

Do Ties with the Home Government Help Businesses Abroad?

The Effect of Revolving Door Connections on FDI of Japanese Firms

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Firm-level connections with home government—via bureaucratic channels—shape FDI

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- Systematically track **all** firm-bureaucrat revolving-door ties (leveraging 2009 reform to Japan's Civil Service Act)
- Empirically show MNC's **informal** ties with the home government, via non-legislative connections, benefit their international activities

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1. Information : host market policy and regulations / support for outward FDI by home government
2. Resources : financial support, better deals for governmental insurance, etc. for outward FDI
3. Help with unforeseen policy changes : communication with the host government, address legal disputes, etc. each at earlier stage



Firms with stronger ties are more likely to invest abroad.

Observable Implications

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- H1 Firms that hire retired bureaucrats are more likely to invest abroad in subsequent years.
- H2 In particular, hiring from trade/FDI-related ministries leads to FDI.
- (H3) In particular, countries with higher political risk or autocratic regimes.

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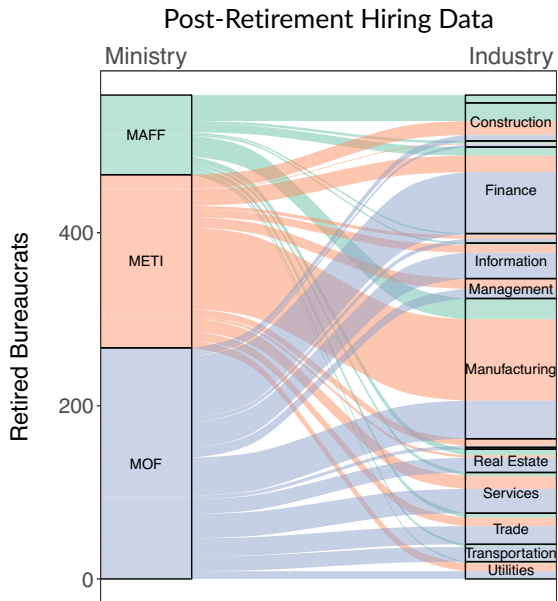
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Bureaucrat Flow to Private Firms and FDI

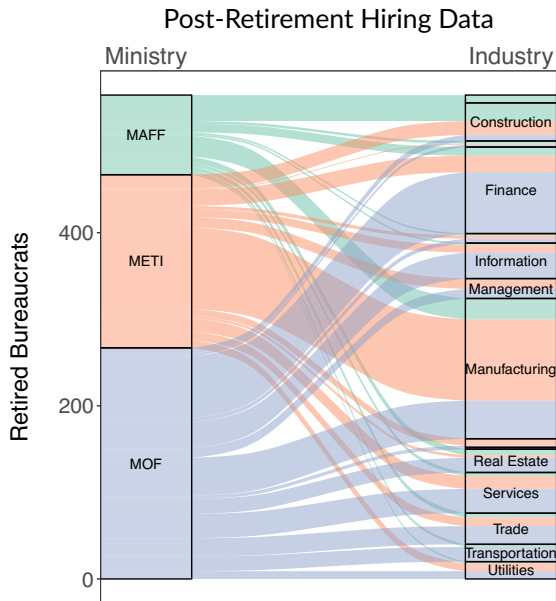
Name	Date retirement	Institution	Bureaucrat covariates	Firm
T.K.	2014	Ministry of Health, Labour and Welfare	...	YAMATO HOLDINGS CO.,LTD.	
⋮	⋮	⋮	⋮	⋮	⋮

Bureaucrat Flow to Private Firms and FDI



Source: Incerti, Miyano, Stanescu, Yamagishi (2020)

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Firm Census

Firm	Subsidiary	Location	Est.
Firm A	A1	USA	2001
Firm A	A2	Thailand	2007
...
Firm B	B1	China	2003
...
Firm C	None		
...	...		

Observations:

24,870 firms \times 57 host countries
 \times 7 years (2011-17) \approx 9 million

Empirical Specification

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$$Y_{ijt}$$

New FDI from firm i
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$$\underbrace{Y_{ijt}}_{\text{New FDI from firm } i \text{ to country } j \text{ in year } t} = \alpha + \beta \underbrace{X_{i,t-1}}_{\text{New hiring by firm } i \text{ in year } t-1}$$

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Covariates:

- $\mathbf{W}_{i,2017}$ (parent firm-level): productivity, # employees, operating revenue, etc.
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 + \underbrace{\tau_t}_{\text{Year FE}} + \underbrace{\omega_j}_{\text{Host FE}} + \underbrace{\mu_{\text{NAICS}}}_{\text{Industry FE}} + \epsilon_{ijt}$$

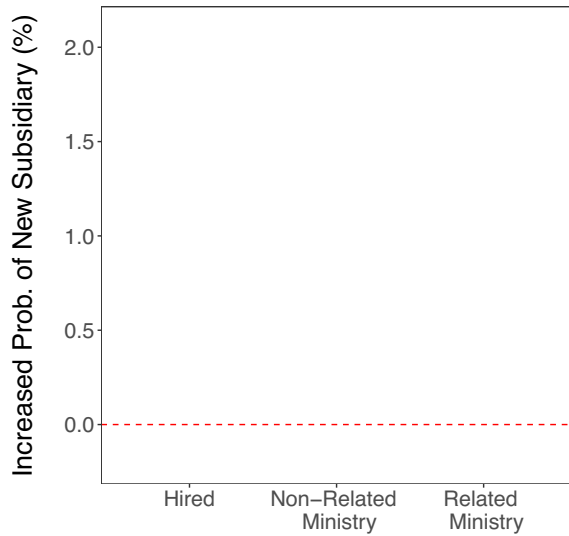
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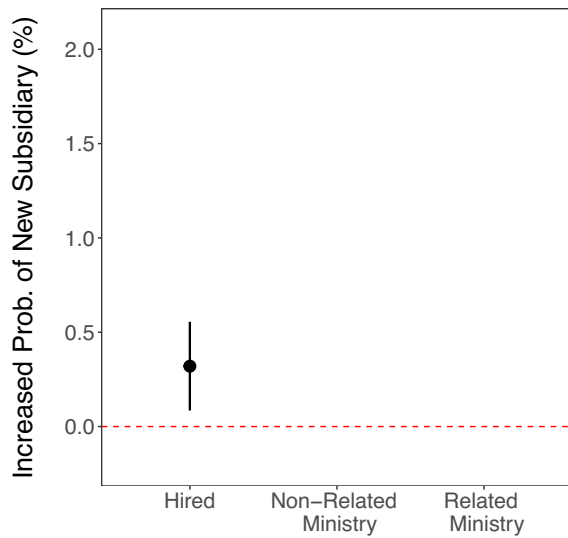
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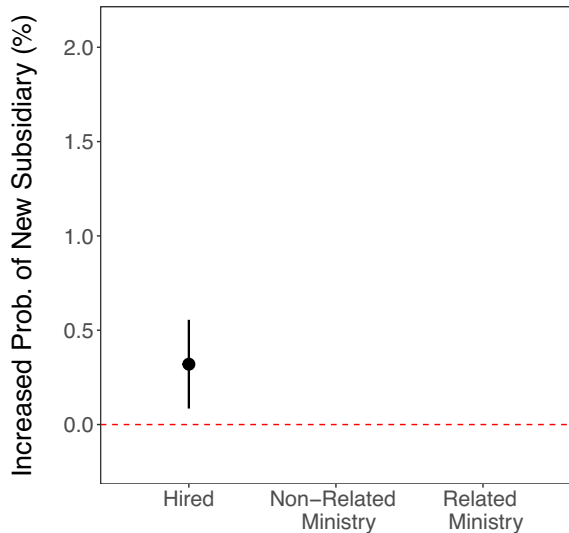
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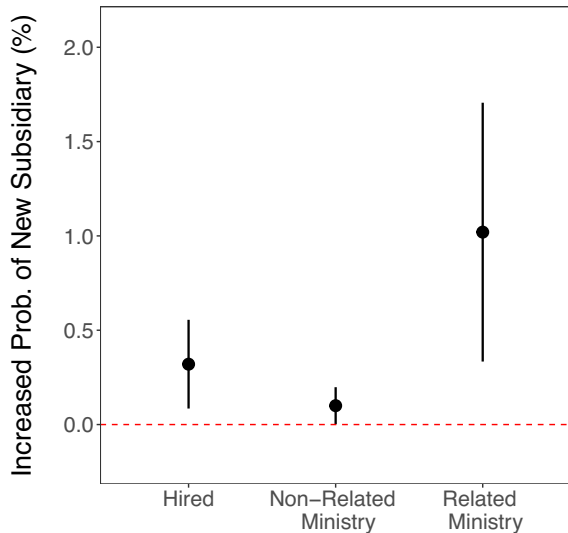
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Findings:

H1 Retired bureaucrat \uparrow new subsidiary

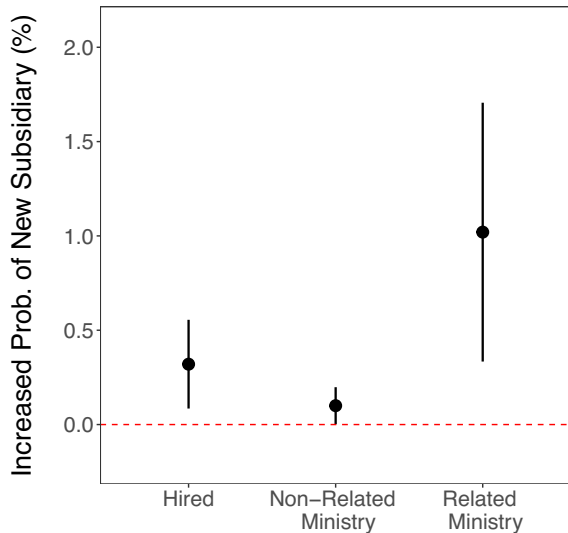
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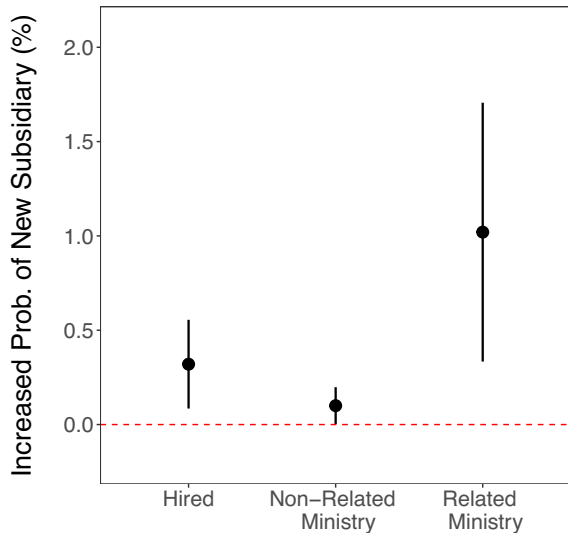
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Findings:

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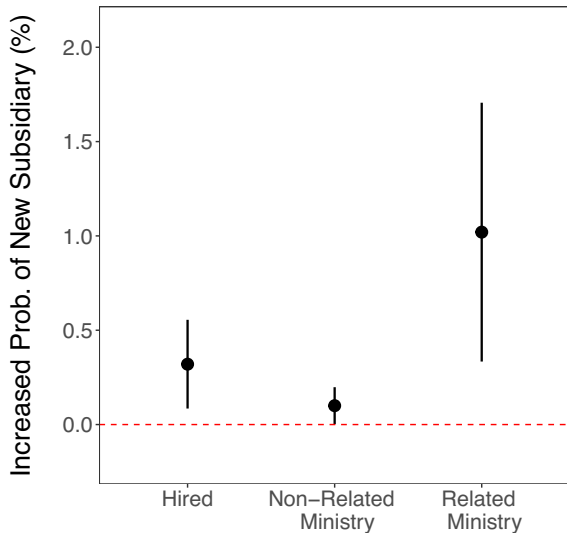
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- H2** FDI-related bureaucrat \uparrow new subsidiary
- H3** Null: Countries with higher risks \times retired bureaucrat

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Conclusion

- Firm-government network affects the global investment pattern at the firm level
- Micro-level data to look at informal firm-government ties
- Home government matters for MNC businesses abroad