

Economic Shock, Political Shifts, and Sovereign Theft: The Domestic and International Determinants of Investment Expropriation

Nathan M. Jensen
Noel P. Johnston
Chia-yi Lee
Abdulahadi Sahin

Washington University in St. Louis

November 10, 2012

Expropriation of Foreign Investments

- Expropriations are rare, catastrophic events for investors.
 - MIGA Survey (Breach/Expropriation)
 - 20% of firms concerned about expropriation
 - 48% of breach of contracts concerns

- Insurance claims data
 - Over 80% of political risk insurance claims are for expropriation.

Existing Literature

- Institutions limit *ability* to expropriate.
- Few studies examine *incentives* to expropriate.
 - (Cole and English 1991; Kobrin 1984; Minor 1994; Li 2009; Tomz and Wright 2010)

Theory: Economic Crisis and Expropriation

- Economic liberalization literature
 - Markets constrain government behavior
- Building on IR scholarship
 - Country economic and political dependence

Data

Expropriation data

- Count of all expropriations from 1975-2002
- OPIC contract level data (2,600 contracts)

Key independent variables

- Financial crisis
- IMF support
- Foreign aid dependence

Control variables

- Government partisanship (= 1 for leftist government)
- Shift to left
- FDI as a % of GDP
- GDP per capita and its squared term
- Economic growth
- Trade openness
- Government spending
- Political regime (Polity score)
- Resource rent
- Post Cold War

Statistical models

Analysis 1: A multilevel Poisson model

- Unit: country-year
- Varying intercepts across countries

Analysis 2: A survival model

- Unit: investment-year
- A competing risk model

A multilevel model of expropriations

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Financial crises		-1.015 (0.459)**	-0.752 (0.462)	-0.885 (0.455)*	-1.016 (0.460)**	-0.942 (0.472)**
IMF agreement			-1.495 (0.295)***			
Foreign aid (logged)				-0.694 (0.121)***		
Left governments					0.523 (0.304)*	
Shift to left						1.996 (0.292)***
FDI (% GDP)	0.056 (0.065)	0.055 (0.065)	0.068 (0.065)	0.078 (0.064)	0.058 (0.064)	0.066 (0.065)
log(GDP per capita)	3.240 (1.793)*	3.302 (1.788)*	3.058 (1.782)*	5.508 (2.283)**	3.441 (1.822)*	3.012 (1.759)*
log(GDP per capita) squared	-0.202 (0.126)	-0.207 (0.125)*	-0.198 (0.125)*	-0.409 (0.166)**	-0.214 (0.127)*	-0.186 (0.123)
Democracy	-0.045 (0.024)*	-0.041 (0.024)*	-0.040 (0.024)*	-0.017 (0.026)	-0.052 (0.025)**	-0.064 (0.025)***
Resource rent (logged)	-0.040 (0.022)*	-0.039 (0.022)*	-0.043 (0.023)*	-0.024 (0.025)	-0.041 (0.022)*	-0.041 (0.022)*
Post Cold War	-1.165 (0.330)***	-1.207 (0.330)***	-1.158 (0.334)***	-1.028 (0.360)***	-1.154 (0.332)***	-1.049 (0.330)***
Number of observations	1,545	1,545	1,545	1,513	1,540	1,540
Number of countries	66	66	66	66	66	66
Log likelihood	-278.9	-275.2	-258.6	-247.7	-270.6	-254
AIC	579.9	574.4	543	570	567	534
BIC	638.7	638.5	613	640	636.5	603

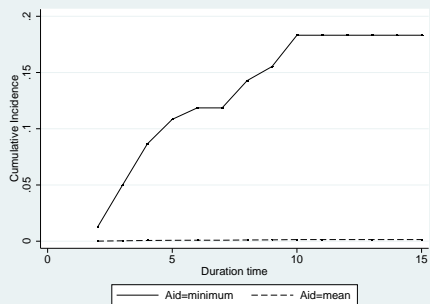
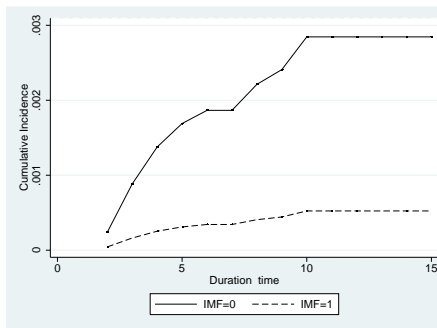
Notes. Standard errors are in parentheses. * $p < .1$; ** $p < .05$; *** $p < .01$.

A survival model of US investments

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Financial crises		-0.341 (0.512)	-0.327 (0.681)	-0.321 (0.537)	-0.372 (0.546)	-0.322 (0.447)
IMF agreement			-1.423 (0.559)**			
Foreign aid (logged)				-0.360 (0.122)***		
Left governments					0.263 (0.770)	
Shift to left						-0.269 (0.986)
FDI (% GDP)	-0.005 (0.094)	-0.007 (0.092)	-0.016 (0.083)	-0.018 (0.108)	-0.013 (0.088)	-0.001 (0.010)
log(GDP per capita)	11.276 (5.632)**	11.848 (6.123)**	11.196 (5.235)**	11.569 (5.234)**	11.288 (5.801)*	11.332 (5.725)**
log(GDP per capita) squared	-0.794 (0.378)**	-0.795 (0.371)**	-0.796 (0.344)**	-0.833 (0.336)***	-0.794 (0.385)**	-0.798 (0.377)**
Economic growth	-0.174 (0.037)***	-0.180 (0.038)***	-0.179 (0.037)***	-0.172 (0.038)***	-0.180 (0.038)***	-0.185 (0.045)***
Democracy	-0.165 (0.081)**	-0.161 (0.078)**	-0.137 (0.068)**	-0.144 (0.079)*	-0.165 (0.077)**	-0.159 (0.079)**
Resource rent(logged)	-0.027 (0.038)	-0.028 (0.037)	-0.016 (0.038)	-0.011 (0.032)	-0.026 (0.037)	-0.030 (0.035)
Post Cold War	0.479 (0.704)	0.484 (0.708)	0.601 (0.657)	0.795 (0.696)	0.507 (0.721)	0.472 (0.714)
Number of observations	26,519	26,519	26,273	25,116	26,444	23,989
Number of countries	93	93	91	91	93	93
Log likelihood	-97.3	-97.0	-94.5	-95.2	-96.9	-96.9

Notes. Standard errors are in parentheses. * $p < .1$; ** $p < .05$; *** $p < .01$.

Cumulative hazard function



Conclusion

- Expropriations are less likely during periods of financial crisis.
- Dependence on foreign aid and IMF support also reduce expropriations.