Aid	-0.028** (-2.32)	-0.035*** (-2.75)	-0.031** (-2.49)	-0.022* (-1.79)	-0.028** (-2.24)	-0.026** (-2.09)
Democracy	-0.060*** (-3.36)		-0.041 (-1.47)	-0.047*** (-2.62)		-0.021 (-0.76)
Pol Con		-1.612*** (-3.38)	-0.757 (-1.47)		-1.488*** (-3.01)	-1.043 (-1.33)
OECD	Yes	Yes	Yes	No	No	No
N	128	128	128	100	100	100
PseudoR2	0.32	0.31	0.32	0.17	0.17	0.18

Note: Ordered probit with robust (Huber-White) standard errors. T-statistics in parentheses.

***=p<0.01

**=p<0.05

*=p<0.10

Table 5: Predicted Values

Predicted Values from Model 1 (Democracy)

Risk Category	Min to Mean Dem	Mean to Max Dem
1 (Lowest Risk)	0.090	0.080
2	0.119	0.048
3	0.112	-0.007
4	-0.160	-0.097
5	-0.137	-0.023
6	-0.025	-0.002
7 (Highest Risk)		

Predicted Values from Model 2 (Pol Con)

Risk Category	Min to Mean Pol Con	Mean to Max Pol Con
1 (Lowest Risk)	0.185	0.184
2	0.074	0.073
3	-0.045	-0.044
4	-0.178	-0.177
5	-0.033	-0.034
6	-0.003	-0.003
7 (Highest Risk)		

Table 6: Determinants of Transfer Premiums

	<i>Model 7</i>	<i>Model 8</i>	<i>Model 9</i>	<i>Model 10</i>	<i>Model 11</i>	<i>Model 12</i>
GDPPC	-0.821*** (-5.14)	-0.816*** (-5.14)	-0.897*** (-4.77)	-0.746*** (-4.28)	-0.739*** (-4.53)	-0.826*** (-4.33)
Growth	-0.102*** (-3.07)	-0.112*** (-3.77)	-0.104*** (-3.44)	-0.103*** (-2.95)	-0.118*** (-3.69)	-0.110*** (-3.40)
Debt	0.021*** (3.51)	0.022*** (3.62)	0.023*** (3.39)	0.020*** (3.17)	0.020*** (3.24)	0.020*** (3.02)
Aid	0.147*** (3.60)	0.144*** (3.39)	0.134*** (3.08)	0.147*** (3.68)	0.146*** (3.52)	0.134*** (3.14)
Reserves	-0.122** (-2.16)	-0.141** (-2.31)	-0.154*** (-2.57)	-0.122** (-2.18)	-0.143** (-2.33)	-0.159*** (-2.63)
Democracy	-0.015 (-0.54)		0.045 (1.06)	-0.012 (-0.45)		0.052 (1.24)
Pol Con		-1.365** (-2.27)	-2.206** (-2.43)		-1.395** (-2.26)	-2.386** (-2.55)
OECD	Yes	Yes	Yes	No	No	No
N	82	82	82	76	76	76
PseudoR2	0.36	0.37	0.37	0.34	0.36	0.36

Note: Ordered probit with robust (Huber-White) standard errors. T-statistics in parentheses.

***=p<0.01

**=p<0.05

*=p<0.10

Table 7: Predicted Values

Predicted Values from Model 7 (Democracy)

Risk Category	Min to Mean Const	Mean to Max Const
1 (Lowest Risk)	0.000	0.000
2	0.013	0.013
3	0.024	0.013
4	0.037	0.006
5	-0.031	-0.023
6	-0.043	-0.010
7 (Highest Risk)		

Predicted Values from Model 8 (Pol Con)

Risk Category	Min to Mean Const	Mean to Max Const
1 (Lowest Risk)	0.001	0.006
2	0.034	0.086
3	0.052	0.072
4	0.067	0.013
5	-0.085	-0.137
6	-0.069	-0.040
7 (Highest Risk)		

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Appendix:
Independent Variables

Variable	Description	Year	Source
GDPPC	Log of GDP Per Capita (PPP)	2002	WDI 2004
Growth	GDP Growth	2002	WDI 2004
Aid	Foreign Aid (% GDP)	2002	WDI 2004
Democracy	0-20 Polity Score	2002	Jagers and Gurr
Pol Con	Political Constraints	2001	Henisz 2002b
Debt	Present Value of Debt (%GDP)	2002	WDI 2004
Reserves	Reserves (months of imports)	2002	WDI 2004
OECD	Dummy for OECD Country	2002	OECD.org

Investment Insurance and Arbitration Center Interviews

No.	Organization	Business	Date
1	Export Development Canada (Ottawa)	Insurance	6/11/04
2	Multilateral Investment Guarantee Agency (D.C.)	Insurance	7/21/04
3	Overseas Private Investment Corporation (New York)*	Insurance	8/24/04
4	Internal Centre for Investment Disputes (D.C.)	Arbitration	1/04/05
5	The Belgium Export Credit Agency (Brussels)**	Insurance	6/06/05
6	Multilateral Investment Guarantee Agency (DC)	Insurance	5/18/05
7	Kiln's (London)	Insurance	5/23/05
8	Chubb (London)	Insurance	5/24/05
9	Berne Union (London)	Insurance	5/24/05
10	Singapore International Arbitration Centre (Singapore)	Arbitration	6/28/05
11	Aon Risk Services (Hong Kong)	Insurance	6/20/05
12	Hong Kong International Arbitration Centre (Hong Kong)	Arbitration	7/04/05
13	Zurich Emerging Market Solution (Hong Kong)	Insurance	7/04/05
14	Gerling Allgemeine Versicherungen (Hong Kong)	Insurance	7/04/05

Consultants, Law Firms, and MNE Interviews

No.	Organization	Business	Date
15	Citigroup (Brazil)	Finance	3/17/04
16	UBS (Brazil)	Finance	3/20/04
17	Alcan (Canada)	Production	6/10/04
18	IBM-Plant Location International (Brussels)*	Consulting	6/29/04
19	BG Consulting (D.C.)	Consulting	7/02/04
20	Intel (Costa Rica)	Production	7/29/04
21	Baker, Donelson, Bearman, Caldwell & Berkowitz (D.C.)	Legal	8/11/04
22	US Commercial Service (Vietnam)	Government	6/22/05
23	PhillipsFox (Vietnam)	Legal	6/22/05
24	Economic Development Board (Singapore)	Government	6/28/05
25	Intel (Vietnam)*	Services	6/29/05
26	Freshfields Bruckhaus Deringer (Hong Kong)	Legal	6/30/05
27	PepsiCo (Vietnam)*	Production	7/06/05
28	Jones Day (Shanghai)	Legal	7/08/05

Notes:

* Phone Interview

** Email Exchange