Merging Interests

Why do governments open their economies to multinational enterprises (MNEs)? Some argue democratic forces promote this openness, but many citizen groups view multinational business with suspicion. Using quantitative and qualitative analysis, Bauerle Danzman demonstrates how large domestic firms push to liberalize foreign direct investment (FDI) policies to ameliorate financing constraints, often to the detriment of smaller competitors. MNE investment comes with substantial risks, such as higher labor costs and increased productivity pressures, so well-connected domestic firms will prefer to limit access to local markets when the costs of debt financing are relatively low. However, when local environments make debt financing increasingly expensive, firms will be more willing to dismantle restrictive investment policies so that they may overcome liquidity constraints with equity financing from abroad. Bauerle Danzman includes comparative analysis of Malaysia and Indonesia from 1965 to 2016 to illustrate how governments undertake investment policy reform, and to indicate the interest groups that influence the outcomes of these regulatory changes.

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For Robarn, Sophia, and Julien.

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