Political Tradition, Political Risk and Foreign Direct Investment in Italy

Abstract

☐ One the major recent trends in international business has been the recognition by governments of multinational enterprises (MNEs) as sources of scarce investment funds and desirable high value added jobs. Does a region’s political tradition affect political risk perceived by MNEs? The effect of the local political tradition is not easy to isolate, since locations differ in many dimensions. Therefore, we address this question by examining MNE investment location decisions within a single country.

☐ The country we examine is Italy, where regional political traditions are extremely diverse. We estimate a two-step econometric model that is able to assess the impact of government political orientation in a three-way categorization, i.e., whether it is a major factor, a marginal factor or of no importance whatsoever.

Key Results

☐ We find that the major influence on the location of investment emanates from locational and infrastructural factors, while local political tradition is influential at the margin. This is not to say that political orientation is unimportant. There is evidence that most MNE investment location involves the short-listing of generally very competitive locations. Thus political orientation will play a key role in a choice from a short list of sites where the major locational parameters are very similar.

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