

Political Environment, Democracy and Japanese Outward FDI: a panel data analysis¹

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Abstract

This paper attempts to examine empirically the effects of Political Environment (PE) and Democracy on the Japanese outward Foreign Direct Investment (FDI) activities with a panel data of 56 developed and developing countries for the period of 1995-2010. The estimation model is constructed on the basis of the OLI (ownership, location and internalization advantages) and general equilibrium theoretical models. Various measures of PE and Democracy are included as additional explanatory variables with market potential, wages, skilled workforce endowments, investment cost and openness. We found that, a model with PE and Democracy factors and some traditional explanatory variables reasonably explains recent Japanese Multinational Companies (MNCs) activities. Japanese outward FDI flows revealed sensitivity to different levels of PE and Democracy in developed and developing countries. These findings have important implications for future policy consideration by host countries and academic research on Japanese outward FDI.

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