

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. Bütthe 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 (\approx 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:

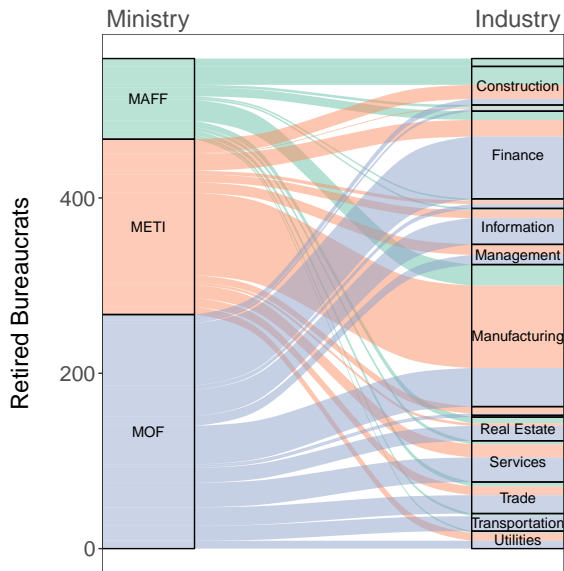
番号	氏名	離職時の年齢	離職時の官職	約束手前の求職開始日 (注2)	再就職の約束をした日	約束手前の求職開始日以後の職員としての在職状況及び職務内容 (注2)			離職日	再就職日 (注3)	再就職先の名称	再就職先の業務内容	再就職先における地位	求職の承認 (注4)	官民人材交流センターの援助の有無 (注5)	
						所属・官職	在職期間									職務内容
							自	至								
21	渡邊 悟	60	京都少年鑑別所長	H30. 8. 16	H30. 10. 18	京都少年鑑別所長	H30. 8. 16	H31. 3. 31	京都府内における非行少年の鑑別等	H31. 3. 31	H31. 4. 1	学校法人村崎学園	教育・研究	徳島文理大学人間生活学部心理学科教授	無	無
22	渡邊 悟	60	京都少年鑑別所長	-	H31. 1. 14	京都少年鑑別所長	H31. 1. 14	H31. 3. 31	京都府内における非行少年の鑑別等	H31. 3. 31	H31. 4. 1	一般社団法人日本公認心理師協会	公認心理師等に対する研究会、勉強会の実施	理事	無	無
23	宮沢 和志	64	中部地方更生保護委員会委員	-	H30. 11. 9	中部地方更生保護委員会委員	H30. 11. 9	H31. 4. 1	仮釈放等審理	H31. 4. 1	H31. 4. 2	学校法人日本教育財団	教育・研究	名古屋医専福祉学部精神保健福祉学科専任教員	無	無
24	宮沢 和志	64	中部地方更生保護委員会委員	-	H31. 2. 25	中部地方更生保護委員会委員	H31. 2. 25	H31. 4. 1	仮釈放等審理	H31. 4. 1	H31. 4. 2	学校法人同朋学園	教育・研究	同朋大学社会福祉学部社会福祉学科社会福祉専攻精神保健福祉コース非常勤講師	無	無
25	宮沢 和志	64	中部地方更生保護委員会委員	-	H30. 11. 9	中部地方更生保護委員会委員	H30. 11. 9	H31. 4. 1	仮釈放等審理	H31. 4. 1	R1. 9. 1	学校法人金城学院	教育・研究	金城学院大学人間科学部現代子ども教育学科非常勤講師	無	無



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

Post-Retirement Hiring Data



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

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:

24,000 firms \times 55 host countries
 \times 8 years (2010-17) \doteq 11 million

Empirical Specification

$$\underbrace{Y_{ijt}}_{\text{New FDI from firm } i \text{ to country } j \text{ in year } t} = \alpha + \beta \underbrace{X_{i,t-1}}_{\text{New hiring to firm } i \text{ in year } t-1} + \gamma \underbrace{Y_{ijt-1}}_{\text{lagged outcome}} + \delta^\top \mathbf{W}_{i,2017} + \eta^\top \mathbf{Z}_{j,t-1} + \underbrace{\tau_t}_{\text{Year FE}} + \underbrace{\omega_j}_{\text{Host FE}} + \underbrace{\mu^{\text{NAICS}}}_{\text{Industry FE}} + \epsilon_{ijt}$$

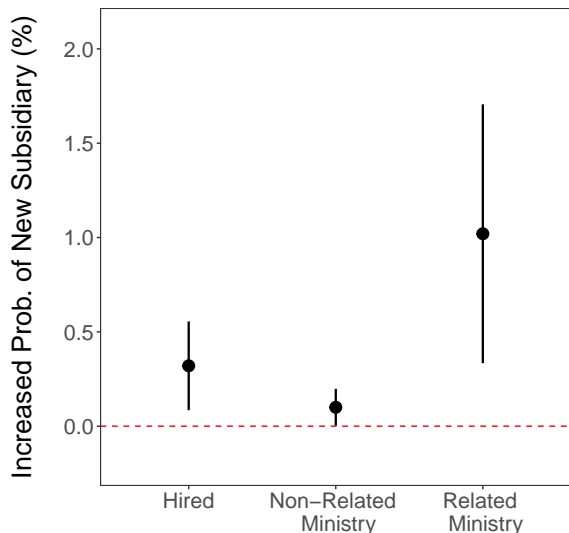
Covariates:

- $\mathbf{W}_{i,2017}$ (parent firm-level): productivity, # employees, operating revenue, etc.
- $\mathbf{Z}_{j,t-1}$ (host country level): regime type, political risk, log GDP, BITs, PTAs, etc.

► Covariates

► Firm-Year Specification

Results



Findings:

- H1 Retired bureaucrat \uparrow new subsidiary
- H2 FDI-related bureaucrat \uparrow new subsidiary

Substantively significant:

- 0.05 % of non-treated obs have new subsidiary
 \rightsquigarrow $>$ 4 times more likely

[▶ H1 Table](#)

[▶ H2 Table](#)

[▶ Firm-Year Analysis](#)

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

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