Do Ties with the Home Government Help Businesses Abroad?
The Effect of Revolving Door Connections on FDI of Japanese Firms

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Do government-firm networks impact international investment flows?

Political factors affect investment strategies

- Host government characteristics and ties
  (e.g. Jensen 2003, Pandya 2014)

- Home government measure; “shield of nationality”
  (e.g. Wellhausen 2015, Gertz 2018)

- Dyadic home-host ties such as BITs and PTAs
  (e.g. Büthe and Milner 2008, Allee and Peinhardt 2014)

Yet firm-level variation in foreign investment strategy

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

- **Firm-level** variation in firms’ FDI strategies and governmental connections

- Systematically track all firm-bureaucrat revolving-door ties (leveraging 2009 reform to Japan’s Civil Service Act)

- Empirically show MNCs informal ties with the home government via non-legislative connections benefit their international activities
Argument: Ties with Home Government Facilitate FDI

Firms seeking FDI benefit from connections with the home bureaucrat, which provide:

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

Hypotheses

**H1** Firms that hire retired bureaucrats are more likely to invest abroad in subsequent years.

**H2** This effect is stronger for hiring from trade/FDI-related ministries.
Empirical Test with the Case of Japan

Challenges

1. Firm-level FDI data is limited

2. Lack of systematic data on bureaucratic connections

Solution: Japan case

- Firm-level survey conducted by the Japanese government (similar to US BEA data)

- All post-retirement hires of senior career civil servants (≈ 13,000 obs. since 2009)

  - One of the strongest firm-state ties
  
  - Retired officials provide access to current bureaucratic network

External Validity
## Post-Retirement Hiring Data

### Raw data source:

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<th>約束日</th>
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### Attributes
- **Name**: T.K.
- **Date retirement**: 2014
- **Institution**: Ministry of Health, Labour and Welfare
- **Bureaucrat covariates**: ...
- **Firm**: YAMATO HOLDINGS CO., LTD.
Bureaucrat Flow to Private Firms and FDI

Post-Retirement Hiring Data

Ministry Industry

MAFF Construction

METI Finance

Information Management

MOF Manufacturing Real Estate

Services Trade Transportation Utilities

Retired Bureaucrats

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

Firm Census

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<th>Firm</th>
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Observations:

24,000 firms $\times$ 55 host countries $\times$ 8 years (2010-17) $\approx$ 11 million
Empirical Specification

\[ Y_{ijt} = \alpha + \beta X_{i,t-1} + \gamma Y_{ijt-1} + \delta^\top W_{i,2017} + \eta^\top Z_{j,t-1} + \tau_t + \omega_j + \mu_{\text{NAICS}} + \epsilon_{ijt} \]

Covariates:
- \( W_{i,2017} \) (parent firm-level): productivity, # employees, operating revenue, etc.
- \( Z_{j,t-1} \) (host country level): regime type, political risk, log GDP, BITs, PTAs, etc.
Findings:

H1 Retired bureaucrat ↑ new subsidiary

H2 FDI-related bureaucrat ↑ new subsidiary

Substantively significant:

- 0.05 % of non-treated obs have new subsidiary
  ↗ > 4 times more likely
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
For any questions or comments, please email

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stanescu@stanford.edu