

Do Ties with the Home Government Help Businesses Abroad?

The Effect of Revolving Door Connections on FDI of Japanese Firm

Sayumi Miyano

Diana Stanescu

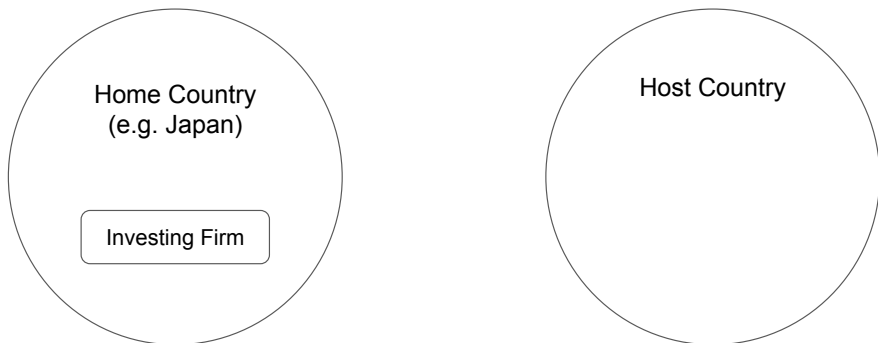
Horizons in Japanese Politics and Foreign Policy

December 2, 2022

Do government-firm networks impact FDI flows?

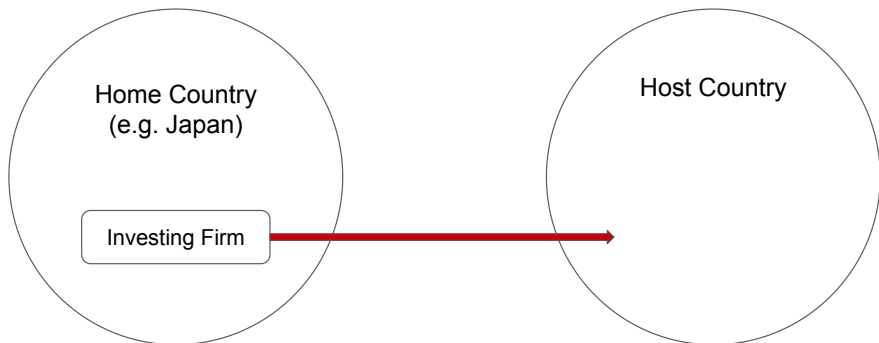
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Foreign Direct Investment



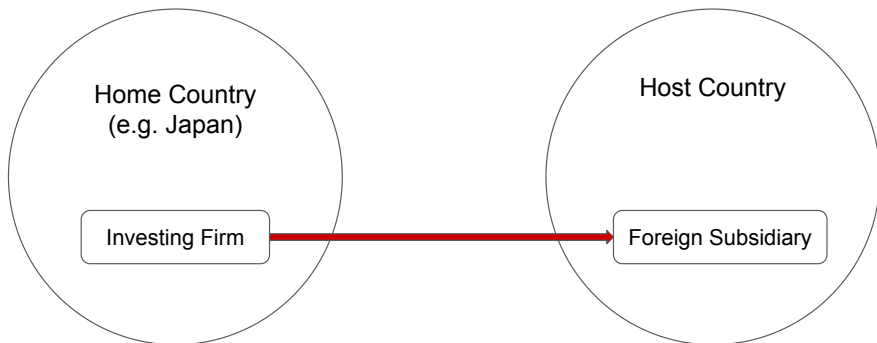
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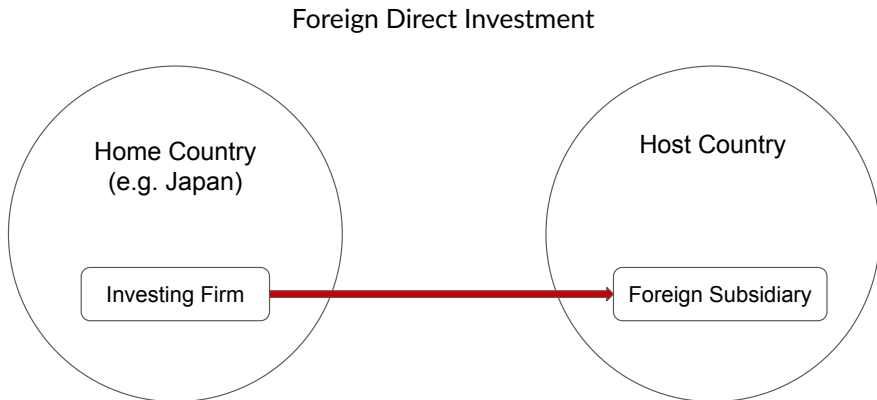


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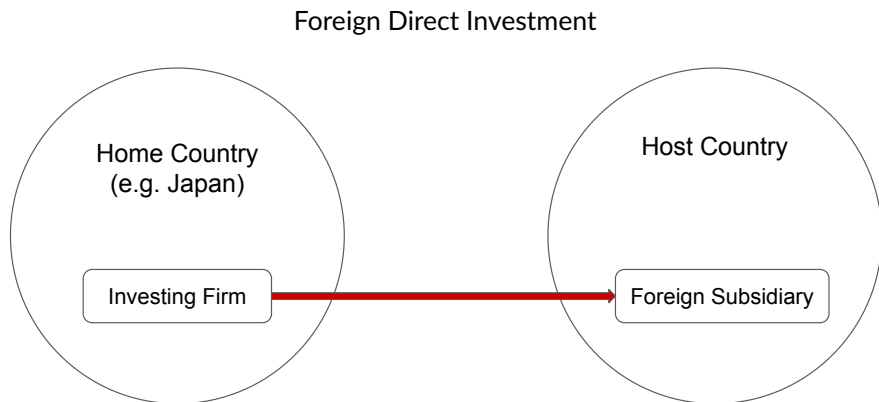


Do government-firm networks impact FDI flows?



- Distributional consequences within and across countries

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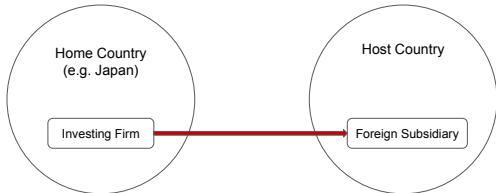


- Distributional consequences within and across countries
- Challenges: expropriation risks, host-market regulations, incentives, etc.

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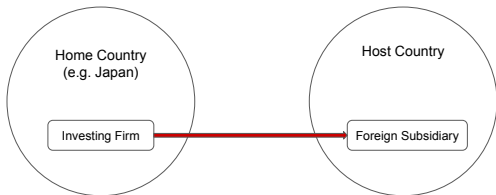
Political factors affect foreign direct investment (FDI) strategies



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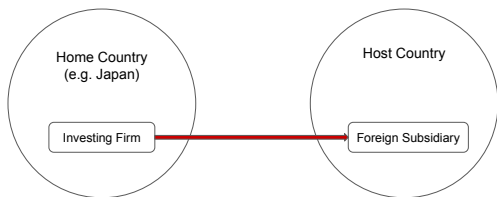
- Host government characteristics (e.g., Jensen 2003, Pandya 2014)
- Home government measure; “shield of nationality” (e.g., Wellhausen 2015, Gertz 2018)
- Dyadic agreements between home and host (e.g. BITs, PTAs)
(e.g., Büthe and Milner 2008, Allee and Peinhardt 2014)



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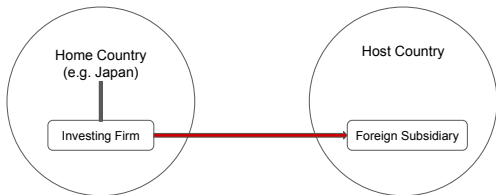


Yet **firm-level** variation in foreign investment strategy

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Yet **firm-level** variation in foreign investment strategy

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

Contributions

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

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- Data that tracks **all** firm-bureaucrat revolving-door ties in Japan and foreign subsidiaries of **all** firms in the government firm census

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- **Firm-level** variation in firms' FDI strategies and governmental connections
- Data that tracks **all** firm-bureaucrat revolving-door ties in Japan and foreign subsidiaries of **all** firms in the government firm census
- Empirically show MNC's **informal** ties with the home government, via non-legislative connections, benefit their international business

Argument: ties with the home government facilitate FDI

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2. Resources

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Firms with stronger ties are more likely to invest abroad.

Observable implications

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Hypotheses

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- H2 In particular, hiring from trade/FDI-related ministries leads to FDI.
- (H3) In particular, countries with higher political risk or autocratic regimes.

Empirical test with the case of Japan

Empirical test with the case of Japan

Challenges

1. Firm-level FDI data is limited

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Solution: Japan case

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

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Solution: Japan case

- ~> Firm-level survey conducted by the Japanese government (similar to the US BEA data)
- ~> All post-retirement hires of senior career civil servants (*Amakudari*) (\approx 13,000 obs. since 2010)
 - One of the strongest firm-state ties
 - Retired officials provide access to current bureaucratic network

Post-retirement hiring data

Raw data source:

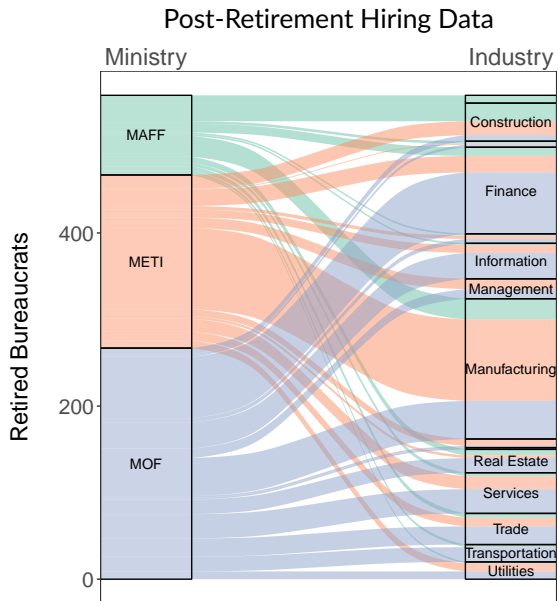
番号	氏名	退職時の年齢	退職時の官職	約束前の求職開始日 (注2)	再就職の約束をした日	約束前の求職開始日以後の職員としての在職状況及び職務内容 (注2)			離職日	再就職日 (注3)	再就職先の名称	再就職先の業務内容	再就職先における地位	求職の承認 (注4)	官民人材交流センターの援助の有無 (注5)	
						所属・官職	在職期間									職務内容
							自	至								
21	渡邊 悟	60	京都少年鑑別所長	H30. 8. 16	H30. 10. 18	京都少年鑑別所長	H30. 8. 16	H31. 3. 31	京都府内における 非行少年の鑑別等	H31. 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修会、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	名古屋医療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	同朋大学社会科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
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Name	Date retirement	Institution	Bureaucrat covariates	Firm
T.K.	2014	Ministry of Health, Labour and Welfare	...	YAMATO HOLDINGS CO.,LTD.	
⋮	⋮	⋮	⋮	⋮	⋮

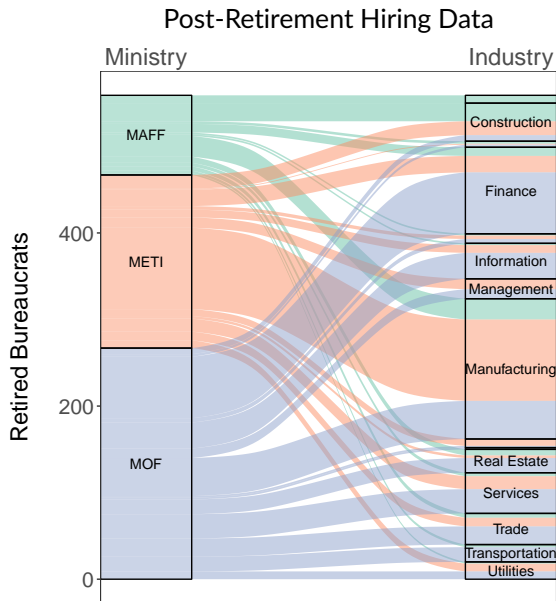
Bureaucrat flow to private firms and FDI

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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

(Also at the firm-year level:
 \approx 170,000)

Empirical specification

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$$Y_{ijt}$$

New FDI from firm i
to country j in year t

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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.
- $\mathbf{Z}_{j,t-1}$ (host country level): regime type, political risk, log GDP, BITs, PTAs, etc.

► Covariates

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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}$$

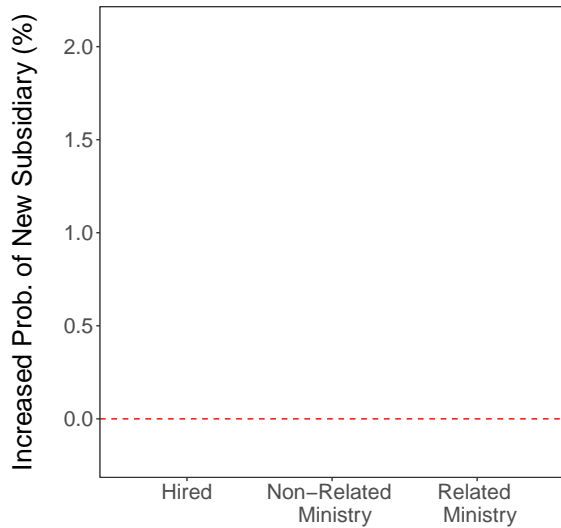
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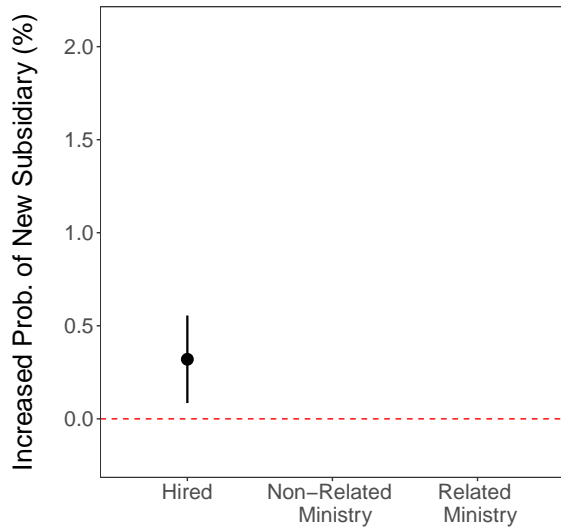
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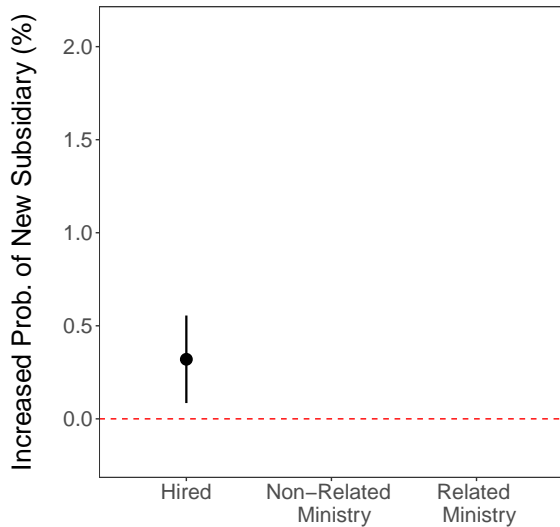
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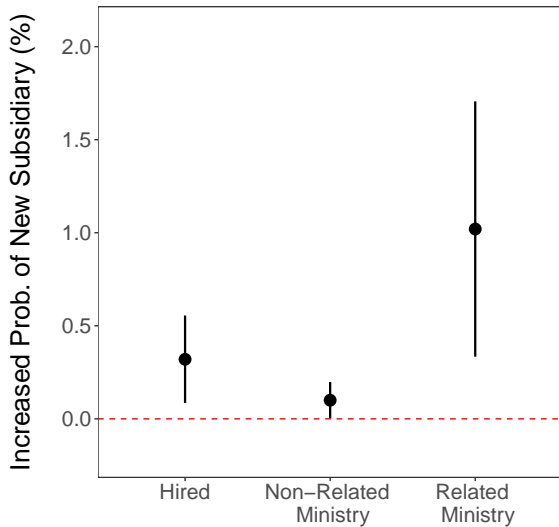
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Findings:

H1 Retired bureaucrat \uparrow new subsidiary

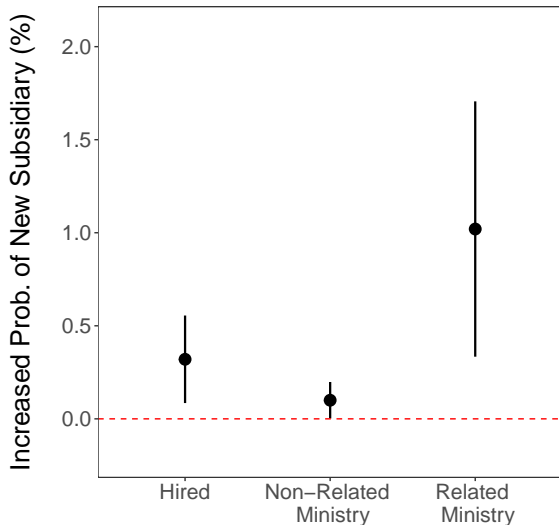
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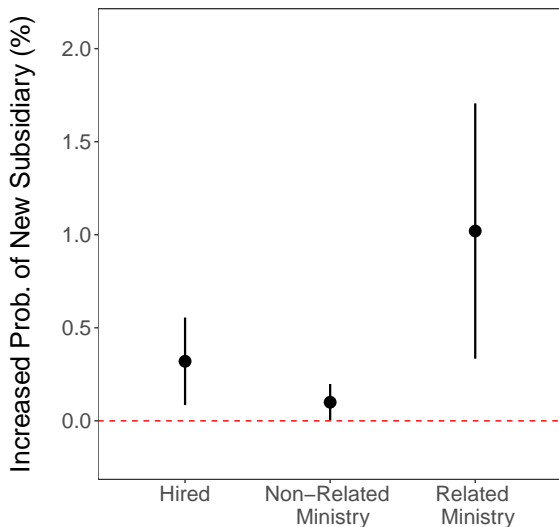
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- H1 Retired bureaucrat \uparrow new subsidiary
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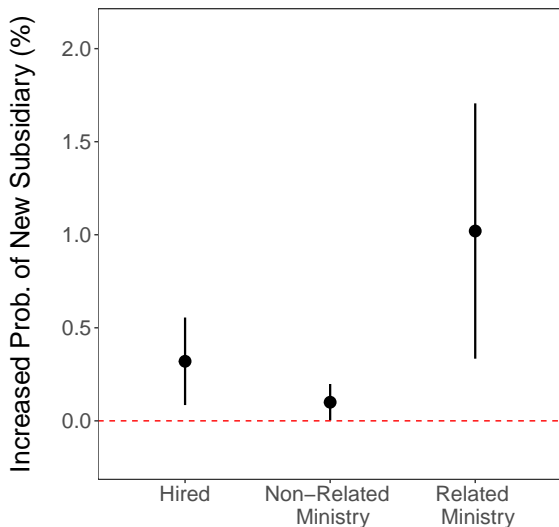
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Substantively significant:

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 $\rightsquigarrow \approx$ six times more likely

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Findings:

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

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- Firm-year level analysis: 4.7pp increase in an investment (to any destination) [▶ Firm-Year](#)

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- Firm-year level analysis: 4.7pp increase in an investment (to any destination) ▶ Firm-Year
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- Industry heterogeneity [tentative]:
larger coefficient for construction (NAICS 23) and real estate, rental, and leasing (NAICS 53) – industry-specific regulations/need for assistance?

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- Retired bureaucrats suggest whether and where to invest?
- Governments seek productive MNCs instead?
- MNCs tend to have Amakudari because they have to go through more regulations domestically?

External validity

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Outward FDI: hard case to observe bureaucratic influence

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Case of Japan: is it too distinctive?

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- Unusually entrenched, autonomous bureaucracy?
 - Yet, Principal-Agent relationship similar to those of other countries post-2000s
- Unidirectional “revolving-door”
 - Still hold impact to current bureaucrats, yet cleaner to study
- Advanced industrialized democracy
 - OFDI promotion tools are similar in emerging markets (Sauvent et al. 2014)
 - Developed & emerging countries cover majority of world's OFDI

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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Introduction

Theory

Observable implications

Empirics

Discussion

Appendix

Extra Slides

FDI Data and Covariates:

- FDI Data (Pros & Cons)
- Data Source
- Covariates and Summary Stats

Post-Retirement Hirings:

- Firm Classifications
- Top Hirers
- Firm Characteristics: Baseline Comparison

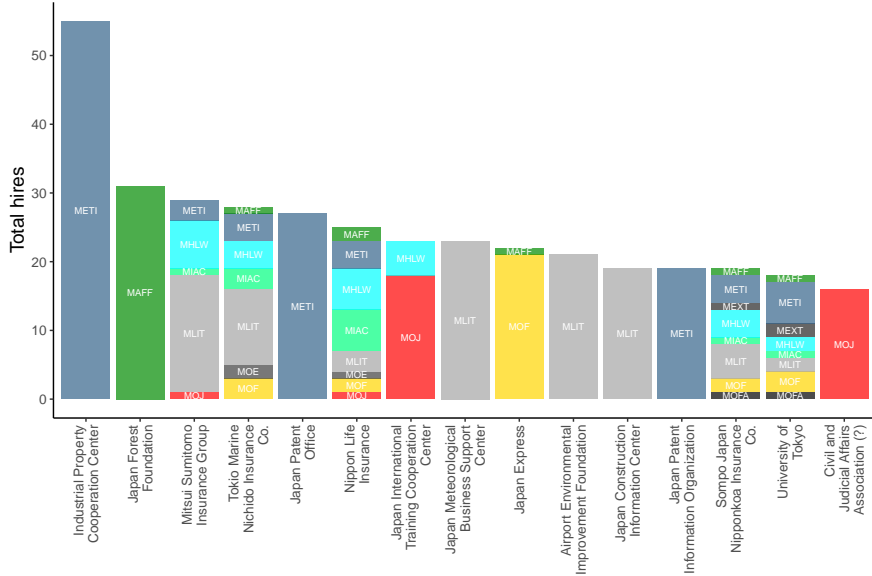
Results:

- Firm-Year Level
- H1 Table
- H2 Table
- By Host Risk

Amakudata: Firm types

- **Intermediary:** Credit/business cooperatives; Health insurance societies; Mutual life insurance companies
- **Public Interest:** Foundations; Incorporated associations; Social welfare corporations; Educational institutions; Medical institutions
- **Government:** Embassies; Bank of Japan; Upper House; Lower House
- **Public Corporations:** Incorporated administrative agencies; Local government
- **Non-stock:** Limited liability company; Limited partnership company; Independent businesses
- **Stock**

Which organizations are the top hirers?



Firms with/without *Amakudari* (Bureaucratic Connections)

Amakudari rare, but more common among firms with new foreign investments (after 2010)

	Amakudari	No Amakudari	Total
New Foreign Subsidiaries	170	2,000	2,170
No New Foreign Subsidiaries	400	25,000	25,400
Total	570	27,000	

Amakudari goes to larger firms on average (c.f. Calder)

	Amakudari	No Amakudari
No. of firms in survey	570	27,000
Capital stock (mean, mill. JPY)	355,000	17,500
No. of employees (mean)	930	130
Productivity (mean, mill. JPY)	260	70
No. of outside directors	2.5	1.5

Industry Distribution of Subsidiaries

Most subsidiaries are in the manufacturing industries

Industries	% Total Subsidiaries
Manufacturing industries	43
Wholesale trade	28.3
Services	10.3
Transport	5.5
Miscellaneous non-manufacturing industries	4
Information and communications	3.4
Retail trade	2.8
Construction	1.5
Mining	0.7
Agriculture, forestry, and fisheries	0.4
Total	100

Source: Summary of the 50th Basic Survey on Overseas Business Activities (Sept. 2020)

FDI Activity: Pros and Cons of the Data

Compared to alternative FDI data (`fdimarkets`):

- Pros: Subsidiary-level data (c.f. greenfield establishment), pattern of existing subsidiaries available before 2003 (c.f. `fdimarkets` from 2003)
- Cons: Only subsidiaries that are present in surveyed year (2017 for now)

Established Year	Subsidiaries (reported in 2017)	Subsidiaries (reported in 2014)
Before 2005	14,976	15,727
2006-08	2,400	2,585
2009-11	2,817	2,936
2012-14	3,244	2,648
2015-17	1,505	N/A
Total	25,034	24,011

Firm-Year Level Analysis

Dependent Variable:	(continuous)	New Subsidiary (binary)
Model:	(1)	(2)
Family	OLS	OLS
New Amakudari (bin)	0.2978* (0.1776)	0.0379*** (0.0125)
Existing Subsidiaries (log)	0.1437*** (0.0450)	0.0673*** (0.0147)
Employee H28 (log)	-0.0057 (0.0094)	0.0031** (0.0013)
Op. Revenue H28 (log)	0.0129 (0.0089)	0.0020** (0.0009)
Productivity H28 (log)	-0.0124 (0.0126)	0.0018* (0.0010)
Fixed-Effects		
Year	✓	✓
NAICS 2dig	✓	✓
Observations	199,096	199,096

Three-way (Parent Firm ID and Year and NAICS 2dig) standard-errors in parentheses
 Signif Codes: ***: 0.01, **: 0.05, *: 0.1

Covariates

Firm-level (each in 2017)

- productivity
- number of employees
- operating revenue

Host-level

- regime type (Polity IV)
- political risk
- GDP (logged)
- population (logged)
- BITs and PTAs with Japan

Table: Summary Statistics (Firm-Level)

Variable	N	Mean	S.D.
Employee 2017	24218	149.63	468.95
Op. Revenue 2017	24218	25071.51	152241.49
Outside Director 2017	17277	1.69	2.04
Productivity 2017	24218	57.04	891.42
Employee 2016	24874	146.02	439.21
Op. Revenue 2016	24874	25321.54	161420.34
Outside Director 2016	17673	1.65	1.89
Productivity 2016	24874	53.44	535.31

FDI Activity: Data from Japanese Firm Survey

Firm-level surveys conducted by the Japanese government, which recently became accessible on-site.

- A Basic Survey of Oversea Business Activities (2017):** Survey sent to all firms operating abroad. Response rate is around 70-75%, around 7,000 parent firms and 25,000 subsidiaries.
↪ Year of establishment for each foreign subsidiary present in 2017.

- B Basic Survey of Firm Business Activities (2016-18):** Survey sent to all firms above certain size (50 employees and 30 million JPY). Response rate is around 80%, with around 35,000 firms.
↪ parent-firm covariates (productivity, etc.) in the surveyed year.

Firms w/ Amakudari Hires \rightsquigarrow Est. New Subsidiary (H1)

Dependent Variable:	New Subsidiary (bin)		
	(1)	(2)	(3)
Model	OLS	OLS	Logit
New Amakudari (bin)	0.0032*** (0.0012)	0.0060*** (0.0021)	-0.0809 (0.1540)
Existing Subsidiaries (log)	0.0292*** (0.0068)		1.008*** (0.0866)
Political Risk	0.0001* (0.00006)	0.0001* (0.00006)	0.0870*** (0.0228)
Observations	10,278,331	10,278,331	9,928,317
Other Covariates	✓	✓	✓
Host Country FE	✓	✓	✓
Year FE	✓	✓	✓
NAICS 2dig FE	✓	✓	✓

Interaction with Host-Country Risks

Dependent Variable:	New Subsidiary (bin)		
	(1)	(2)	(3)
Model	OLS	OLS	OLS
New Amakudari (bin) × High Political Risk	0.0010 (0.0017)		
New Amakudari (bin) × High Composite Risk		-0.0018 (0.0016)	
New Amakudari (bin) × Autocracy			0.0007 (0.0014)
Polity IV	0.0000003 (0.0000043)	0.000008 (0.0000041)	
Observations	10,278,331	10,278,331	10,278,331
Other covariates	✓	✓	✓
Host Country FE	✓	✓	✓
Year FE	✓	✓	✓
NAICS 2dig FE	✓	✓	✓

Firms w/ Hires from Related Ministries \rightsquigarrow Est. New Subsidiary (H3)

Dependent Variable:	New Subsidiary (bin)			
Model	(1) OLS	(2) Logit	(3) OLS	(4) Logit
New Amakudari (bin) \times Rel. Ministry	0.0092*** (0.0030)	0.9247*** (0.0469)		
New Amakudari (bin) \times METI			0.0062 (0.0038)	0.6949** (0.3106)
New Amakudari (bin)	0.0010* (0.0005)	-0.4649*** (0.1364)	0.0026** (0.0011)	-0.1946 (0.1489)
Existing Subsidiaries (log)	0.0291*** (0.0068)	0.9923*** (0.0837)	0.0292*** (0.0068)	1.009*** (0.0876)
Political Risk	0.0001* (0.0000569)	0.0869*** (0.0228)	0.0001* (0.0000569)	0.0871*** (0.0229)
Observations	10,278,331	9,928,317	10,278,331	9,928,317
Other covariates	✓	✓	✓	✓
Host Country FE	✓	✓	✓	✓
Year FE	✓	✓	✓	✓
NAICS 2dig FE	✓	✓	✓	✓