# Study indicates foreign investment influenced by voters choices at the ballot box

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A new study by University of Minnesota Carlson School of Management professor Paul Vaaler indicates that when emerging-market countries hold elections they may be determining more than their new government.

Vaaler's research concludes that other foreign constituencies, or multinational corporations (MNC) considering multi-million dollar investments, respond quite predictably to shifting partisan political tides during election years in emerging-market countries. The study is featured in the February issue of the *Academy of Management Journal*.

Vaaler found that when the likely partisan swing is to the right-wing, MNCs announce more deals to build factories, hotels, roads, hydroelectric dams and other projects promoting economic growth, employment and modernization. When political tides swing to the left-wing, new MNC investment projects can decrease dramatically. The prospect of less "investor-friendly" left-wing policies after the election means a slow-down in MNC deals to invest billions and contribute to an emerging democracy's economic development.

Vaaler, an associate professor of strategic management and organization, drew these conclusions after analyzing more than 400 MNC project investment announcements worth about $200 billion in 18 emerging-market countries holding 35 presidential elections between 1987 and 2000. His previous research had shown that other foreign financial actors responded to likely partisan shifts after elections in these same countries.

“When I started studying MNCs and their investment decisions I wasn’t sure that these same trends would surface,” Vaaler said.

“MNCs building new road or water treatment systems are looking at projects with life spans measured in decades. They might not care about temporary policy swings driven by elections. Results show that MNCs care deeply about these swings and respond by increasing or decreasing investments vital to economic development.”

Such investment trends, says Vaaler, are depicted in recent international elections. In 2000, Mexican voters fed up with the ruling party’s 70-year monopoly on presidential power, elected former Coca-Cola executive Vicente Fox, who promised economic policies favoring privatization, deregulation and greater foreign investor protection. MNCs responded that same year with a deluge of new investment projects. On the other hand, in 2006, Bolivian voters frustrated by the lack of broad-based economic improvement after implementing many of the same “free-market” policies, elected left-wing populist Evo Morales. His promises to take greater political control over the country’s energy and financial sector won votes at the ballot box, but have also stifled MNC investment.

“Ultimately, there is a price to democracy when elections lead to parties and policies less favorable to foreign investors,” concludes Vaaler. “Local candidates, parties and voters in developing countries need to understand these election-year foreign investment trends.”

Source: University of Minnesota

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