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Opening the Black Box of Finance: North-South Investment, Political Risk, and U.S. Military Intervention*

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Abstract

In this article, we examine the foreign policy implications of different types of investment flows. North-South investment is more sensitive to political risks (expropriation, default, civil war) than North-North investment. We argue that North-South investment flows create a constituency within the U.S. financial sector that is likely to support **stabilising intervention** – military intervention aimed at reducing political risk abroad. Examining PAC donations from Fortune 500 financial firms with a cross-sectional Tobit model, we find that U.S. financial firms with greater exposure to the Global South are likely to favour congressional candidates with a record of voting for intervention in developing countries. The study contributes to the literature on economic interdependence and peace, proposes an original method for capturing the revealed preferences of political actors, and enhances our understanding of the sectoral underpinnings of foreign policy.

Key words: capitalist peace; finance; foreign policy preferences; military intervention; U.S. foreign policy

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Introduction

Since the Second World War, much American capital has flowed to the Global South.[1] Despite the prevalence of conflict-inhibiting factors since the end of the Cold War (increasing democratisation and surging globalisation), North-South military intervention remains common.[2] In this article, we explore one domestic actor that is often overlooked as a driver of U.S. intervention: the **financial sector**. The unprecedented increase in North-to-South investment[3] comes with important consequences for foreign policy decision-making: surging North-South investment may have expanded the number of domestic actors in the U.S. (and, potentially, other advanced industrial democracies) likely to support stabilising military intervention in the South.[4] Financial globalisation has increased the salience of foreign policy decisions to investors. With mounting evidence that war generates sector-specific distributive effects (Camyar and Ulupinar, 2015) and that policymakers are especially responsive to business groups (Jacobs and Page, 2005), an assessment of the linkages between financial firms and foreign policy is apposite.

Existing works offer divergent accounts on the preferences of the financial sector. The Hobson-Lenin view posits that capitalists favour activist foreign policies (Galtung, 1971; Hobson, 1938). An alternative perspective contends that financial firms oppose expansionist policies because they fear the disruptive macroeconomic consequences of conflict (Guidolin and La Ferrara, 2010; Kirshner, 2007; McDonald, 2009; Rigobon and Sack, 2005; Schneider and Troeger, 2006). Both approaches envision financial interests shaping foreign policy, but in different directions: the financial activist story sees finance as a motor of war, while the financial pacifist narrative regards finance as a brake on conflict. Both interpretations suffer from over-aggregation – finance is typically viewed as a monolithic actor with homogeneous preferences. Building on the international political economy literature (IPE), we argue that financial firms have heterogeneous preferences vis-à-vis foreign intervention depending on their exposure to political risk. Consistent with the Lucas Paradox (1990), investments in the Global South earn higher returns than investments in the North, but also entail greater exposure to political risk. Because U.S. foreign intervention can potentially reduce

[1] The terms North and South are conventionally used to describe developed and developing countries, respectively (Thompson and Reuveny, 2009). We adopt the World Bank (2015) definition of developing countries which includes all states with a GNI/capita below $12,746.

[2] According to Pickering and Kisangani (2009), the U.S. intervened, on average, 1.7 times per year during the Cold War and 2.3 times per year after 1989.

[3] A recent United Nations Conference on Trade and Development (UNCTAD) report (available at http://unctad.org/en/publicationslibrary/wir2014_en.pdf) notes that FDI flows to developing countries surpassed those to developed countries in 2013.

[4] Military intervention is defined as the movement of regular troops of one country inside another in the context of political disputes (Pickering and Kisangani, 2009). We adopt a broader view of military intervention which includes covert, aggressive actions conducted by one country against another, such as CIA's involvement in the 1973 coup against the Chilean President Allende. A military intervention is an instance of military action by one state (or a coalition of states) that infringes upon the sovereignty of another state (or would-be state in the case of third-party intervention in civil conflicts).

political risks, we anticipate that North-South investors will favour an activist foreign policy. Hence, we argue that North-South investment may expand the scope for U.S. foreign intervention.

If empirically corroborated, our claim challenges the idea that economic integration axiomatically reduces conflict (Mousseau, 2016). "Capitalist peace" scholars view financial integration as a war inhibitor (Gartzke, 2007; Gartzke, Li, and Boehmer, 2001). Much of this literature focuses on a dyadic "capitalist peace," with less attention to processes *within* states.[5] The nature of economic integration – whether investments flow North to North or North to South – might translate into different foreign policy preferences for various domestic players. To ascertain how investment impacts the foreign policy predilections of domestic actors, we examine the sector most sensitive to financial globalisation – finance itself. If integrated capital markets indeed deter war, we should find evidence of anti-war preferences among those with the greatest exposure to disruptions of trade and investment. Finance's foreign policy orientation is thus critical to the validity of "capitalist peace" mechanisms. If the disruption mechanism holds, we should expect finance to be stridently antiwar; if we observe the opposite, caution might be warranted.

This study also contributes to previous discussions on the sectoral underpinnings of foreign policy (Camyar and Ulupinar, 2015; Fordham, 2008; Fordham and McKeown, 2003; Frieden, 1988; Narizny, 2007; Trubowitz, 1999) by opening the "black box" of finance and distinguishing between firms with investment in the developing world (the Global South) and firms that invest domestically or in wealthy countries (the Global North). As we will later show, firms' investment portfolio (whether investment is channeled towards the North or the South) has a significant impact on their preferences vis-à-vis U.S. intervention. Firms with investments in the volatile South can reap considerable benefits by pushing their home countries to take measures, including military intervention, that reduce political risk. Interventions can indeed be costly but they can also protect investment assets, promote regional stability, and remove major obstacles to the profitability of North-South investments.

We look at interventions through the prism of actor objectives. This is a conventional approach across various research programs. For example, civil war scholars argue that third parties intervene in internal conflicts to stabilise the region, maintain/gain geopolitical influence, protect ethnic kin, safeguard economic interests, undermine interstate rivals, divert attention from domestic crises, or protect civilians caught in the maelstrom of violence (Balch-Lindsay, Enterline, and Joyce, 2008; Regan, Frank and Aydin, 2009; Salehyan, 2009). From a broader IR perspective, realists hold that interventions are mainly driven by national security interests while liberals contend that third parties intervene for humanitarian reasons (Choi,

[5] One exception is DiGiuseppe (2015) who finds that greater access to global capital markets weakens the ability of taxpayers to constrain governments from going to war.

2013). The literature analysing public opinion and foreign policy offers similar goal-oriented categorisations of intervention. For instance, while discussing public attitudes vis-à-vis U.S. military adventures, Eichenberg (2005) identifies interventions aimed at addressing a humanitarian crisis, restraining other states, effecting political change, or creating the adequate conditions for the introduction of peacekeepers.

We anticipate that financial firms' preferences are mainly tied to a specific type of intervention objective: *reducing political risk*.[6] Specifically, we argue that North-South investors would be especially supportive of **stabilising interventions**. This category includes interventions aimed at ensuring economic stability (direct actions to protect property or prevent debt default)[7] or intervention aimed at promoting regional stability through peacekeepers or direct involvement in an ongoing conflict.[8] Essentially, although they may produce bouts of instability in the short term, stabilising interventions reduce political risk for investors in the long term.

Reducing political risk raises the value of existing investments while creating opportunities for firms with the expertise to invest in newly stabilised regions. Across several multinational corporation (MNC) surveys, we see evidence that financiers worry about stability. In the 2016 PriceWaterhouseCoopers survey of global CEOs, 74 percent expressed the view that geopolitical uncertainty was a major concern – a greater proportion than those concerned about high taxes (PriceWaterhouseCoopers, 2016). In the Multilateral Investment Guarantee Agency (MIGA) survey of 191 MNCs, investors were concerned that host countries might dishonour financial obligations, expropriate property, or experience conflict (MIGA, 2013: 17). The literature on foreign direct investment, similarly, finds strong evidence that political risk influences investment decisions (Jensen et. al., 2012: 27-82). Insofar as an activist foreign policy is necessary to reduce political risks, we anticipate that North-South investors will be open to intervention, subject to strategic calculations about the viability of alternative strategies and the potential costs of intervention.

To test our claim, we examine the U.S. financial sector's political behaviour.[9] An important way firms hedge against political risk is by establishing relationships with political actors (MIGA, 2013: 37). By examining campaign donation patterns of financial firms (and controlling for other donor motivations), we can obtain important information about the revealed preferences of North-South investors. Using campaign donation data from the 107th U.S. Congress, we hypothesise that financial sector donors with interests in

[6] Others (Kisangani and Pickering, 2017; Maurer, 2013) define this as intervention aimed at maintaining the status quo.

[7] Examples include the 1954 coup in Guatemala, the 1973 coup against Salvador Allende in Chile (which had defaulted on foreign debt), tanker reflagging during the Iran-Iraq war, and efforts to destabilise the Ortega government in Nicaragua (which had expropriated U.S. assets).

[8] Examples include: the peacekeeping missions in Lebanon (1982), Somalia (1993), Bosnia (1994), and Haiti (2004); third-party intervention in the Gulf War (1991); or, the Afghanistan civil war (2001).

[9] Our analysis is most relevant to democracies with power projection capabilities, such as the United States, France, and the UK.

the Global South will be more likely to donate to members of Congress favoring stabilising intervention in developing countries than to members opposing military intervention in such regions. South-oriented finance expects to reap benefits through stabilising intervention. Such intervention can reduce political risk by addressing geopolitical instability and deterring expropriation or debt default. The costs of intervention in the Global South are often smaller than in the North because opponents in developing countries are weaker and lack the power projection capability to retaliate against the home country of financial firms.[10] Further, as we discuss below, Global South-oriented finance is uniquely able to evade the costs of conflict. The evidence we marshal in this study provides strong support for our contention: firms that invest in the Global South are more likely to favour stabilising interventions.

The remainder of the article is organised as follows. First, we examine the scholarship that addresses the nexus between finance and conflict. Subsequently, we discuss the foreign policy preferences of North-South investors. Thereafter, we test our main proposition that Global South-oriented firms are likely to donate to candidates that favour stabilising intervention in the Global South, employing a cross-sectional Tobit regression of campaign donations from different financial firms to members of Congress in the 2002 elections. We conclude by outlining the theoretical and practical implications of our findings.

Financial Pacifism vs. Financial Activism

Two dominant perspectives have emerged on how finance approaches foreign intervention. The first contends that finance condones aggression because it opens new markets, protects investments abroad, and safeguards economic interests. The second posits that financial firms fear trade disruptions or adverse macroeconomic consequences, and thus tend to be more pacifist.

The first perspective encompasses scholars who advance a rapacious view of capitalism. The Hobson-Lenin narrative holds that late-stage capitalist economies suffer decreasing returns at home (Hobson, 1938). To reverse declining profits, states turn to military intervention abroad, generating new opportunities for profitable exploitation (Galtung, 1971). Imperial rivalries on the periphery, in turn, often drive great power conflict in the core (Wallerstein, 1984). [11] Other works stress investor protection as a motivation for foreign intervention. Maurer (2013), for instance, argues that American investors in risky areas had considerable

[10] We recognise that certain developing countries, like China or Pakistan, possess considerable military power and/or nuclear weapons (indeed, developing states may seek nuclear weapons because they see themselves as likely targets), complicating the calculus of intervention. While these considerations preclude full-scale war, lower level forms of intervention remain viable (e.g., drone strikes in Pakistan).

[11] If true, this mechanism would urge some caution about "capitalist peace:" financial integration might prevent war between dyads with shared investment ties, but could also push influential domestic groups to embrace aggressive policies towards third parties.

historical success in lobbying Washington to intervene against states that expropriated their property or defaulted on debts. Subsequent quantitative analysis of voting patterns in the U.S. Senate found similar evidence of Maurer's "Empire Trap" hypothesis (Duran and Bucheli, 2017). However, institutional changes have weakened the investor protection motive, particularly since the 1980s: investors now have access to public and private compensation mechanisms; greater executive discretion limits the ability of aggrieved firms to lobby Congress; and, bilateral investment treaties offer legal protection (as does the evolution of international courts). Frieden (1989) also discusses the investor protection motive behind foreign interventions. His account of declining intervention since the 1890s emphasises the shift away from investment in raw materials. Since raw material investment is location-specific, it is vulnerable to expropriation. At the same time, because access to resource-rich territory is all that a firm requires, it is easier for military intervention to enable the resumption of production. Nevertheless, this is less true for intangible investments, such as loans or FDI aimed at exploiting home-country advantages. Thus, the investor protection story is able to explain both why intervention was common in the 19th and early 20th century, and why it is rarer today.

McDonald (2009), Narizny (2007), and Trubowitz (1999) argue that trade preferences can also explain business group predilections vis-à-vis military intervention. Economic sectors benefit differently from trade and investment: import-competing firms lose from exposure to global markets while export-oriented firms gain. Military intervention can substantially impact global flows. In McDonald's formulation, war decreases trade and investment between two countries, and encourages the beneficiaries of these activities to lobby against confrontation. According to this account, many protectionist firms support intervention because mercantilist barriers enable them to benefit from conflict. Narizny (2007) is more circumspect in this regard: while outward-oriented interests are sometimes pacific (e.g., British coal vis-à-vis a Europe-wide conflagration), others are bellicist (e.g., the American South vis-à-vis Europe in the 1930s). This variation in sectoral preferences occurs because economic relations with different regions of the world entail different strategies and different economic benefits. While few works examine the fiscal impact of war on the financial sector quantitatively, recent studies suggest that war may benefit sectors of the economy beyond those with a direct fiscal stake, such as the military-industrial complex. Camyar and Ulupinar (2015), for instance, find that while conflict harms firms in the short-run, it increases capital productivity in the long-run. Other work has found that historical assessments of the international environment by legislators run along sectoral lines, with legislators tied to import-competing industries more likely to highlight risks (Flynn and Fordham, 2016).

Kirshner (2007) contrasts starkly with the rapacious capitalist perspective. In his view, the fear of

macroeconomic instability leads finance to embrace pacifism. Wars are typically funded through higher taxes, inflation, and debt (or a combination thereof). All of these activities impose particularly high costs on the financial sector (Kirshner, 2007: 9-23). As a result, Kirschner argues, financial firms often lobby for pacific foreign policies, even in the face of severe geopolitical threats. Adding to the debate, Brooks (2013) goes even further. Noting that there have been no direct interventions to protect private property since 1975, he argues that business groups no longer lobby for military intervention. In an era of extensive globalisation, FDI presents firms with a viable alternative to conquest.

The above arguments establish plausible reasons that finance cares about foreign policy. Military intervention creates new investment opportunities and ensures the protection of existing assets. On the flipside, financial firms may fear macroeconomic instability and the disruption of trade or investment that follow conflict. Additionally, firms will not lobby governments if they believe those governments already share their interests, or if non-military mechanisms offer alternative means to protect assets. To our knowledge, the combined effect of these non-mutually-exclusive motivations has not been extensively explored. We suggest that firms, like any other business, seek to maximise risk-adjusted profits (Guidolin and La Ferrara, 2010; Schneider and Troeger, 2006). That means they care about opportunities for profit and macroeconomic instability, but also about the political risk to their investments. Thus, the risk of geopolitical instability, appropriation, and physical destruction is very much part of the strategic calculus for firms that invest abroad. Current works offer little insight into how these and other drivers are likely to vary *across types of intervention* and *across financial firms*. In short, there is a need for deeper analysis of financial sector's foreign policy preferences.

The Foreign Policy Preferences of North-South Investors

The financial sector consists of diverse actors (banking, insurance, securities firms) with multifarious goals. Two key characteristics separate North-South investors from other financial firms: (a) a higher sensitivity to political risk; and, (b) a greater ability to avoid paying for intervention. Given these differences, we expect North-South investors to be particularly supportive of stabilising interventions in the Global South. We elaborate this argument below.

Political Risk and North-South Investment

Financial firms engage with the Global South in multiple ways. Some own controlling stakes in companies that invest in the developing world. Other firms are exposed to the Global South through portfolio investment. They may own non-controlling stakes in MNCs that operate in the Global South, invest in firms abroad, or lend to foreign governments and firms. Exposure varies – some companies are exposed to the Global South broadly, others to a specific region or country. For example, the now-defunct FleetBoston Financial Corporation owned $6 billion in Argentine debt.

The potential upside of North-South investment is significant. Returns on investment are typically higher in developing countries. Because capital is relatively scarce in the Global South, many profitable investment opportunities are unexploited. Despite an array of business opportunities, most global foreign investment stocks are North-North. Only recently have North-South flows grown larger (UNCTAD, 2015). The most influential explanation for this paradox emphasises political risk (Lucas, 1990). Investment in the South is highly sensitive to disruption because Southern governments more frequently enact unfavourable policies towards investors or experience adverse events, such as conflict, that harm investment. Although all investors are exposed to political risk, the North-South ones are particularly vulnerable. Developing countries often fail to protect investors because they lack the legal traditions and resources to enforce property rights. Levels of openness are lower in the Global South, limiting the options for redress of aggrieved investors (Jensen, 2008). While authoritarian regimes protect the property of some actors, they favour those with ties to regime insiders. Lacking fiscal capacity, developing countries often face intense budgetary pressures pushing them toward default or expropriation. Many conflict-inhibiting factors, such as economic development and democratisation, are also weaker in the developing world.

North-South investors worry openly about political risk. In the Multilateral Investment Guarantee Agency (MIGA) survey of 191 MNCs, political risk was the most commonly listed constraint on FDI flows in all but one year (MIGA, 2009-2013). Surveyed firms cited war (7%), terrorism (13%), civil disturbance (33%), host country decisions regarding non-honouring financial obligations (31%), or expropriation (24%) as political risks of concern in developing countries (MIGA, 2013: 17). North-South investors care about both direct threats to their property (expropriation or default) and indirect geopolitical risks (e.g., war or terrorism). Reductions in political risk also open up new investment opportunities. However, because successful entry into a new market requires knowledge about local conditions and practices, existing North-South investors are more likely to have the expertise necessary to exploit such opportunities. Most firms that 'go global' are, at best, regional firms because expertise is hard to develop (Rugman, 2005).

There are multiple ways to reduce political risk in developing countries. International institutions like the International Monetary Fund (IMF) or the World Bank's International Center for the Settlement of International Disputes (ICSID), increased democratisation, and growing dependence on capital inflows have all enhanced the global protection of property rights. Yet, it is not entirely clear that the emerging global property rights regime has eliminated political risks. Political risk insurance schemes like the Overseas Private Investment Corporation (OPIC) might protect firms on the one hand, while encouraging investment in riskier locales on the other.

Although outright expropriation is less common, political risk remains high in the Global South. Governments in the South may still default on debt or expropriate property without adequate compensation. MNCs often undervalue their foreign holdings for tax purposes, resulting in disputes over compensation following expropriation. Cash-strapped governments often violate agreements. When Southern governments face domestic crises, they may choose expropriation and default even though they risk losing external confidence or being shut out of global capital markets. Incensed voters or 'rebels at the gates' can be more immediate concerns for leaders than the risk of a credit downgrade. Further, the conditions that lead countries to take desperate actions in the first place might make them unlikely to compensate adversely impacted firms.

Although the loss of access to global capital markets is costly, countries can recover from such actions (Tomz, 2007). A quick comparison of Malaysia and Indonesia during the 1997 East Asian crisis is illustrative. Faced with a severe crisis, Malaysia's Prime Minister Mahathir Mohamad emphasised domestic stability and opted for capital controls while the Indonesian President Suharto accepted IMF aid and conditionality. Malaysia recovered from the crisis, Mahathir's government retained office, and the implications for Malaysian growth were minimal (Kaplan and Rodrik, 2001). By contrast, the crisis in Indonesia deepened and Suharto was overthrown. Indeed, losing access to global capital markets post-default may actually serve the policy goals of protectionist regimes.

We acknowledge that conflicts over expropriation or default can be resolved peacefully. Lenders may accept steep 'haircuts' and forgive debt. As Maurer (2013) argues, bilateral investment treaties, international courts, and other mechanisms may protect property rights globally today without the use of force. Nonetheless, enforcement by international institutions is limited. The changing nature of global finance, with increasing numbers of actors and growing private-private flows (and corresponding collective action problems), may reduce the ability of third party organisations to broker mutually agreeable terms to lenders and borrowers (Copelovitch, 2010). Further, current institutional mechanisms may depend on American hegemony and implicit threats of force. Consider the patterns of IMF conditionality, one of the most impor-

tant tools for ensuring that lenders are repaid. On average, countries indebted to G-5 banks receive harsher conditions than those owing money to other actors (Copelovitch, 2010). If international institutions are largely acting as repossession agents for American (or G-5) investors, declining hegemony may undermine the global property rights regime.

We are not arguing that North-South investors favour military intervention willy-nilly. Indeed, we anticipate that most firms would support multilateral processes for mitigating political risk, as these are less costly than military ones. However, should peaceful efforts fail, we anticipate that North-South would prefer governments willing to employ more coercive means. When the fear of losing access to capital markets is not a powerful disincentive against repossession attempts, securing global property rights requires a more direct enforcement mechanism, such as stabilising intervention. Do firms really lobby governments to intervene on their behalf? The release of declassified CIA documents in the 1990s supports this logic. In 1953, an Anglo-American coup deposed the Iranian Prime Minister, Mohammad Mosaddegh, after he nationalised the Anglo-Iranian Oil Company (Maurer, 2013: 301-310). In 1954, the CIA masterminded a coup against Guatemalan President Jacobo Àrbenz whose government had expropriated property of the United Fruit Company (a U.S. firm with substantial holdings across Central America). In 1973, a U.S.-condoned coup toppled the Chilean President Salvador Allende whose regime engaged in the nationalisation of U.S. investments in the copper industry and defaulted on foreign debt (Nixon Tapes, 2016).

Although we lack declassified documents regarding more recent interventions, it is clear that: a) the United States is willing to intervene on behalf of investor interests, even in the case of small ones; and, b) investors know that it pays to have friends in Washington. For instance, when Oscar Cerna, a U.S. citizen who owned a factory in Honduras, alleged indirect expropriation of his cement factory, he appealed to the highest channels in Washington where his concerns received a sympathetic hearing (U.S. Congress, 2011). Given the eventual U.S. role in brokering the outcome of the 2009 coup against Manuel Zelaya, Cerna's strategy made a lot of sense (see Clinton, 2014: 638-646). Indeed, some of the most prominent financial backers of a broadly interventionist foreign policy agenda include luminaries of the financial world. For instance, before becoming National Security Advisor, John Bolton ran a SuperPAC promoting military intervention. In 2016, the largest campaign contributor was Robert Mercer, co-founder of the hedge fund Renaissance Technologies, while overall 77.2 percent of the SuperPAC's funds came from finance (Center For Responsive Politics, 2018). Paul Singer, the CEO of Elliott Management and a prominent funder of neo-conservative causes like the Foundation for the Defence of Democracies (Clifton, 2015), is another illustrative example of the plausible nexus between intervention and finance. Elliott purchased distressed debt at deeply discounted

prices and then insisted on full repayment. The firm once famously repossessed an Argentine warship and was ultimately repaid in full by the Argentine government. Plenty of investors see the advantages of promoting a foreign policy strategy that takes an interventionist approach to the Global South.

Stabilising intervention in the Global South protects property rights and provides multiple benefits to North-South investors. Intervention can replace hostile regimes with friendlier ones, as in Iran, Guatemala, and Chile. Intervention may also deter other governments contemplating nationalisation measures, enhancing the negotiating position of MNCs in disputes with host countries. Faced with the prospect of foreign intervention and removal from office, regimes might reconsider their expropriation agendas — costly austerity might be preferable to foreign intervention or an externally-sponsored coup. Sanctions may be an alternative to stabilising intervention, but are generally ineffective, encourage *more* expropriation (Peksen, 2016), and are unpopular among North-South investors. While sanctions impose costs on property rights violators, they do not directly prevent expropriation or default (Pape, 1997). Moreover, sanctions are at cross-purposes with investors and lenders who want to do business with the targeted country.

Another type of political risk that disproportionately threatens North-South investment is war. While interstate wars are less common today, internal conflicts remain frequent occurrences and predominantly occur in the South. Internal conflicts are longer-lasting, harder to resolve, more prone to recidivism, and more likely to end in stalemates than interstate wars (Brandt et al., 2008). These type of conflicts often destroy property (see the ongoing strife in Syria and Iraq), place inordinate fiscal burdens on combatants, and disrupt economic activities. These are undesirable outcomes for North-South investors, prompting many to favour aggressive efforts to resolve conflicts.[12] In some civil wars, third party intervention might be the preferred route to stability. This might involve international peacekeeping operations which keep both sides at bay and provide conflict-inhibiting information about conflict parties' capabilities and willingness to fight. In other cases, this might involve biased intervention aimed at ending the war as soon as possible. While there is some evidence that third party interventions generally prolong civil conflicts (Regan, 2002) or institutionalise military stalemates (Fortna, 2008), biased interventions can hasten victory for the side preferred by the third party entrant (Balch-Lindsay, Enterline, and Joyce, 2008), particularly if the third party is a great power.

Overall, geopolitical instability is toxic to North-South investors. Peacekeeping or, alternatively, military intervention can restore peace either by separating combatants or by intervening on one side of the dispute. Intervention is beneficial both to firms with interests in war-torn countries and to other firms within the

[12]North-South investors would obviously prefer peaceful solutions to civil wars in the Global South. However, problems of uncertainty, commitment, and issue indivisibility often make peace elusive (Fearon, 1995).

region that fear conflict contagion. [13] Continued post-conflict troop presence may provide additional benefits. Biglaiser and DeRouen (2007) find evidence that American FDI flows follow American troop deployments. Although few firms desire to invest in an active combat zone, troops are often followed by risk insurance through the Overseas Private Investment Corporation (OPIC). In addition, American firms may be favoured in bids for contracts to provide services for military bases and postwar reconstruction. With knowledge of potential new markets often concentrated among a few firms, collective action among North-South firms may also be easier to resolve.[14]

Domestically-oriented financial firms and North-North investors do not have the same incentives as North-South investors – they lack the expertise to benefit from the opening of new markets and invest in markets where political risk is of little concern. Indeed, a boom in North-South investment triggered by increased geopolitical stability might even draw capital away from domestic activities (Danzman et al., 2017). For instance, while the early 1990s saw a boom in investment in emerging markets, the 1997 East Asian Crisis triggered a move to safe harbours like the U.S. Flush with capital from East Asian savers, capital poured into domestic American activities like real estate. Firms that are capital competitors with the Global South are highly unlikely to lobby in favour of intervention in the Global South, and may even favour anti-interventionist candidates. In sum, we believe that, relative to other financial firms, North-South investors prefer home-country governments that use stabilising intervention to protect them against expropriation, default, or destruction should the global property rights regime fall short.

The Costs of Intervention

Foreign interventions can be costly for investors. Intervention is destructive and can prompt the seizure of physical goods, particularly if a conflict turns badly. Intervention can destabilise the target country and, possibly, an entire region. Intervention can also be macroeconomically disruptive for the home country. Intervention (and subsequent reconstruction or occupation) is typically funded with inflation, taxes, or debt – policies that financial firms oppose (Kirshner, 2007). Conflict is also alienating: military intervention risks the enmity of other states that may be prospective or active clients of financial companies. Indeed, because intervention is costly, we anticipate that few financial firms will favour intervention as a first resort to threats.

Nevertheless, intervention in the Global South is typically less expensive than intervention in the Global North. Unlike North-North interventions, North-South interventions are less injurious to macroeconomic

[13] Maurer (2013: 59) notes that bond markets responded favorably to U.S. intervention in the Dominican Republic in 1905.

[14] Kirshner (2007) claims that financial firms lobby against war because they fear its adverse macroeconomic effects. Yet, the constituency in favour of macroeconomic stability is surely far more diffuse than that which might benefit from any particular interventionist move.

stability due to their asymmetric nature. States in the Global South tend to be militarily weak, lack the reach capabilities to retaliate, and can be confronted without total warfare. The American historical record is instructive in this regard: even in the case of unsuccessful large-scale interventions, the macroeconomic impact was marginal. American war spending on the Vietnam debacle peaked at 2.3% of GDP while Iraq occupation (2003-2011) costs peaked at 1% of GDP – a far cry from WWII whose costs reached 35.8% of GDP (Dagget, 2010). This discrepancy would be even larger if we look at instances of stabilising intervention, such as the clandestine campaigns in Guatemala, Iran and Chile, at peacekeeping missions, such as that in Somalia or Haiti, or at shorter military interventions like the first Gulf War. The message here is clear: stabilising interventions in the South can often be sustained by great powers with minimal macroeconomic consequences at home.

North-South investors are also well-placed to evade the costs of intervention. North-South investors hold more diverse investment portfolios than domestically-oriented finance, limiting the impact of macroeconomic instability induced by the conflict (Cosset and Suret, 1995). While this is also true for North-North investors, the North is more economically interdependent than the South (Thompson and Reuveny, 2009). Macroeconomic instability in the United States is most likely to impact the EU and Japan, reducing the utility of diversification. Common tactics for evading the fiscal cost of war, such as transfer pricing, are less viable in the North. Further, developing countries rarely occupy central positions in alliance networks, which limits possible blowback from intervention. While some developing countries are backed by great powers, such relationships are often tenuous. Egypt, for instance, had few qualms about switching sides in the Cold War following the Yom Kippur War (1973). Hence, the type of stabilising intervention favoured by North-South investors can often be conducted with limited disruption. North-North firms may be slightly better able than purely domestic ones to evade the costs of paying for intervention due to their greater diversification and access to strategies like transfer pricing. Yet, insofar as foreign intervention incurs fiscal costs, few are better equipped to evade those costs than North-South investors.

To summarise, North-South investors are particularly exposed to political risks, compared to North-North or purely domestic investment. Moreover, North-South firms are also well-equipped to evade the costs of military intervention. Hence, we hypothesise that South-oriented firms will tend to support stabilising intervention in the Global South, relative to other financial actors. We believe that financial firms, like most economic actors, will use all available tools to attempt to promote the adoption of favourable policies by relevant policymakers. While we anticipate that firms use a variety of means to influence policy, campaign donations have the advantage of being highly visible. Accordingly, our expectation is that:

H: **Financial firms with greater exposure to the Global South will tend to give more donations to congressional candidates who are more interventionist and less to candidates who are less interventionist.**

Following Berry et al.'s (2012) recommendation, we also derive a corollary to our main hypothesis which captures how the effect of interventionism varies based on levels of firm exposure to the Global South.

$H_{corollary}$: **The effect of interventionism on donations will be negative for low levels of exposure to the Global South, negligible for medium levels of exposure, and positive for high levels of exposure to the Global South.**

Research Design and Data

Dependent Variable

We expect that South-oriented firms are more likely than North-oriented or domestic firms to support U.S. congressional candidates who favour stabilising intervention in the Global South. To test this conjecture, we constructed two campaign donation datasets, one of House Representative-PAC dyads (440 House Representatives and 66 financial firms with PACs), and one of Senator-PAC dyads (100 Senators and 66 financial firms with PACs).[15] Our dependent variable is Political Action Committee (PAC) contributions (*donations*) to House or Senate members by Fortune 500 financial firms in the 107th Congress (January 3rd, 2001 – January 3rd, 2003), drawn from the Federal Election Commission (FEC, 2018).[16] The 107th Congress was selected because it featured serious debates about the course of American grand strategy in the wake of the 9/11 terrorist attacks. In line with earlier work (Levitt, 1995), we recognise that campaign donations may reflect both genuine support and strategic logic. Firms may donate to a legislator they dislike in exchange for access, particularly if that legislator is a congressional leader or sits on a congressional committee. [17] By controlling for these other motivations, campaign donations can effectively gauge the *revealed preferences* of donors toward foreign policy (Poole, Romer, and Rosenthal, 1987). If our conjecture is correct, financial

[15] The list of included firms and legislators is provided in the supplementary materials.

[16] Financial sector firms were identified based on the Standard Industrial Classification (SIC) codes.

[17] Firms might also donate to a legislator they dislike if that candidate faces an even worse challenger. Unfortunately, comprehensive data on the foreign policy views of challengers does not exist. Moreover, it is unclear *who* will challenge each legislator for most of their term in office.

firms with greater exposure to the South will channel more campaign contributions to legislators that favour stabilising intervention in the South, as opposed to less interventionist legislators.

Using campaign donation data to capture the revealed preferences of donors runs up against an important problem in statistics known as censorship. Data is censored where some values are unobserved due to the nature of the data. For instance, campaign donations cannot be negative and in the 107th Congress were capped at $5000. A conservative donor might give $0 to the left-leaning Bernie Sanders and $0 to the more moderate Joe Lieberman, even though they preferred Lieberman over Sanders. Censored data might approximate a normal distribution over the observable range of outcomes but will be clustered at $0 and $5000. Tobit regressions were designed to address issues of censorship (Sigelman and Zeng, 1999). Rather than assuming that all data points are drawn from the same normal distribution, the Tobit model accounts for the fact that data clustering at the cut-points contain important unobserved information.

Independent Variable

To test our hypothesis, we need to capture both a financial firm's exposure to the Global South *and* a legislator's support for intervention in the Global South. Our independent variable is an interaction term composed of the product of financial donor exposure to the South and a legislator's support for intervention in the South (*North-South exposure*interventionism*). Therefore, we need measures of both *North-South exposure* and *interventionism*. Unfortunately, company reports do not list detailed information about regional holdings but typically lump developed and developing countries together.[18] As a consequence, we employed an indirect metric to gauge *North-South exposure* – the relationship between a firm's stock price and the economic fortunes of the Global South. Using 2001-02 stock price data from the Center for Research in Security Prices (CRSP, 2016), we ran ARIMA regressions of the stock prices of all Fortune 500 financial firms using the Templeton Emerging Markets mutual fund (the oldest and largest emerging market fund in 2002), the S&P 500 index, and a weighted index of mutual funds specialising in Europe and Japan as regressors.[19] Our unit of analysis was the business day (there were 500 business days for our temporal frame, 2001-02, on the New York Stock Exchange). Since the Templeton fund consists entirely of investments in the developing world, its performance should synchronise with the South more generally. Because it is possible that North-North firms are distinct from both North-South and domestically oriented firms, we also measured the *North-North exposure* of a firm by including a weighted index of Blackrock's Europe Fund and the

[18]In addition, some exposure can sometimes tell us more than the location of investments. For instance, if one built a port in the United States, one would still be exposed to external economic fluctuations.

[19]In the Supplementary Materials, we offer details on the ARIMA regressions.

Aberdeen Japan Fund (CRSP, 2018). The relative weight of each fund was derived by looking at the relative contribution of Europe and Japan to U.S. overseas income in 2002 (BEA, 2018). Finally, by controlling for the overall movements of the S&P 500 index, we also accounted for general shifts in the market. Based on separate Dickey-Fuller and Box-Ljung tests for each firm, an AR(1) component was added to address autocorrelation. All results were then mean-centered.

The results of the ARIMA model exhibited good face value. The majority of firms clustered around the mean, lacking statistically significant z-statistics.[20] Insurance companies and firms with real-estate ties tended to have lower scores while investment banks displayed higher scores; commercial banks lay in the middle. Some examples are instructive. FleetBoston had the highest North-South z-statistic at 1.87, suggesting high exposure to the South – an expected result given the firm's exposure to the 1999-2002 Argentinian financial crisis (Hechinger, 2002). On the other hand, FleetBoston's exposure to the Global North was lower, as implied by the North-North z-statistic of 0.65. First American Corporation, a firm involved in insurance and real estate, is a good example of a domestically oriented firm for which international investment booms draw away scarce capital. First American had the lowest North-South z-statistic at -3.24, implying that the firm does well when the Global South performs poorly, and a North-North z-statistic of -0.18. Finally, JP Morgan Chase, a large commercial bank, is a good example of a firm with little exposure to the Global South but high exposure to the North. JP Morgan's North-South z-statistic was -.02, while its North-North z-statistic was 2.54.[21]

Next, we measured *interventionism*, a legislator's support for stabilising intervention in the South. To operationalise the concept, we selected five key House votes and six key Senate votes described in the Congressional Quarterly (CQ, 2015). We picked foreign policy votes that were high-profile, contentious, involved interventions in the South, and took place between 1994 and 2002. Some of the votes were aimed at supporting an intervention, in which case a 'yes' vote was interpreted as interventionist. In other cases, legislation aimed to curtail an ongoing intervention; hence, a 'no' vote was considered interventionist. We focused on cases that fit our definition of stabilising intervention – intervention against regimes with a record of expropriating American property/defaulting on American debt or intervention aimed at promoting regional stability. [22] The cases included are listed in Table 1. The percentage of times a legislator member

[20]Given our objective – the development of a measure of exposure to the South – the lack of statistical significance in many cases is not problematic.

[21]These ARIMA results are included in the Supplementary Materials.

[22]We note that our measure is not simply capturing partisanship or "hawkishness" more broadly. For instance, in the 1990s there were many Republicans, such as Ron Paul, who opposed "nation-building," while some Democrats, like Robert Wexler, favoured a more active role in the Global South. Our interventionists broadly included a mix of hardliners and internationalists in the parlance of foreign party orientation.

Table 1: Congressional votes (1994-2002) used in the construction of the interventionism index

Intervention vote	Year of vote
Withdraw U.S. Troops from Haiti	1994
Bosnia Troop Deployment Prohibition	1995
Kosovo Authorisation	1999
Afghanistan Freedom Support Act	2002
Iraq Authorisation	2002
Support for Plan Colombia	2002

voted for the interventionist position became their score on our interventionism index.[23]

With a measure of firm exposure to the South (*North-South exposure*) and legislator support for intervention in the South (*interventionism*), we interacted the terms to form our main independent variable (*North-South exposure*interventionism*). The interaction term should be high for matched pairs (firms exposed to the South with interventionist representatives and low-exposure firms with non-interventionist representatives) and low for mismatched pairs. For instance, we might expect FleetBoston to favour an interventionist candidate like John Murtha, while a more parochial firm like First American Corporation would disfavour him.

Control Variables

In our analysis, we controlled for several factors that might influence PAC donations to a particular candidate. Financial firms might broadly prefer conservative legislators. Accordingly, we included *ideology*, a variable containing the NOMINATE score of each legislator, ranging from 0 (very liberal) to 1 (very conservative).[24] We also examined each legislator's voting record on salient issues for financial firms – financial regulation, taxation, and bailouts. This variable (*pro-finance*) included the percentage of time legislators voted for a 'pro-finance' position – lax financial regulation, lower capital taxation, support for bailouts – in previous sessions.[25] We controlled for *party* as well (Republicans = 1; Democrats = 0). Additionally, members of the congressional leadership (the speaker, majority leader, minority leader, and whips) are more influential than others. Firms may donate money to congressional leaders in order to gain access, regardless of foreign policy preferences. We capture congressional leaders with a *leadership* dummy variable, using information from Heitshusen (2008). Because powerful committees can stop bills from reaching the floor, we also anticipate

[23] All measures were mean-centered. More discussion on the selected votes can be found in the Supplementary Materials.
[24] NOMINATE score data were obtained from Poole and Rosenthal (2007).
[25] Voting data were obtained from CQ Press (2018). We provide details about the construction of this variable in the Supplementary Materials.

larger donations to legislators on committees pertinent to finance (e.g. the House Committee on Financial Services and the Senate Banking, Housing, and Urban Affairs Committee). *Committee* was thus included as a dummy variable equaling 1 for members and 0 for non-members.[26] Furthermore, junior legislators may differ systematically in their ability to attract donors *and* in their likelihood of voting for interventionism (most of a junior legislator's votes would have been post-9/11). As such, we controlled for number of years in office. Finally, Senators up for reelection are likely to raise more money than those with many years left in their term. Therefore, in our Senate model we included a dummy (*election*) for whether a Senator faced re-election in 2002. Table 2 presents descriptive statistics.

Table 2: Descriptive statistics for the Senate and the House

Senate	Min.	Mean	Max	St. dev.
donations	0	358.511	5000	1256.35
North-South exposure	-3.24	-0.09	1.87	0.99
North-North exposure	-3.55	0.21	3.69	1.09
interventionism	-0.49	0	0.34	0.20
ideology	-0.58	0.03	0.63	0.35
party (Republican=1)	0	0.50	1	0.50
leadership	0	0.04	1	0.19
committee	0	0.41	1	0.49
pro-finance	-0.56	0	0.43	0.447
seniority	1	12.33	46	10.30
elections 2002	0	0.29	1	0.45
House				
donations	0	49.00	5000	326.84
North-South exposure	-3.24	-0.09	1.87	0.99
North-North exposure	-3.55	0.21	3.69	1.09
interventionism	-0.64	0	0.35	0.21
ideology	-0.71	0.07	1.01	0.47
party (Republican=1)	0	0.51	1	0.50
leadership	0	0.01	1	0.10
committee	0	0.15	1	0.36
pro-finance	-0.61	0	0.38	0.33
seniority	0	8.69	37	6.38

Empirical Evidence

The results of the cross-sectional Tobit model support our hypothesis that financial firms with greater exposure to the South are more likely to donate to legislators supporting intervention in the South (Tables 3 and 4). The independent variable, the interaction term *exposure*interventionism*, was statistically significant

[26]Committee data came from Nelson (1993-1994), and Stewart and Woon (2011).

and positive across the House and the Senate.[27] Based on the empirical findings, we can affirm with some confidence that, where a legislator was more interventionist towards the South and a prospective donor was more exposed to the South, donations were typically higher. Interestingly, *interventionism* was statistically insignificant in the House, while positive in the Senate. This is an important finding in itself as it casts doubt on arguments that financial firms uniformly oppose intervention in the developing world. Our results indicate that finance's foreign policy preferences are quite heterogeneous and largely depend on existing, or prospective, ties with the Global South. The higher a firm's financial exposure to the South, the greater the financiers' favourability toward stabilising interventions. Firms with high *North-North exposure* did not perform the same way – there was no interactive effect between North-North exposure and *interventionism* in either the House or the Senate. Across all models, *leadership* and *committee* membership were positive, supporting the idea that access is an important motivation for donations. A *pro-finance* voting record was beneficial in the House. Senators running for reelection in 2002 received significantly more donations than others. Controlling for other factors, Democrats also received more donations than Republicans.

Table 3: South-oriented finance and Senate Donations

	Model 1	Model 2	Model 3
North-South exposure	500.840***(105.469)	500.846***(105.454)	474.151***(105.966)
North-North exposure	412.445***(94.938)	403.604***(95.604)	412.402***(94.851)
interventionism	3003.127***(566.990)	2886.009***(586.884)	3012.325***(566.948)
North-South exposure × interv.			1050.584**(502.576)
North-North exposure × interv.		343.673(453.891)	
ideology	1793.306*(958.595)	1785.050*(958.504)	1768.023*(957.688)
party (Republican=1)	-1388.579**(584.334)	-1387.052**(584.281)	-1382.072**(583.854)
leadership	2230.993***(498.726)	2230.992***(498.624)	2223.686***(498.301)
committee	1774.317***(217.669)	1775.418***(217.681)	1775.096***(217.560)
pro-finance	1722.587(518.560)	1728.892(518.698)	1737.922(518.639)
seniority	-84.872***(12.649)	-84.867***(12.650)	-84.610***(12.640)
elections 2002	4471.136***(247.803)	4470.865***(247.785)	4468.412***(247.619)
Constant	-6722.444***(409.850)	-6720.004***(409.800)	-6724.841***(409.782)
sigma_e	4921.938***(166.395)	4921.436***(166.377)	4970.302***(166.223)
N	6500	6500	6500
AIC	16799.90	16801.33	16797.52
Standard errors in parentheses; ***p<.001; **p<.01; *p<.05			

We also report the marginal effects for each interaction effect (Figure 1). This approach allows us to ascertain the impact of *interventionism* on donations across different levels of *North-South exposure* (Panels 1a and 1b). House data exhibited the most striking evidence of an interaction. For firms with the lowest

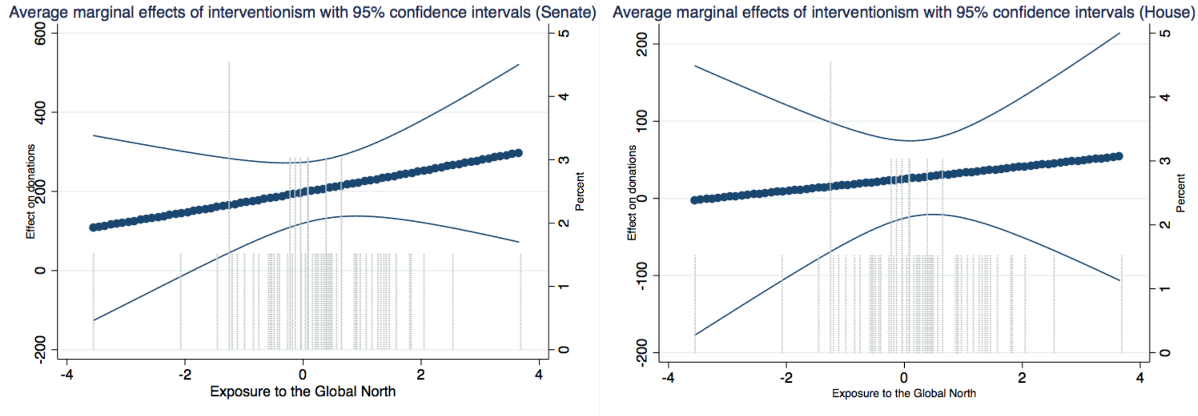
[27]Statistical significance for an interaction term does not represent an average effect (Brambor et al., 2006). For evidence of average effects, observing the marginal effects (or expected value of the dependent variable) of some variable X on some variable Y, for various levels of an interacting variable Z is more useful.

Table 4: South-oriented finance and House Donations

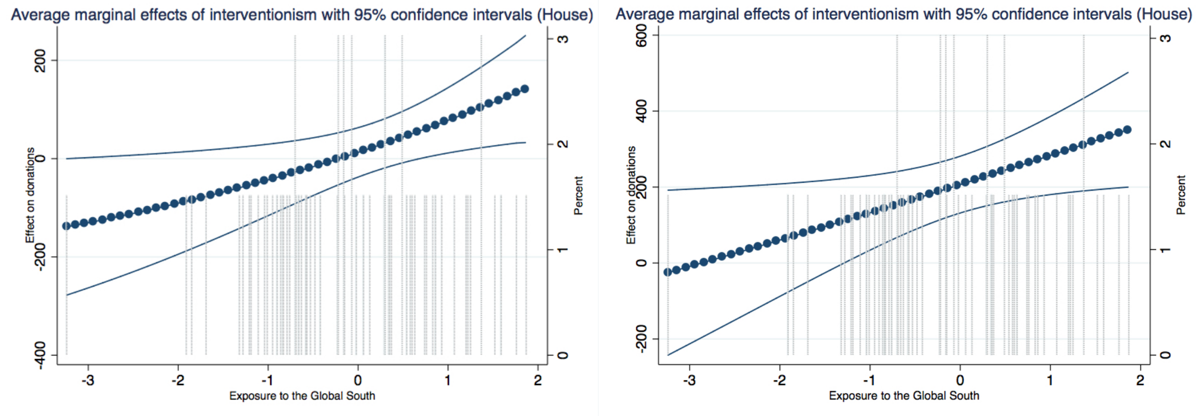
	Model 4	Model 5	Model 6
North-South exposure	845.189***(59.684)	845.106***(59.683)	838.296***(59.659)
North-North exposure	71.338(50.085)	69.864(50.275)	70.978(50.072)
interventionism	279.895(254.133)	255.512(266.931)	131.571(264.397)
North-South exposure × interv.			613.788***(261.157)
North-North exposure × interv.		80.199(236.374)	
ideology	178.411(339.679)	177.845(339.691)	172.685(339.130)
party (Republican=1)	-927.314***(315.714)	-926.894***(315.724)	-923.836***(315.300)
leadership	1591.782***(389.243)	1592.500***(389.227)	1589.571***(389.141)
committee	1343.163***(125.435)	1343.382***(125.441)	1342.225***(125.431)
pro-finance	1478.057***(271.148)	1478.378***(271.165)	1478.427***(271.064)
seniority	7.816(8.296)	7.810(8.296)	7.802(8.296)
Constant	-6451.543***(254.323)	-6451.520***(254.323)	-6450.163***(254.132)
sigma_e	3542.838(33604.56)	3543.113***(305.069)	3540.796(80816.8)
N	28600	28600	28600
AIC	24119.70	24121.58	24116.17
Standard errors in parentheses; ***p<.001; **p<.01; *p<.05			

exposure to the South, the marginal effect of candidate interventionism was weakly statistically significant and negative with the entire 95% confidence interval lying below zero. For firms with the greatest exposure to the South, the effect of interventionism on donations was positive and statistically significant – a swing of about $280 in donations. The picture in the Senate was somewhat similar. The marginal effect of *interventionism* was statistically insignificant among firms with low exposure to the Global South, but positive and significant among those firms with high *North-South exposure* – a swing of about $404 in donations. The effects of interventionism did not seem to be modified as much by *North-North exposure*. In the House, interventionism was statistically insignificant across all levels of *North-North exposure*. In the Senate, the effects of interventionism were positive and statistically significant across nearly all values of *North-North exposure*, suggesting the absence of an interaction. Overall, the evidence suggests that parochial and North-North firms prefer House members opposed to intervention in the South while North-South investors favour legislators with a penchant for stabilising intervention in the Global South. Overall, the results corroborate our main expectation: greater exposure to the South predicted higher donations from firms. That effect was weakest for anti-interventionist representatives and strongest for interventionist legislators.

FIGURE 1: Average marginal effects of exposure to the Global North/South and interventionism on donations (based on Models 3 and 6)[28]



1a: The effect of candidate interventionism on donations, conditional on levels of firm exposure to the Global North



1b: The effect of candidate interventionism on donations, conditional on levels of firm exposure to the Global South

Conclusion

In this study, we argued that the ways in which globalisation has reshaped the domestic politics of foreign policy are less clear-cut than 'capitalist peace' theorists would have us believe. We argued that North-South

[28]The horizontal axis also plots the distribution of the exposure to Global North/South variable.

investors – who are growing in number – are more inclined to support stabilising interventions in the developing world. Because North-South investors are more sensitive to political risks, such as expropriation, debt default, and destructive military conflict, they have distinct preferences from other financial firms. Such firms are also better equipped to evade the costs of intervention, which tend to be low for the type of intervention they prefer. The empirical evidence provided strong support for our argument – firm exposure to the Global South predicted greater donations to legislators with a record of supporting stabilising interventions in the Global South.

Our findings carry important implications. Our study contributes to 'capitalist peace' debate. While economic interdependence reduces dyadic conflict, it may also generate pressure for an activist foreign policy in the region of one's major economic partners. Greater North-South integration enlarges the set of domestic interests that gain from intervention in the developing world. To be clear, based on the empirical findings, we are *not* arguing that military intervention in the Global South is driven by the interests of the finance sector *alone*. Rather, our results show that, for some types of firms, military intervention has positive externalities (e.g., ensuring stability in a region ripe for investment).

We hope that future work can expand on the ideas developed herein. As documents concerning key foreign policy decisions are declassified, qualitative assessments of our argument can be undertaken. In addition, we only examined the U.S. which is unique in many respects (e.g. power, size, centrality to global finance, lax campaign finance laws). Our theory should be further tested in other contexts to delineate its precise scope. For instance, the growth of state capitalist China as a source of FDI and the prospect of a shift from a world of open globalisation to one of superpower spheres of influence (Lake, 2018) represent arenas that might expand the terrain for investor pressure on foreign policy. Finally, contemporary developments in American politics heighten the importance of our argument. Changes to campaign finance reform laws greatly expand the ability of special interests to promote policy outcomes with concentrated benefits, but diffuse costs. If investors become increasingly able to influence foreign policy, they could make riskier investments abroad knowing that great power patrons will rescue them in the face of political risks.

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