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“Politics At Home and Risk-Taking Abroad: Evidence from Emerging Multinational Corporations”

Abstract

Direct investments from developing economies are becoming increasingly important in the global economic landscape, but our understanding of these emerging investors is limited. This paper posits a domestic political economy story for why investors from emerging multinational corporations appear more tolerant of host country risks. I argue that when accountability is weak in the home political system, politically connected firms can count on being bailed out by political elites. This implicit insurance reduces the downside risks of investments. I test my theory in the context of Chinese outbound direct investments. I find that Chinese investments overall appear to be indifferent to host country risks, and that Chinese state-owned enterprises tend to invest in projects where the host country risks are actually higher. The empirical results are consistent with my theoretical prediction, and are robust against multiple specifications and a range of alternative hypotheses.