INDUSTRY-BASED FOREIGN DIRECT INVESTMENT AROUND STATE GUBERNATORIAL ELECTIONS: EVIDENCE FROM THE UNITED STATES

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ABSTRACT

As American governors acquire enhanced regulatory and decision-making powers for economic development, the prevalence of statewide business scorecards and other factors are prompting voters to make these politicians and their agents responsible for the financial well-being of their states. Consequently, governors are expanding their policymaking authority and have gone to greater lengths to entice global executives to commit their increasingly mobile capital to their locales in efforts to increase jobs. More than any other sector, manufacturing is the area in which American incoming foreign direct investment is concentrated or what this study will refer to as international industry investment. Data has been collected from three global-manufacturing related Bureau of Economic Analysis datasets, namely FDI in the US- Employment of Nonbank U.S. Affiliates, by State, FDI in the US- Manufacturing Employment of Majority-Owned Nonbank U.S. Affiliates, and Gross Property, Plant, and Equipment of Nonbank U.S. Affiliates, by State. Based on a cross-sectional analysis of this information and gubernatorial tenure, it has been determined that global executives are most likely to devote their industry-based capital to a state in the year after the reelection of a governor and in the second term of an administration.

JEL: A11, B22, C21, D72, D73

KEYWORDS: Administration, Agents, Politics, Capital Mobility, Communication, Competitive Advantage, Economic Development, Election, Foreign Direct Investment, Trade

INTRODUCTION

The structure of the American economy has altered dramatically during the past 50 years, particularly after the passage of the North American Free Trade Agreement (Chase, 2003). Fifty years ago, a third of all Americans were employed in manufacturing; currently less than a tenth of American workers work in factories, although many are trained in and have experience in industry (Hagenbaugh, 2002). During the past several decades, the US has lost its competitive advantage in production vis-a-vis developing countries, most notably China, especially when considering costs dedicated to wages and environmental customizations (Harney, 2009). The deindustrialization in locales around the US that once were booming with factories and high-paying jobs has contributed to economic hardships for many Americans and was the impetus for this study.

As global capital has become increasingly mobile, competition to attract industry from outside sources has risen in salience. Consequently, US lawmakers, particularly those in statewide offices, have been forced to take a proactive approach. Public pressure in America is now directed towards states to bring manufacturing capital to their regions in order to remedy the negative trends associated with lost factory jobs. American state leaders now commonly engage in strategies involving economic development policy, the use of governments and their agents to actively facilitate local strategies to promote job creation and an increased standard of living in a locale, a phenomenon which first started to take shape in the 1980s (Roberts, 2004; Feenstra, 1997). Goodman (1979) first pointed out that economic development policy and planning are no longer exclusively the practice of socialist governments.

This paper will: (a) introduce international industry investment and explain its rise in prominence, (b) detail the rise of regulatory authority in the American state, (c) analyze data related to this study by examining the entire population of United States governors while observing the correlation between their tenures in office and the predictability of obtaining international industry investment to their respective American states, (d) describe the increase in international industry investment for Year 5 of a gubernatorial administration for each of the three most closely-related US government Bureau of Economic Analysis (BEA) datasets, (e) develop a conceptual model to measure international industry investment, and (f) discuss future studies related to this field.

LITERATURE REVIEW AND BACKGROUND

Since the 1980s, Foreign Direct Investment (FDI) flowing into America has increased in prominence as a focus of the literature and is included in disciplines such as political science, organizational leadership, economic analysis, and international trade theory. Blonigen (2005) recently argued that the literature on determinants of FDI is relatively new enough so that most hypotheses still have not yet been explored. In general, scholarly works in this area point to leadership as a common element, particularly the level of commitment by those involved in lower levels of government (Eisinger, 1990). Because the perception of leadership and lawmaking strategies are key ingredients when attempting to lure incoming FDI, ascertaining whether tenure of an American statewide administration affects incoming industry-based FDI became a goal of this study.

Governors, the democratically-elected heads of state government for each of the 50 American states, serve four-year terms, with reelection occurring during year four. To date, the impact of gubernatorial tenure has not been studied as a determinant of incoming FDI for individual American states. This information would be especially valuable if a governor running for reelection during the fourth year could predict what the incoming global capital might be in the following year if he is victorious, and subsequently, it would be beneficial if a model was constructed to predict such an inquiry.

While numerous variables have been identified as factors that either help or hinder the flow of capital as it relates to industry, the effect of gubernatorial tenure on FDI has not been adequately addressed. Current research has focused on leadership strategies and trends involving bringing global capital to a region, but little information has been compiled about longevity in American statewide leadership and its effect on international manufacturing during those years. This is a significant gap in scholarly work, and the research contained in this study provides new information regarding the relationship between tenure of gubernatorial leadership and FDI and fills a hole in literature on determinants of FDI. Grant and Wallace (1994) contributed the only other similar research with their analysis of general domestic industry growth increases during the years of state gubernatorial elections (p. 57). However, this study did not take into account the amount of tenure in the gubernatorial administrations or any international data. Through conclusions drawn by this paper, Statehouses around the US will be better able to more accurately predict, enhance, and develop the future economic landscape and financial well-being of their states.

The main purpose of this study was to investigate the relationship between a governor's tenure and incoming foreign direct investment directed at manufacturing capital and related jobs in that governor's state. More specifically, an objective of this study was to develop an economic model to predict how production-related incoming foreign direct investment is impacted by the reelection of a governor to a second term, or Year 5 of a gubernatorial administration. This study's interdisciplinary approach yields valuable information to the fields of international business, leadership, political science, global marketing, business & society, management, industry, economics, and technology.

Manufacturing and production in the United States constantly are affected by the social, regulatory, and economic environments in which they coexist; the economic downturn of 2007-2010 has further

increased the significance of American statewide efforts to draw fresh streams of income to mitigate state budget deficits (Blakely & Leigh, 2010). Coincidentally, incoming Foreign Direct Investment (IFDI) in the US has been concentrated in industry, the very sector that has witnessed the most domestic job losses (Anderson & Zeile, 2009).

This study will refer to the expression *international industry investment* as a general label describing any globally-supplied manufacturing job, multinational-funded capital, machinery, or asset, and/or any infusion of transnationally-financed property, plant, and equipment related to incoming foreign direct investment directed at American assembly and/or production. The research was conducted based on an analysis of key variables, namely gubernatorial tenure and *international industry investment*. At the same time, this study will also serve to outline why a specific term is important enough to merit its own designated piece of newly constructed terminology.

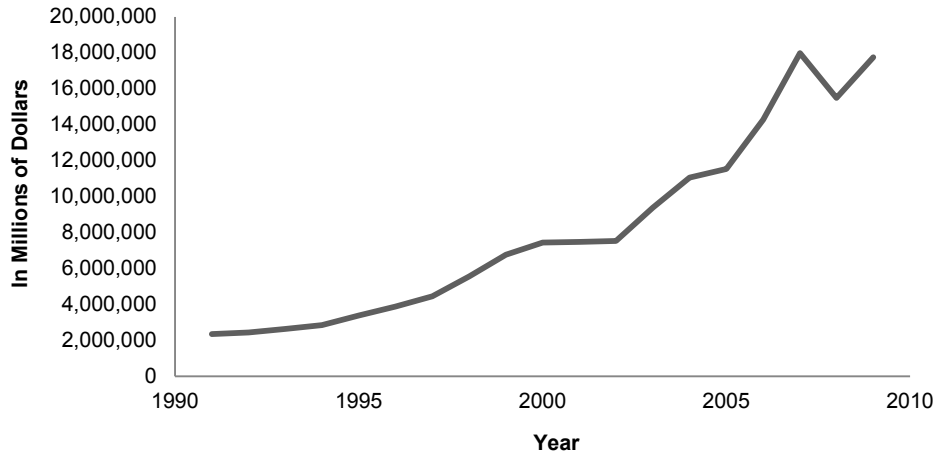
"Made in America" is an American nationalistic sentiment advocating the purchasing of goods assembled or manufactured domestically and stems from the desire to invest in sectors that employ US citizens (Hennart & Park, 1994). Americans are more likely to embrace a company and buy a product if they know that it was manufactured by an American or literally made in America (John & Klein, 2003). Buying a homemade product is an important factor providing motivation for international companies to produce their products in the US, and it has become commonplace for additional incentives to be offered to these multinational manufacturers by local communities so that the investment is directed toward their specific employment-base.

In today's US economy, the phrase "Made in America" may indicate a product manufactured within the US borders by a multinational company and has become one of the principle reasons why foreign companies set up operations and produce goods in America as they work to develop better access to the vast US market (Hennart & Park, 1994). Contrary to the common belief that production of goods in America has sharply decreased since the passage of NAFTA, new foreign capital arriving in the US has continued to increase sharply, providing an indication that America will continue to be a place where manufacturing will prosper (Rupert, 1995). When taking into account international industry investment, US manufacturing actually is still on the rise, and domestic producers have more than doubled their total trade from 1982-2003 as a result of the increased capital mobility in world markets (Duesterberg & Preeg, 2003, p. 145). In 2010, the US was confirmed as the best destination for FDI from investment promotion agencies (UNCTAD, 2010). Indeed, "Made in America" still has more cache than ever (Kichen, 2009).

Beginning in the 1980s, IFDI provided a major economic boost to economies of American states (Liner & Ledebur, 1987). Hines (1996) reported that a striking new development of the 1980s consisted of the appearance of sharp increases of US IFDI and stated that as the impact of global business increases, the policies designed to attract new global industry become more important (p. 1076).

The total world FDI flows in 2010 showed an increase of seven times the FDI of 1991. Figure 1 displays the 2010 investment flow, or the patterns of international capital movements. Many factors can be attributed to the steady increases in FDI over the past several decades. One, the liberalization of worldwide economic markets and upgrades in infrastructure have helped facilitate the movement of global capital (Sethi, Guisinger, Phelan, & Berg, 2003). Two, more transparency in financial transactions and the rapid economic development of new host areas are credited as primary reasons for the brisk growth of FDI (Stallings, 2007). And three, higher capital flows are attributed to modern international governmental trends that encourage economic reforms and investment-oriented policies as well as the increased ease of cross-border mergers and acquisitions (EconomyWatch, 2011).

Figure 1: 2010 World Investment Report: FDI Flows



Source: UNCTAD. This table displays several decades of United Nations data indicating a sharp rise in total worldwide Foreign Direct Investment since the early 1990's. During the past generation, the spread of globalization has prompted FDI flows to have increased by over seven times. This trend is expected to continue.

American Statehouses have been forced to utilize various policy instruments and creative strategies to make themselves attractive venues for foreign capital. Because the US is hindered by high health care costs and relatively high wage rates compared to developing countries, governors have been forced to compete globally by being innovative and creative. Crandal (1993) indicated that governors should be encouraged to provide an environment in which human capital can develop. Goodman (1979) first concluded that US state and local governments, who are able to offer incentives such as job training, anti-regulations, and tax deals, have become international entrepreneurs.

Today, both US conservative and liberal political solutions to the deindustrialization issue in America now put faith in the private sector and the profit motive more the federal government as solutions to both sustain and attract global manufacturing (Bluestone, 1984). Krugman (1994) indicated that regulations enacted by European countries have allowed the US to have more attractiveness when employers are deciding whether the US or Europe are more hospitable destinations in which to create new jobs. Even so, massive bureaucracy still exists in the US (Rowley, Thorbecke, & Wagner, 1995), which forces leaders to be creative with tax incentives and other recent economic development enticements, including infrastructure upgrades and donations of land.

Free-trade first-world nations have increasingly embraced the benefits of unencumbered capital flows. Richetto & Moitra (1990) pointed out that since World War II, the expansion of international commerce and investment has been facilitated by rising economic growth and liberal IFDI policies observed by most of the world's industrialized nations. However, unlike the governments of other nations, the US federal government has not actively solicited IFDI (McMillan, 2006).

Much of the recent IFDI in the US has been specifically dedicated to manufacturing, and historically, the bulk of the capital inflows into America have been industry-based (Anderson & Zeile, 2009; Madura, 2003). Since 1970, the American economy has undergone major changes, including sharp increases in IFDI into the US, especially in the manufacturing sector. Eisinger (1988) stated:

> *Another development of this decade and a half, scarcely remarked until the late 1970s, concerned the growth of direct foreign investment in the United States, more of which has been in manufacturing than any other area of commerce. (p. 290)*

Specifically, the US Department of Commerce (1986) reported that of all global investment from 1970-1984, the capital committed to industry increased by 725 percent. Reich (1996) confirmed that multinationals still constitute a sizeable proportion of the American industrial economy. The United States has seen steady increases in incoming manufacturing capital, even during the economic downturn that started in 2007. Table 1 below shows the increase in IFDI by sector, from 2005-2009.

Table 1: Incoming Foreign Direct Investment in the United States: Selected Items by Detailed Industry of U.S. Affiliate, 2005-2009 (millions of dollars)

	2005	2006	2007	2008	2009
All industries	1,634,121	1,840,463	2,055,176	2,165,748	2,319,585
Manufacturing	499,851	569,324	684,555	746,475	790,568
Wholesale trade	235,508	255,590	294,697	316,581	328,430
Retail trade	30,934	31,677	31,363	40,129	44,330
Information	102,584	135,986	155,704	164,491	146,114
Depository institutions	130,184	135,391	107,242	92,565	111,913
Finance and insurance	214,623	283,364	275,722	238,875	293,204
Real estate and rental and leasing	37,341	41,924	53,780	57,459	54,539
Professional/scientific/technical svcs	51,546	47,597	55,201	62,934	46,087
Other industries	331,549	339,610	396,912	446,238	504,399

This table displays the United States federal government statistics for various industries that contribute to US Incoming Foreign Direct Investment in recent years. Manufacturing is the most prevalent industry, followed by wholesale trade and finance/insurance. Total IFDI in the US, as well as that dedicated specifically to manufacturing, even increased as the US first began to face macroeconomic challenges starting in 2008. Source: US Bureau of Economic Analysis

Manufacturing, and in particular innovative technology-based industry, has been the primary focus of this new IFDI development in the US. Tassey (2005) stated that half of Gross Domestic Product (GDP) growth in industrialized areas is attributed to technology, and productivity in high-tech industry has increased three times as fast as other industry. It is widely accepted that it is essential for an American state's high-tech manufacturing sector to have global networks in order to advance the economy and that contact with global markets is essential for continued economic growth and increased productivity in high-tech industry (Eisinger, 1990; Duesterberg & Preed, 2003). Increasingly, technology-based industry has been a vital aspect of the IFDI entering the US. The following table shows total global manufacturing capital in the US as a percentage of total IFDI.

Research and development (R&D) associated with US IFDI has also been directed toward manufacturing, and Site Selection magazine reported that by 2009, expenditures for R&D performed by multinationals operating in the US totaled $39.8 billion, accounting for 15 percent of the R&D performed by all US businesses (Bruns, 2010). In 2007, multinationals operating in the US classified in manufacturing accounted for the largest share of US affiliate value added, at 42 percent (Anderson & Ziele, 2009). The Figure 2 depicts all "new" IFDI for 2008. Manufacturing accounts for 54% of this total, which is much higher than the 35% of total IFDI that comes from manufacturing. The increase in new IFDI is predictive of the importance of global industry to the future of the US economy.

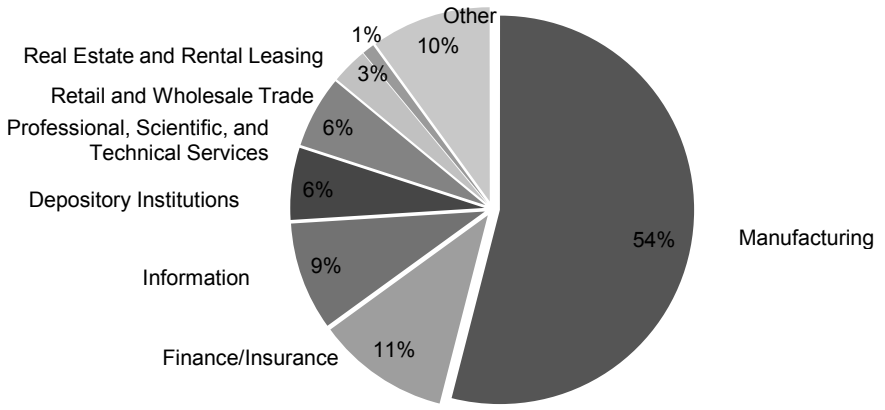
These sharp increases indicate that as capital into the US becomes more mobile, international industry investment becomes increasingly available for the taking. The American governors that are best able to provide the leadership necessary to claim these riches will provide high paying jobs in their locales for decades to come. In recent years, greater regulatory responsibility in several US lawmaking areas has moved from the federal government to state government. As a result, a new phenomenon known as devolution revolution has emerged in which state governments have established or reestablished themselves as powerful entities, capable of spending more time and effort on specific regulations and policymaking (Gerber & Teske, 2000).

Table 2: Incoming Foreign Direct Investment in the United States: Manufacturing as a Percentage of Total, 2005-2009.

	2005	2006	2007	2008	2009
Manufacturing	499,851	569,324	684,555	746,475	790,568
All industries	1,634,121	1,840,463	2,055,176	2,165,748	2,319,585
% of all	30.6%	30.9%	33.3%	34.5%	34.1%

This table displays the United States federal government statistics for the proportion of manufacturing as a percentage of all US Incoming Foreign Direct Investment. Manufacturing now accounts for over 1/3 of all US IFDI. The importance of production-based IFDI is increasingly essential for the health of state economies across the US. Source: Bureau of Economic Analysis

Figure 2: Outlays for New Investment in the US by Foreign Direct Investors, by Industry



This pie-chart displays the United States federal government statistics for all "new" Incoming Foreign Direct Investment. Manufacturing accounts for more new IFDI than any other industry, at 54%. Increasingly, manufacturing is an integral component for injections of economic activity in state economies. Source: Bureau of Economic Analysis

For many regulatory areas, the federal government establishes broad policy objectives and parameters, while state governments act as the key implementing agents (Gerber & Teske, 2000). The trend of American states serving in essence as laboratories for major legislations started in the early 1980s with programs such as environmental policy. Since then, state governments have accumulated considerable authority and discretion in regulatory areas such as worker safety, and in other policy arenas, including occupational regulation and insurance regulation standards, states have more or even complete jurisdiction (Keller & Levinson, 2002). American states' rights have been also recently increasing recently in key legislation areas such as medicinal marijuana and gay marriage (Singh, 2003). Donovan, Moody, and Smith (2009) surmised that today, local and state governments have a greater impact on the daily lives of Americans than the federal government. "All politics is local", a commonly held adage in the United States political arena, is often used to describe the notion that voters are inclined to support candidates and issues that directly affect themselves and their well-being rather than national issues (Cox & Mair, 1988; O'Neill & Hymel, 1995). Economic development is now one of those policy arenas in which states have more powers (Sapat, 2004). Simmons and Elkins (2004) found that the most profound effect on US policy transitions to state governments is from economic competition.

Since no major US national policy hinders international industry investment but none solicits it either, many US states started advocating their own agendas in the late 1980s. As a result, statewide leadership strategies have increased in importance, which has prompted state governments to get more creative when marketing potential business climates to multinationals (Jamison, 1998). State governments have utilized an array of various tools to market their states, including the now common use of strategic tax incentives, which has become a widely accepted and standardized governmental tool to entice and retain new IFDI

(Crandall, 1993). This consensus has formed comparatively quickly, because in 1983, the National Governor's Association (1983) reported in a comprehensive study that active state involvement in the solicitation of high-tech industry as part of an economic development strategy was a recent phenomenon.

Because of the nature of federalism within the US governmental system, individual states contain considerable institutional diversity in their models of authority (Donovan, Mooney, & Smith, 2009). The pursuit of international industry investment is now at the top of the agenda for many governors, because it represents a long-term venture from a multinational corporation that involves capital transactions whereby the management of the new enterprise is influenced or completely operated by the direct investor (OECD, 1995). International industry investment contributes more financial growth and productivity than domestic growth and has a greater impact on economic development than other means of business (Borensztein, Gregorio, & Lee, 1998). Once a multinational company commits its resources to a global locale, the entire investment becomes immobile, and while a multinational organization has lots of bargaining power before the destination is decided, the power thereafter shifts to the host area (Jensen, 2006). Those international first mover organizations that set up their operations in US locales will provide high-paying jobs for years to come in the states where they decide to set up operations.

Most recently, more opportunities to attract IFDI from India and China have become available, as indicated by the increased prevalence of gubernatorial trade missions to the Far East starting in the 1990s. Trade missions are designed to leverage business relationships and cultivate new partnerships and assist in first networking and eventually facilitating job commitments from international decision-makers (Kotler, 1993). These trade missions are economic development activities undertaken abroad in an effort to spur IFDI (Cassey, 2007), and the most recent statewide marketing phenomenon has been the aggressive pursuit of international industry investment through trade missions. Eisinger (1988) found that although states do not keep ongoing records of deals that are struck as a result of trade missions, foreign executives consider gubernatorial trade missions to be the most valuable strategy in developing trade contracts.

Multinational organizations know of the increased importance of international industry investment to a US state's economy and have become more apt to research potential manufacturing destinations in order to get the best deal possible. As a consequence, more emphasis has been placed on comparing and contrasting a manufacturing work environment in one state with another through the creation of statewide scorecards (Chen, Chen, & Ku, 2004). Statewide scorecards are ratings created by outside evaluators of state governments and their economic systems (Quillen, 2009). Other methods of evaluation are being analyzed by MNCs to compare potential investment destinations.

Leicht and Jenkins (1994) argued that over the past few decades, state governments have become the major innovators in US economic development policy. Today, many international executives simply bypass national lawmakers in order to form more personal partnerships with state-level policymakers and their related organizations (Eisinger, 1988; Jamison, 1998), in hopes of winning out the riches of international industry investment.

DATA AND METHODOLOGY

This study examined the entire population of United States governors, observing the correlation between their tenures in office and the predictability of obtaining international industry investment for their respective American states. The study also analyzed incoming foreign direct investment for each of the 50 states, focusing on the ability for state leaders to attract new production jobs for economic development.

The timeframes of the governors' tenures in office were compared to the three most recent closely related international industry investment datasets provided by the United States Federal Government's Bureau of Economic Analysis. The most recent federal data covers statistics gathered from 1997 to 2007.

The United States Bureau of Economic Analysis is the federal organization that tracks US IFDI and as such, the three distinct, most current BEA datasets were utilized because they best reflected where the measurement of international industry investment in America was concentrated. Anderson (2010) indicated that the most recent data included: (a) Foreign Direct Investment in the US- Employment of Nonbank U.S. Affiliates (in thousands), by State, 1999-2006, (hereby referred to as FDI); (b) Foreign Direct Investment in the US- Manufacturing Employment of Majority-Owned Nonbank U.S. Affiliates (in thousands),1997-2005, (ME); and (c) Gross Property, Plant, and Equipment of Nonbank U.S. Affiliates (in millions), by State, 1999-2006 (PPE). The data in these three datasets served as independent variables for their models and were utilized to create the framework for their equations.

The average increase in international industry investment was an independent variable and became the general multiplier for its distinct model. It was determined by calculating the mean change in Year 5 from the prior year for the entire population of governors in its specific dataset published by the US BEA. The prior year's international industry investment was used as a benchmark for the model. The next independent variable was geographic location, because the state's geographic location directly affects its likelihood of attracting international industry investment (Kim, 1995). Additionally, since economic momentum in the first years of a gubernatorial administration can culminate in a robust economy in Year 4 (Sisson, Zacher, & Cayton, 2007), a special independent variable caveat was included for Northern states that were able to create economic momentum to control for a scenario in which a Northern state saw an unusually high economic growth of 1.06% or higher in Year 4 of a gubernatorial administration. As such, the models above depict a special multiplier of 1.1 which was attached to those equations.

These variables were included in the three models which were constructed to see if the dependent variable could be predicted (the Year 5 international industry investment) for an administration. A cross-sectional analysis was used as the research method. A cross-sectional analysis does not take into account the result based on forward or backward timing, but instead locates its outcomes during a specific, constructed span of time (Glenn, 2005).

Three distinct models, FDI, ME, and PPE, were created for each of the three datasets, based on the variables described. The calculated output was then compared to the actual international industry investment for those given years for each of the three BEA datasets. These models are shown in tables 3, 4, and 5 below.

Table 3: Model for Foreign Direct Investment (FDI) Into a State: Year 5 of a Gubernatorial Administration

If Year 4 State Real GNP ≥ 1.06 and s = Northern,	
Year 5 FDI = (Multiplier)(s)(Year 4 FDI)(1.1*Year 4 State Real GNP)	(1)
Whereas s= .95 if Northern state or s= 1 if Southern state	
Multiplier = $\sum$ (% Δ in FDI Year 4→Year 5),for entire population in dataset	(2)
Otherwise,	(3)
Year 5 FDI = (Multiplier)(s)(Year 4 FDI)	
Additionally, $\sum$ (Year 5 FDI) =$\sum$ ((Multiplier)(s)(Year 4 FDI)(1.1*Year 4 State Real GNP))	(4)

This table shows foreign direct investment into a state for year 5 of a gubernatorial administration.

Table 4: Model for Manufacturing Employment (ME) Into a State: Year 5 of a Gubernatorial Administration

If Year 4 State Real GNP ≥ 1.06 and s = Northern,	
Year 5 ME = ((Multiplier)(s)(Year 4 ME)(1.1* Year 4 State Real GNP))	(1)
Whereas s= .98 if Northern state or s= 1 if Southern state	
Multiplier = ∑ (% Δ in ME Year 4→Year 5), for entire population in dataset	(2)
Otherwise,	
Year 5 ME = (Multiplier)(s)(Year 4 ME)	(3)
Additionally,	
∑ (Year 5 ME) = ∑((Multiplier)(s)(Year 4 ME)(1.1*Year 4 State Real GNP))	(4)

This table shows a model for manufacturing employment (ME) into a State for year 5 of a gubernatorial administration

Table 5: Model for International Plant, Property, and Equipment (PPE) Into a State: Year 5 of a Gubernatorial Administration

If Year 4 State Real GNP ≥ 1.06 and s= Northern,	
Year 5 PPE = ((Multiplier)(s)(Year 4 PPE)(1.1* Year 4 State Real GNP))	(1)
Whereas s= .94 if Northern state or s= 1 if Southern state	
Multiplier = ∑ (% Δ in PPE Year 4→Year 5), for entire population in dataset	(2)
Otherwise,	
Year 5 PPE = (Multiplier)(s)(Year 4 PPE)	(3)
Additionally,	
∑ (Year 5 PPE) = ∑ ((Multiplier)(s) (Year 4 PPE)(1.1* Year 4 State Real GNP))	(4)

This table shows a model for international plant, property, and equipment (PPE) into a state for year 5 of a gubernatorial administration.

RESULTS

Table 6 below shows the number of governors included in each of the cohorts from Year 1 to Year 8 of a gubernatorial administration for each of these three BEA datasets. The most significant decrease was between Years 7 and 8; by Year 8, the number of governors in the cohort had been reduced significantly. Five governors served in their eighth year for the FDI and PPE cohorts, and six governors served in their eighth year for the ME cohort. As such, international industry investment was not calculated for Year 8 due to such low subsets.

The next task was to find the percentage change in BEA data from the previous year for each individual state, which was then attributed to each gubernatorial cohort. In many cases, a small state saw an extreme increase or decrease, presumably from a major plant closing or a major commitment of jobs, and thus, two outliers, one with the highest total and one with the lowest total, were discarded from the average for each cohort. Table 7 below displays the complete descriptive statistics of each cohort before the outliers were thrown out, including the mean of each cohort, the standard deviation, the range, the minimum and maximum, and other related data.

Table 6: Cohort Table: "FDI", "ME", and "PPE"

	Number of Governors in Cohort							
Cohort	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**
FDI	56	47	47	18	31	27	28	5
ME	59	55	51	36	35	33	32	6
PPE	53	46	46	16	29	26	23	5

This table shows the total number of governors for each cohort from Year 1 to Year 8 for three BEA datasets including FDI, ME, and PPE from which the change in international industry investment from the prior year will be measured.

The multiplier for the models, or the average increase from the previous year for each of the three international industry investment equations, was calculated to be 1.036 for the FDI dataset, 1.0299 for the ME dataset, and 1.1214 for the PPE dataset. Table 7 below depicts the average increase or decrease for each of the cohorts from Year 1 to Year 7 for a gubernatorial administration in each of the three BEA datasets.

Table 7: Descriptive Statistics for Year 1-8 cohorts

Year 1-FDI		**Year 2-FDI**		**Year 3-FDI**		**Year-FDI**		**Year 5-FDI**		**Year 6-FDI**		**Year 7-FDI**	
Mean	1.001	Mean	1.000	Mean	0.991	Mean	0.973	Mean	1.036	Mean	1.002	Mean	0.981
Med.	1.008	Med.	0.977	Med.	0.993	Med.	0.977	Med.	1.034	Med.	0.996	Med.	0.983
SD	0.083	SD	0.086	SD	0.070	SD	0.044	SD	0.068	SD	0.071	SD	0.079
SV	0.007	SV	0.007	SV	0.005	SV	0.002	SV	0.005	SV	0.005	SV	0.006
Range	0.354	Range	0.437	Range	0.375	Range	0.165	Range	0.239	Range	0.287	Range	0.302
Min.	0.814	Min.	0.873	Min.	0.821	Min.	0.908	Min.	0.926	Min.	0.891	Min.	0.855
Max.	1.168	Max.	1.310	Max.	1.196	Max.	1.073	Max.	1.164	Max.	1.178	Max.	1.158
N	54	N	45	N	45	N	16	N	29	N	25	N	26
Year 1-ME		**Year 2-ME**		**Year 3-ME**		**Year 4-ME**		**Year 5-ME**		**Year 6-ME**		**Year 7-ME**	
Mean	1.022	Mean	0.966	Mean	0.995	Mean	0.942	Mean	1.030	Mean	0.948	Mean	1.009
Med.	1.007	Med.	0.964	Med.	0.980	Med.	0.963	Med.	1.000	Med.	0.964	Med.	1.040
SD	0.158	SD	0.141	SD	0.108	SD	0.082	SD	0.124	SD	0.110	SD	0.163
SV	0.025	SV	0.020	SV	0.012	SV	0.007	SV	0.015	SV	0.012	SV	0.027
Range	0.818	Range	0.983	Range	0.507	Range	0.294	Range	0.526	Range	0.417	Range	0.877
Min.	0.818	Min.	0.300	Min.	0.687	Min.	0.779	Min.	0.882	Min.	0.733	Min.	0.667
Max.	1.636	Max.	1.283	Max.	1.194	Max.	1.072	Max.	1.407	Max.	1.150	Max.	1.544
N	57	N	53	N	49	N	34	N	33	N	31	N	30
Year 1-PPE		**Year 2- PPE**		**Year 3- PPE**		**Year 4- PPE**		**Year 5- PPE**		**Year 6- PPE**		**Year 7- PPE**	
Mean	1.040	Mean	1.016	Mean	1.039	Mean	0.995	Mean	1.121	Mean	1.015	Mean	1.019
Med.	1.029	Med.	1.011	Med.	1.029	Med.	1.013	Med.	1.085	Med.	1.011	Med.	1.027
SD	0.073	SD	0.098	SD	0.094	SD	0.071	SD	0.134	SD	0.120	SD	0.107
SV	0.005	SV	0.010	SV	0.009	SV	0.005	SV	0.018	SV	0.014	SV	0.011
Range	0.384	Range	0.497	Range	0.535	Range	0.247	Range	0.557	Range	0.701	Range	0.447
Min.	0.889	Min.	0.806	Min.	0.837	Min.	0.851	Min.	0.905	Min.	0.564	Min.	0.799
Max.	1.273	Max.	1.303	Max.	1.372	Max.	1.098	Max.	1.462	Max.	1.265	Max.	1.246
N	51	N	44	N	44	N	14	N	27	N	24	N	21

This table depicts the complete descriptive statistics for the percentage change in BEA data (FDI, ME, and PPE) from the previous year for each year of a gubernatorial administration from Year 1 to Year 8.

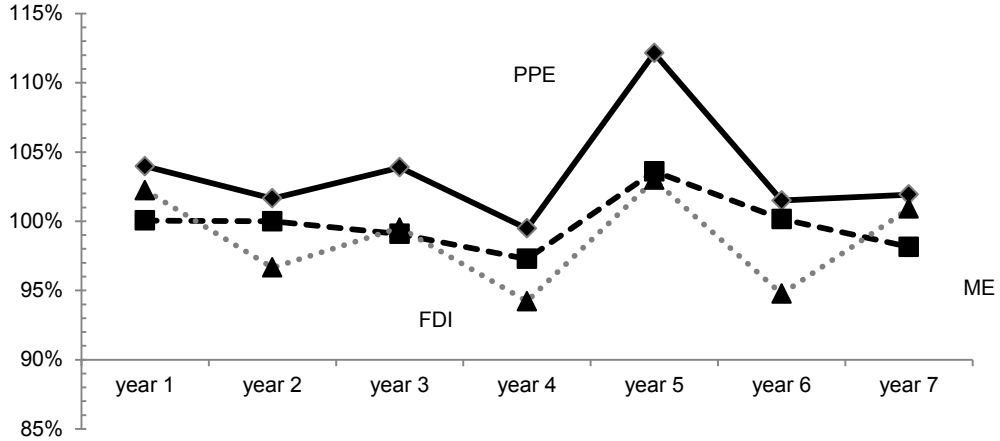
Most noticeably, there was a sharp increase in Year 5 for each of the three BEA datasets. Additionally, the largest net decrease occurred during Year 4 for each of the three BEA datasets. Figure 3 below illustrates the average change in international industry investment for the three BEA datasets from the previous year. As shown in figure 3, the average change from the previous year is higher in Years 5, 6, and 7, all years after the reelection of a governor, as compared to Year 4, the last year in the first administration for a governor.

Table 8: Average change for cohorts based on datasets "FDI", "ME", and "PPE", or multiplier for the models

	% Change from Previous Year						
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**
FDI	1.0223	0.9664	0.9953	0.9422	*1.0299*	0.9476	1.0090
ME	1.0006	0.9999	0.9908	0.9728	*1.0360*	1.0016	0.9815
PPE	1.0397	1.0164	1.0389	0.9947	*1.1214*	1.0149	1.0193

This table provides the average increase or decrease in international industry investment for each gubernatorial cohort as compared to the prior year. The rows are arranged based on the BEA dataset, with the first row including the FDI dataset, the second row including the ME dataset, and the third row including the PPE dataset.

Figure 3: Multiplier: Summary Graph- Average Increase/Decrease in International Industry Investment



This graph displays the average increase or decrease for each of the three most closely associated United States Bureau of Economic Development categories of international industry investment for Years 1-7 of a gubernatorial administration. For each of the three categories, the Year 4 cohort, or the last year of the first term of an administration, had the lowest calculations. For each of the three categories, the Year 5 cohort, or the first year after the reelection of a governor, had the highest calculations.

The table below provides a summary of the highest and lowest years in international industry investment for each of the three BEA datasets. The results were consistent across datasets because the lowest average for each dataset occurred in Year 4, whereas the highest average for each dataset occurred in Year 5.

Table 9: Summary Lowest and Highest Years for Cohort Data

	Lowest Year	**Change**	**Highest Year**	**Change**
FDI	Year 4	*0.9728*	Year 5	*1.0360*
ME	Year 4	*0.9422*	Year 5	*1.0299*
PPE	Year 4	*0.9947*	Year 5	*1.1214*

This table summarizes the calculations for the lowest and highest years from Year 1-Year 8 for each of the gubernatorial cohorts for the BEA datasets including FDI, ME, and PPE. For each of the datasets, the lowest calculations from the prior year were in Year 4, with the highest average change being in Year 5 for each of the three datasets.

Each of the three separate models constructed for this study were able to predict the specific dataset associated with international industry investment in Year 5 of a gubernatorial administration within 1% of

the actual. Overall, the three models predicted the individual American state's international industry investment by 10% in Year 5 of a gubernatorial administration for 72 of 89 states, or 80.9%.

For the FDI Year 5 dataset, the model calculated the real output at 99.987%. The following table depicts the model's results from the FDI population summation. For the individual states' Year 5 FDI dataset, the model calculated the real output by 10% in 26 of 29 instances, or 89.7% of the time. In addition, of the three instances where the model did not predict the Year 5 FDI output by 10%, one actual total was less than 10% and two actual totals were above 10%.

Table 10: FDI Model: Aggregate and Individual Breakdown

∑ Year 5 Actual = 2617.0
∑ Year 5 Calculated = 2617.3
=0.99987, 99.987%
Individual State Year 5 Model Predictions with 10% of Actual= 26 of 29
Individual State Year 5 Model Predictive Rate= 89.7%

This table summarizes the model's predictability of Year 5's FDI. The second row describes the sum of all individual Year 5s for a gubernatorial administration, and the third row includes the percentage of actual. The table further depicts the model's predictability of each of the individual 29 Year 5 totals.

For the ME Year 5 dataset, the model calculated the real output at 100.14%. The following table depicts the model's results from the ME population summation. For the individual states' Year 5 ME dataset, the model calculated the real output by 10% in 26 of 33 instances, or 78.8% of the time.

Table 11: ME Model: Aggregate and Individual Breakdown

∑ Year 5 Actual = 1048.2
∑ Year 5 Calculated = 1046.7
=1.0014, 100.14%
Individual State Year 5 Model Predictions with 10% of Actual= 26 of 33
Individual State Year 5 Model Predictive Rate= 78.8%%

This table summarizes the model's predictability of Year 5's ME. The second row describes the sum of all individual Year 5s for a gubernatorial administration, and the third row includes the percentage of actual. The table further depicts the model's predictability of each of the individual 33 Year 5 totals.

Of the seven instances where the model did not predict the Year 5 ME output by 10%, three actual totals were less than 10% and four actual totals were above 10%. For the PPE Year 5 dataset, the model calculated the real output at 99.3%. The following table depicts the model's results from the FDI population summation. For the individual states' Year 5 PPE dataset, the model calculated the real output by 10% in 20 of 27 instances, or 74.1% of the time.

Of the seven instances where the model did not predict the Year 5 PPE by 10%, one actual total was less than 10% and six actual totals were above 10%.For the 17 total instances where the three models did not predict the actual international industry investment total within 10%, 12 actual totals were above the 10% threshold and only 5 actual totals were below the 10% threshold. The table below summarizes the individual Year 5 for the totals of the three datasets.

Table 12: PPE Model: Aggregate and Individual Breakdown

∑ Year 5 Actual = 590,444
∑ Year 5 Calculated = 594,803
=0.993, 99.3%
Individual State Year 5 Model Predictions with 10% of Actual= 20 of 27
Individual State Year 5 Model Predictive Rate= 74.1%%

This table summarizes the model's predictability of Year 5's PPE. The second row describes the sum of all individual Year 5s for a gubernatorial administration, and the third row includes the percentage of actual. The table further depicts the model's predictability of each of the individual 27 Year 5 totals.

The summary statistics in the table above depicting instances in which the model did not accurately predict the international industry investment contain value. Of the 17 occasions when the model did not predict the actual total within 10%, only five of those actual totals were well below the predicted, whereas the other 12 actual totals far exceeded expectations for Year 5.

Table 13: FDI, ME, and PPE Models: Summation

Individual State Year 5 Model Predictions with 10% of Actual= 72 of 89
Individual State Year 5 Model "Misses"= 17
Instances where the actual total was below the 10% Threshold= 5
Instances where the actual total was above the 10% Threshold= 12

This table summarizes the models' individual Year 5 predictability for all 3 BEA datasets, including FDI, ME, and PPE within 10% of the actual. The second row describes the total times that the model did not predict the actual within 10%, the third and fourth rows break down the times the model was not able to predict the actual.

Based on this body of evidence, key findings of this study appear to be the increase in international industry investment for Year 5 of a gubernatorial administration in each of the three most closely-related BEA datasets, as well as the higher rates of international industry investment in all years during the second term of a gubernatorial administration, or after a reelection of a governor, as compared to the final year of the first administration. Thus, the following assertions which are central to this study can be made:

1. The reelection of a governor in Year 4 resulted in increased average international industry investment, "FDI in the US- Employment of Nonbank U.S. Affiliates, by State, 1999-2006" (FDI) in Year 5, for the entire population of governors.

2. The reelection of a governor in Year 4 resulted in increased average international industry investment, "FDI in the US- Manufacturing Employment of Majority-Owned Nonbank U.S. Affiliates, 1997-2005" (ME), in Year 5, for the entire population of governors.

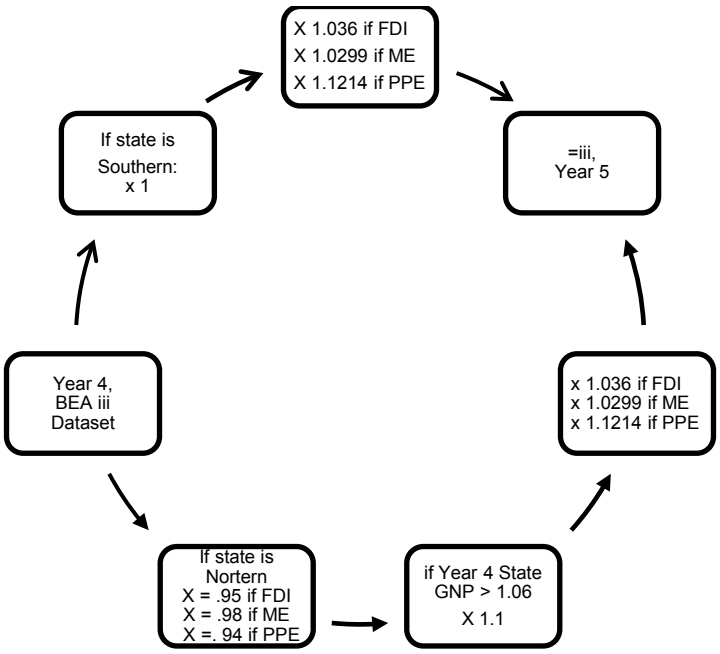
3. The reelection of a governor in Year 4 resulted in increased average international industry investment, "Gross Property, Plant, and Equipment of Nonbank U.S. Affiliates, by State, 1999-2006" (PPE), in Year 5, for the entire population of governors.

Another claim might be also made. Very few of the individual Year 5 outputs were higher than the actual totals, leading to the conclusion that in most of the occasions where the model did not predict the correct total for Year 5, the international industry investment gains were well above the 10% threshold. Of the 17 total "misses", only 5 model outputs predicted higher than the actual totals. Even after taking into account the multiplier, or average increase in international industry investment in Year 5, the models were

more likely to underestimate the actual Year 5 totals. Based on this output, an assertion can be made that *a governor is more likely to far exceed already-elevated expectations of international industry investment in Year 5*. Of the 17 of 89 "misses", 12 actual totals were above the models' predictions, whereas only 5 of the 17 "misses" were below the actual international industry investment.

A final conclusion can be drawn from the information provided from the output. Namely, output from Years 5, 6, and 7 of the BEA datasets, or the international industry investment for every year in a second term of a gubernatorial administration, were each higher than Year 4, or the last year of the first term. From the results provided by the central research questions of this study, the following conceptual model has been developed to measure international industry investment.

Figure 4: Tanoos Model: Determinants of International Industry Investment (iii) for Year 5 of a Gubernatorial Administration



CONCLUDING COMMENTS

The three models constructed for this study have added to literature that has not yet been the focus of any related field, including global economics, management, and political leadership. The predictability of international industry investment and the noted increases in the year after the reelection of a governor provide a rationale that could be utilized in future campaign talking points. Politicians might use this information as campaign content, since the case can be made that the reelection of a governor can provide the impetus for increased international industry investment to their locales.

An important sign is sent by a state electorate upon the reelection of a governor, and only after these points in time is an international executive assured that a current governor will be in office for four additional years. Hughes, Ginnett, & Curphy (2009) found that decision makers are unable to adequately assess leadership potential, and with the added risk of assessing cross-cultural fit, perhaps a MNC's attempts to locate in the US wait until a signoff by the electorate before adequately gauging the quality of statewide leadership.

Limitations of this paper include the lack of first-hand interviews of those international executives who commit capital to various US states. Also, the three Bureau of Economic Analysis datasets chosen were most closely concentrated in international industry investment, but no specific subset was available that measured this category specifically. In addition, the data obtained from US federal government's Bureau of Economic Analysis is secondary data and was not verified independently.

Subsequent research can be developed from these conclusions and implications. For possible future studies, it would behoove a researcher to ascertain if foreign officials make conscious decisions to wait to increase their FDI until after the end of the fourth year in gubernatorial office in order to determine if the incumbent governor wins a reelection campaign. It also might be worthwhile to search for evidence that a governor might be too preoccupied by the demands of an election in Year 4 to actively solicit international industry investment.

Collectivist cultures emphasize the maintenance of harmony and value comfort and trust in business, while also placing importance in partnerships where faith and confidence have been established. Future research might analyze whether the Far East, which is deemed to be a collectivist area, tends to wait and commit their resources until after the reelection of a governor as compared to international industry investment originating from Europe.

Indeed, the Statehouse has been proposed as a basis for variations of international industry investment. Governmental policy advocating continuity over change suggests that leadership, and the tenure of leadership, has become an increasingly important feature when assessing the level of international industry investment across the various United States.

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