Behind the Curtain: How De-globalization Fuels Veiled Ownership in Greenfield FDI

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Abstract

As geopolitical tensions intensify, greenfield foreign direct investment (GFDI) is undergoing profound transformations. This study examines how de-globalization has prompted firms to adopt veiled ownership structures in GFDI as a strategic response to rising political risks. Analyzing firm-level data from 2007 to 2022, covering over 600,000 GFDI projects in more than 500 sectors across 120 host countries and 70 source countries, we find a significant increase in the use of politically aligned intermediaries by ultimate owners to shield their investments in politically distant host nations. Since 2018, veiled ownership has surged by over 60 percent in high-sunk-cost sectors, particularly where substantial political distance exists between source and host countries. This trend is even more pronounced in large-scale investments and remains robust after accounting for the intermediary role of tax havens. Institutional investors exhibit a stronger shift toward veiled ownership structures compared to individual investors in response to de-globalization. Furthermore, our findings hold when measuring de-globalization through contractions in bilateral trade between host and source countries. These results underscore the evolving strategies firms employ to mitigate geopolitical uncertainties, offering new insights into the intersection of global investment, political risk, and economic fragmentation.

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1. Introduction

Since 2017, patterns of foreign direct investment (FDI) have undergone profound transformations in response to escalating geopolitical tensions, trade disputes, and economic disruptions, ushering in what has been widely characterized as the "era of de-globalization" (IMF WEO, 2023). This period of economic fragmentation is characterized by a surge in protectionist policies, the restructuring of international alliances, and an intensification of political risks, all of which have reshaped the global investment landscape. Key geopolitical and economic events, including Brexit, the escalating U.S.-China trade conflict, and the widespread economic repercussions of the COVID-19 pandemic, have exposed critical vulnerabilities within the highly interconnected global economy. Consequently, multinational corporations are reassessing their cross-border investment strategies, particularly in industries deemed strategically significant, where concerns related to national security, economic sovereignty, and supply chain resilience have become paramount.

In response to these shifting dynamics, FDI flows are increasingly being reoriented toward geopolitical blocs comprising politically allied nations, reinforcing patterns of regionalization in global capital allocation. As geopolitical divisions deepen, investors are confronted with heightened uncertainty and regulatory risks, prompting a growing reliance on complex financial structures, including the use of intermediaries and special-purpose entities, to obscure ownership and mitigate exposure to political scrutiny. This evolving landscape underscores the increasing entanglement of political and economic considerations in global investment decision-making, complicating traditional models of capital mobility and necessitating a more nuanced understanding of the interplay between geopolitics and capital flows.

This paper investigates the impact of the era of de-globalization on the ownership structures of greenfield foreign direct investment (GFDI). Specifically, it examines whether the increasing political fragmentation since 2018 has influenced ultimate beneficial owners (final owners) to channel their investments through politically proximate intermediaries (immediate owners) as a strategic response to the evolving geopolitical landscape. This approach, which seeks to obscure true ownership in order to mitigate exposure to political and regulatory risks, has profound implications for the transparency, efficiency, and overall dynamics of global investment flows. By

analyzing these shifts, this study contributes to a deeper understanding of how geopolitical considerations are reshaping the structuring and allocation of international capital.

Building on existing research on political distance and its effects on foreign investment (e.g., Gopinath et al. 2025), this paper advances the discourse by conducting a micro-level analysis with a specific focus on firm-level GFDI. By examining how political distance influences foreign investment decisions at the firm level, this study accounts for sector-specific investment sunk costs, which play a crucial role in shaping firms' strategic responses to geopolitical uncertainties. This granular approach offers a more nuanced and detailed understanding of how the broader forces of de-globalization are reshaping global investment patterns. Moreover, by adopting a micro-level perspective, this analysis helps to mitigate endogeneity concerns that often arise in studies relying on aggregated data, thereby enhancing the robustness and empirical validity of the findings. In doing so, this study contributes to a more comprehensive understanding of the intersection between geopolitics and international investment behavior.

To construct firm-level foreign investment data, we adopt a rigorous methodological approach, drawing on the frameworks established by Fons-Rosen et al. (2021) and Kalemli-Ozcan et al. (2023). Specifically, we utilize Orbis historical ownership data from Bureau van Dijk (BvD), a comprehensive dataset that records direct equity shares held by domestic and foreign investors, referred to as the immediate owners of the firm. By tracing the upper-level ownership of these immediate owners, we can accurately identify the final owners and determine whether they are domestic or foreign entities. By further integrating this ownership data with firm incorporation dates, we systematically identify and construct firm-level GFDI with final foreign ownership. This approach enables us to develop a more detailed and precise ownership structure based on actual registry data, thereby enhancing the accuracy and reliability of firm-level investment analysis.

Our measure of geopolitical distance between the country where the final owner is located and the country where the firm operates is derived from voting patterns in the United Nations General Assembly (UNGA), following the Ideal Point Distance (IPD) methodology developed by Bailey, Strezhnev, and Voeten (2017). The IPD framework quantifies political distance by assessing the alignment of countries' voting behaviors, providing a systematic, data-driven approach to capturing geopolitical affinities. This methodology enables a structured analysis of

geopolitical positioning over time, offering an empirically robust metric to assess its impact on international investment flows.

To examine how geopolitical distance influences foreign investment, we incorporate sector-level sunk cost indices, which capture fixed costs that may deter firms from investing in politically uncertain destinations. These indices, based on firms' rent and depreciation expenses, as well as past sales of property, plant, and equipment (PPE), follow the methodology of Gulen and Ion (2015). Firms with higher rental reliance, rapidly depreciating capital, and more liquid asset markets face lower sunk costs. The index aggregates these proxies at the three-digit SIC level, classifying industries into three categories: 0 (low sunk costs), 1 (moderate sunk costs), and 2 (high sunk costs), as proposed by Farinas and Ruano (2005). Higher index values indicate greater investment irreversibility. In our analysis, we use the year 2000 index, covering approximately 500 US SIC sectors, with a mean of 1 and a standard deviation of 1.5.

Our baseline estimation approach examines the interaction between political distance and sectoral sunk costs in shaping foreign investment decisions, while accounting for a comprehensive set of fixed effects and sector- and country-level characteristics. To deepen the analysis, we further explore heterogeneity in this relationship by distinguishing between different types of foreign investors, such as individual versus institutional owners, and by assessing variations based on investment size. Additionally, we incorporate controls for alternative explanations, including tax avoidance motives, to ensure the robustness of our findings. This multi-faceted approach allows for a more nuanced understanding of how geopolitical and economic factors jointly influence cross-border investment patterns.

Our analysis draws on a sample of approximately 600,000 firm-level greenfield FDI projects across 120 countries from 2007 to 2022. Our baseline results reveal a significant shift in the impact of political distance on veiled ownership, exacerbated by sunk costs, particularly after 2018. Before 2018, the interaction between political distance and sunk costs was statistically insignificant in explaining veiled ownership, indicating that large sunk costs did not meaningfully affect this relationship. However, in the post-2018 period, this interaction becomes both positive and statistically significant in explaining veiled ownership, suggesting that large sunk costs amplify the effect of political distance on veiled ownership. These findings suggest that evolving

regulatory and market dynamics post-2018 have intensified the role of sunk costs in shaping veiled ownership patterns, particularly in politically distant transactions.

In robustness checks, we further separate tradable from non-tradable sectors, confirming that the baseline results are more pronounced in tradable sectors. Veiled ownership in these sectors exhibits greater sensitivity to political distance and sunk costs compared to the overall economy, particularly after 2018. This underscores how political fragmentation disproportionately affects industries with higher exposure to global markets, where firms face increased geopolitical risks and barriers to cross-border investment.

Our analysis of ownership structures highlights distinct behavioral differences between institutional and individual or family-owned entities. Approximately 40% of investment projects are owned by institutions, while 60% belong to individual or family owners. Since 2018, institutional investors have shown a stronger tendency to restructure ownership in response to political distance, often employing politically proximate intermediaries to reduce perceived risks. In contrast, individual and family owners exhibit a lower propensity to adjust their ownership strategies based on geopolitical factors. These findings indicate that the effects of political distance and sunk costs on veiled ownership vary by ownership type, with institutional investors responding more strongly.

Our analysis further examines how investment size influences veiled ownership. Larger GFDI projects, subject to greater regulatory scrutiny, raise questions about their effect on veiled ownership. Using capital as an explanatory variable, we find that before 2018, political distance had little impact on large projects' ownership structures. Post-2018, however, ultimate owners from politically distant countries increasingly adopted veiled ownership for large-scale investments, reflecting heightened geopolitical tensions and regulatory risks.

Re-estimating our model without tax haven investments confirms that political distance significantly influences ownership structures, independent of tax considerations. While tax incentives have traditionally shaped complex ownership chains, they do not fully correspond with political distance or sectoral variations in sunk costs. Our findings underscore that, beyond tax avoidance, geopolitical factors play a crucial role in shaping investment decisions, particularly in

sectors with high sunk costs. As de-globalization intensifies, firms increasingly employ veiled ownership strategies to mitigate geopolitical risks and adapt to a fragmented global landscape.

Finally, we examine how the political distance between immediate owners and the host country is influenced by the political distance between the host and final owners, particularly when final owners use veiled ownership. We find that as political distance between the host and final owner increases, veiled ownership is associated with immediate owners who are politically closer to the host. This suggests that final owners strategically use intermediaries to mitigate political risks. Additionally, in the absence of veiled ownership, immediate owners tend to have greater political distance from the host country as the final owner's political distance increases. These findings underscore veiled ownership as a strategic tool for managing political risks in cross-border investments, allowing final owners to navigate political friction by leveraging politically aligned intermediaries.

The economic magnitude of the impact of political distance is substantial. For instance, the sector at the ninetieth percentile of sunk cost is Steel Works, with a value of 2, while the sector at the tenth percentile is Rubber and Plastics Footwear, with a value of 0. The ninetieth percentile of political distance is represented by the US (source) - Georgia (host) pair, with a value of 1.78, whereas the tenth percentile is represented by the Japan (source) - Austria (host) pair, with a value of 0.08. Based on estimations, post-2018, veiled ownership in Steel Works should be 24 percentage points higher than that in Rubber and Plastics Footwear for the US-Georgia pair compared to the Japan-Austria pair. This difference is notable, particularly when contrasted with the sample mean of veiled ownership post-2018 (38 percentage points). Notably, this same difference, if measured pre-2018, would approximate only 1 percentage point. Thus, there is a significant increase of over 60% in veiled ownership post-2018 for certain industries with large sunk costs when investment originates from politically distant countries.

These findings have significant implications for international regulatory frameworks, investment transparency, and the evolving dynamics of global capital flows. As final owners increasingly utilize politically proximate intermediaries, the opacity of global FDI intensifies, complicating efforts to monitor and regulate cross-border investments. This trend challenges the effectiveness of regulatory oversight, potentially distorting capital allocation and exacerbating

economic disparities between nations that benefit from politically aligned investment and those that do not. Understanding these shifts is essential for evaluating the future of global investment in an era where political fragmentation disrupts established principles of international business and financial integration.

Our paper contributes to the literature on geoeconomic fragmentation and shifting global linkages, as explored by Alfaro and Chor (2023), Goldberg and Reed (2023), Benguria and Saffie (2024), and Gopinath et al. (2025). For instance, Gopinath et al. (2025) show how geopolitical tensions reshape trade flows along geopolitical lines, with connector countries like Mexico and Vietnam facilitating redirection. Their findings on trade, FDI, and portfolio fragmentation align with our evidence that firms adjust investment strategies to mitigate political risks. We extend this by examining how firms use veiled ownership structures to navigate de-globalization, leveraging politically aligned intermediaries to maintain market access while minimizing exposure to politically distant hosts. By shifting the focus from direct to ultimate foreign ownership, our study highlights how firms adapt amid geopolitical risks, complementing the rise of connector economies. Linking investment strategies to shifts in trade and capital flows, we provide a micro-level view of broader macroeconomic fragmentation and its long-term implications for global integration.

Moreover, our study builds on the literature examining how firms strategically structure ownership to optimize global investments in response to tax and regulatory considerations, as explored by Zucman (2013), Coppola, Maggiori, Neiman, and Schreger (2021), Fonseca, Nikalexi, and Papaioannou (2022), Tørsløv, Wier, and Zucman (2023), and Beck, Coppola, Lewis, Maggiori, Schmitz and Schreger (2024). For example, Coppola et al. (2021) highlight how multinational firms use tax havens to obscure the true ownership of capital flows, significantly distorting official foreign investment statistics, while Beck et al. (2024) further investigates how onshore-offshore financial centers influence financial integration in the Euro Area. These studies align with our research on veiled ownership in greenfield FDI, as they emphasize the strategic structuring of investments to navigate institutional constraints. While prior research has primarily focused on the role of tax havens in global capital flows, our study broadens this perspective by examining how geopolitical tensions and de-globalization drive firms to rely on politically aligned intermediaries. Additionally, we explore cross-sector heterogeneity, showing that firms in high-sunk-cost sectors

are particularly inclined to adopt veiled ownership structures. Hence, our paper complements the literature by providing more micro-level evidence on how firms strategically adjust investment structures in response to geopolitical and sector-specific constraints.

In addition, our paper contributes to the growing body of literature investigating the role of foreign ownership using Orbis data, enhancing the understanding of firm-level investment dynamics. Notable studies in this area include those by Cravino and Levchenko (2017), Fons-Rosen et al. (2021), Kalemli-Ozcan et al. (2023), and Gómez-Llabrés, Pastoris, and Schmitz (2023). These studies utilize Orbis's firm-level ownership structures to examine micro-level FDI, offering valuable insights into cross-border capital flows. A key finding across this literature is the strong correlation between FDI estimates derived from Orbis data and aggregate FDI statistics reported by national authorities, particularly in countries where Orbis provides extensive firm coverage. While our analysis focuses on firm-level data, the observed patterns have significant implications for the broader movement of aggregate FDI across countries, underscoring the importance of micro-level data in understanding macroeconomic trends.

Finally, this paper contributes to the literature on the impact of sunk costs on firm investment, building on studies by Guiso and Parigi (1999), Bulan (2005), Gulen and Ion (2015), Kim and Kung (2017), and Bonaime, Huseyin, and Mihai (2018). While prior research has examined how micro-level sunk costs affect domestic investment decisions and mergers and acquisitions, our study extends this inquiry by analyzing how sector-level sunk costs shape foreign direct investment patterns in the context of the evolving global political landscape.

The paper is organized as follows: Section 2 discusses the data including constructing GFDI. Section 3 presents the main findings, Section 4 provides robustness checks, and Section 5 concludes.

2. Data

In this section, we will discuss the data for foreign investments, the political distance index and the suck cost of investment.

2.1 Foreign Investment

Our main data source of firm-level foreign investment is the BvD's Orbis historical ownership database. BvD collects firm-level ownership data from firms' reports, stock exchange releases, company websites, press news, private correspondence, and agencies. The Orbis database has been used in identifying ownership controls (e.g., Fons-Rosen et al. (2021) and Kalemli-Ozcan et al. (2023)). The data covers around 17 million firms in 150 countries from 2007 to 2022.

To construct GFDI, we first identify a newly established firm based on its incorporation date. We will regard this firm as having GFDI if it has an ultimate foreign controlling shareholder. We further exclude branches established by the foreign headquarters. In the end, we identify around 600,000 firms as having GFDI. We then sum over the shares of foreign owners for that firm.[2] The median value of foreign shares is 100%, with a mean of 92% and a standard deviation of 22%.[3] We then further construct the dollar value of GFDI as the multiplication of firm's capital with the percentage of foreign shares.

The literature tends to construct GFDI data from the dataset of fDi Markets, which monitors cross-border investments in new physical projects or expansions of existing investments (e.g., IMF WEO 2023, UN FDI 2023, and Gopinath et al. (2025)). It primarily relies on publicly announced news from companies to gather data. However, its reported FDI values often involve estimations, as indicated in the IMF (2023). To overcome this limitation, we utilize register data from Orbis to construct GFDI. By incorporating the Orbis data, our methodology enables us to capture GFDI that may not be publicly announced or covered in news reports. This approach also allows for a more accurate representation of the recorded value of GFDI.[4]

2.2 Political distance

Our measure of geopolitical distance is based on United Nations General Assembly (UNGA) voting patterns, using the Ideal Point Distance (IPD) methodology developed by Bailey, Strezhnev, and Voeten (2017). This approach calculates political distance through alignment in voting

[2] This is consistent with Fons-Rosen et al. (2021) in constructing foreign investments.

[3] Less than 1% of GFDI has the total foreign shares less than 10%. Excluding them will not alter our analysis.

[4] Our approach may not fully capture GFDI in countries where firm-level data from Orbis is limited. However, Fons-Rosen et al. (2021) analyze firm-level FDI using the Orbis historical dataset and find that FDI estimates derived from Orbis exhibit a strong correlation with aggregate FDI data reported in official balance of payments statistics.

behavior, allowing us to quantify the inferred political preferences of countries during UNGA sessions from 1946 to 2021. The IPD is derived by estimating an ordered logit model over three voting options—yes, abstain, or no—where each country's vote is influenced by both model parameters and an underlying country-specific preference in that year. This latent preference process is estimated with a Bayesian prior, employing a Metropolis-Hastings/Gibbs sampler algorithm to derive the logit model's parameters. The geopolitical distance between any two countries is then represented by the absolute difference in their inferred preference scores, capturing annual shifts in their political alignment. In the analysis, we use two measures of political distance: contemporary political distance and the average political distance over the sample period, both of which produce similar results.

2.3 Sector-level Sunk Cost

In this paper, we will employ a measures of the sector-level sunk cost of investment. It is based on firms' rent and depreciation expenses, as well as their past sales of property, plant, and equipment (PPE). The logic is that firms that rent a higher proportion of their physical assets, have rapidly depreciating capital, and have assets with a more liquid secondhand market incur lower sunk costs. To measure these three characteristics, Gulen and Ion (2015) use firms' rent expense, depreciation expense, and sales of PPE over the past 12 quarters, normalized by PPE at the beginning of the current quarter. They aggregate these three proxies up to the three-digit SIC level by taking the industry-level means of the firm-level values. Similar to Farinas and Ruano (2005), they combine the three proxies into one sunk-cost index, which takes a value of 0, 1, or 2 at any given time. A value of 0 indicates that all three proxies are above their cross-sectional medians, while a value of 2 indicates that all proxies are below these medians. A value of 1 is assigned to the remaining industries. Thus, higher values of the index are associated with a higher degree of cost sunkness and therefore with higher levels of investment irreversibility.

In our sample, we use the index measured for year 2000. There, for around 500 US SIC sectors with available data, the mean value of the index is 1, with a standard deviation of 1.5. Note that the indicator is constructed from the firm and sector data in the US, so it could be regarded as exogenous to firms and sectors in the other countries. In our robustness checks, we drop the foreign investment in the US to further ensure the exogeneity of the indicators.

3. Main results

3.1 Methodology

Our empirical model is as follows:

$$(1) \quad VO_{i,k,s,h,t} = \alpha Political\ Distance_{s,h.t} * Sunk\ Cost_k + Controls_{\square} + \varepsilon_{\square}$$

Here $VO_{i,k,s,h,t}$ represents the firm-year level of veiled ownership for a greenfield FDI firm i in sector k, originating from the ultimate owner country s to the host country h in year t.

We examine the effect of political distance on veiled ownership by interacting political distance at the country-year level with the sunk cost index at the sector level, i.e., $Political\ Distance_{s,h.t} * Sunk\ Cost_k$.

We include host country fixed effects, final owner country fixed effects, and 3-digit sector fixed effects to account for unobservable factors. Standard errors are clustered at the host country–final owner country–sector level.

There are some methodological advantages to include the above interaction terms. In a pure cross-country analysis, it is challenging to control for all macro shocks, leaving the possibility that the impact attributed to political distance would be confounded by the unobserved factors. Hence controlling for industry-specific technological characteristics regarding sunk cost mitigates concerns about reverse causality. While it is typically difficult to identify causal effects using aggregate data, it is more likely that political distance affects firm-level foreign investment than the other way around. Furthermore, the industry-specific sunk cost is obtained from the U.S. firm level data at year 2000, before the sample starting year of 2007, which makes it less plausible that the causality runs from foreign investment in other countries to the US-based index of sunk cost.

3.2 Baseline Results

The regression results in Table 1 provide insights into the impact of political distance on veiled ownership, moderated by sunk costs, across three time periods: pre-2018, post-2018, and

across all years combined. The key variable of interest is the interaction term *Political Distance * Sunk Cost*. In the pre-2018 period (column 1), the interaction term *Political Distance * Sunk Cost* has a coefficient of 0.00472, which is statistically insignificant. This indicates that, before 2018, large sunk costs do not meaningfully influence the relationship between political distance and veiled ownership.

In the post-2018 period (column 2), the interaction term *Political Distance * Sunk Cost* becomes both positive and statistically significant, with a coefficient of 0.037 and a standard error of 0.01. This significant result suggests that, after 2018, large sunk costs notably amplify the impact of political distance on veiled ownership. This shift could reflect evolving regulatory or market dynamics that heighten the role of sunk costs in politically distant transactions.

With a coefficient of 0.0372 for political distance with sunk cost in column 2, the economic significance of the impact of political distance is considerable. For example, the sector at the 90th percentile of sunk cost is Steel Works, with a value of 2, while the sector at the 10th percentile is Rubber and Plastics Footwear, with a value of 0. The 90th percentile of political distance is represented by the US (source) - Georgia (host) pair, with a value of 1.78, whereas the 10th percentile is represented by the Japan (source) - Austria (host) pair, with a value of 0.08. According to estimates, since 2019, veiled ownership in Steel Works is expected to be 14 percentage points higher than in Rubber and Plastics Footwear for the US-Georgia pair compared to the Japan-Austria pair. This difference is significant, especially when compared to the sample mean of veiled ownership post-2018, which stands at 45 percentage points. By contrast, this same difference, if measured before 2019, would be around 1 percentage point. This demonstrates a substantial increase in veiled ownership since 2019.[5]

When examining the data across all years (column 3), the interaction term *Post-2018 * Political Distance * Sunk Cost* has a statistically significant positive effect (coefficient: 0.0368, $p < 0.01$), indicating that the moderating role of large sunk costs is particularly strong after 2018.

[5] Additionally, the overall sample mean of veiled ownership increases from 37 percentage points pre-2018 to 45 percentage points post-2018.

The results indicate that while political distance consistently correlates with veiled ownership, the intensifying effect of large sunk costs on this relationship becomes more pronounced in the post-2018 period. This finding suggests that evolving regulatory or economic conditions may have heightened the influence of sunk costs on veiled ownership, particularly in politically distant contexts after 2018.

4. Robustness Checks

4.1 Tradable sectors

In Table 1, we examine all sectors, including both tradable and non-tradable sectors. The tradable sectors encompass agriculture, mining, and manufacturing, while the non-tradable sectors include utilities, wholesale/retail trade, financial sectors, and services. With deglobalization trends emerging from trade tariff wars, we shift our focus to tradable sectors in Table 2. In Table 2, the analysis focuses specifically on tradable sectors, such as agriculture, mining, and manufacturing, to examine the effects of political distance and sunk costs on veiled ownership, particularly in light of deglobalization trends.

In the pre-2018 period for tradable sectors (Column 1), the interaction term *Political Distance * Sunk Cost* is negative, with a coefficient of -0.0186, and marginally significant at the 10% level ($p < 0.1$). This contrasts with Table 1, where the pre-2018 interaction effect was positive, though not significant. The negative coefficient here suggests that in tradable sectors, greater political distance and higher sunk costs are associated with a reduction in veiled ownership pre-2018, indicating a different baseline relationship in tradable sectors compared to the overall economy.

In the post-2018 period (column 2), the interaction term *Political Distance * Sunk Cost* for tradable sectors is positive, with a coefficient of 0.0409 and highly significant ($p < 0.01$). This coefficient is larger than the corresponding post-2018 coefficient in Table 1 (0.0372), suggesting a stronger response to political distance and sunk costs in tradable sectors as deglobalization pressures intensify. This larger coefficient indicates that post-2018, tradable sectors are more sensitive to political distance in the presence of high sunk costs, highlighting the heightened impact of fragmentation in sectors directly exposed to global trade.

The impact of political distance on veiled ownership is economically significant. For example, the Steel Works sector, at the 90th percentile of sunk costs, has a value of 2, while the Rubber and Plastics Footwear sector, at the 10th percentile, has a value of 0. In terms of political distance, the US (source)–Georgia (host) pair represents the 90th percentile with a value of 1.78, whereas the Japan (source)–Austria (host) pair falls at the 10th percentile with a value of 0.08. According to Column 2 of Table 2, post-2018, veiled ownership in Steel Works is expected to be 24 percentage points higher than in Rubber and Plastics Footwear for investments from the US-Georgia pair compared to the Japan-Austria pair. Given the sample mean of veiled ownership post-2018 (38 percentage points), this represents a substantial increase of over 60% in veiled ownership for certain tradable industries with high sunk costs when originating from politically distant countries.

When examining all years together (Column 3), the *Post-2018 * Political Distance * Sunk Cost* term in Table 2 is notably larger at 0.0516 ($p < 0.01$) compared to its counterpart in Table 1 (0.0368). This disparity underscores the stronger and more significant impact of political distance on veiled ownership within tradable sectors post-2018, reflecting the unique vulnerability of these sectors to international fragmentation.

The results of Table 2 indicate that in the context of deglobalization, tradable sectors exhibit a more substantial sensitivity to political distance and sunk costs than the broader economy. This sensitivity is particularly pronounced post-2018, as shown by the larger coefficients in Table 2 compared to Table 1, underscoring that the impact of political fragmentation is significantly more substantial in sectors with higher exposure to global markets.

4.2 Individual Owners

In Table 3, which focuses on cases where the final owners are individuals or families, the impact of *Political Distance * Sunk Cost* on veiled ownership is compared to the results in Table 1, where the final owners are institutions like corporations. This comparison provides insights into how the type of final owner influences the role of political distance and sunk costs in veiled ownership structures.

In the Pre-2018 period (Column 1 of Table 3), the interaction term *Political Distance * Sunk Cost* has a coefficient of 0.00282, which is statistically insignificant. This contrasts with Table 1, where the corresponding coefficient was 0.00472, also insignificant but slightly higher. These results suggest that prior to 2018, political distance and sunk costs had a limited and statistically non-significant effect on veiled ownership, regardless of owner type. However, the negligible interaction effect is more pronounced among individual or family owners.

In the post-2018 period (Column 2), the coefficient of *Political Distance * Sunk Cost* for individual/family owners in Table 3 is -0.00198, insignificant and slightly negative, whereas Table 1 reports a significant positive coefficient of 0.0372 for institutional ownership. This disparity implies that political distance combined with high sunk costs has a meaningful positive effect on veiled ownership when institutions are the final owners, particularly post-2018, while this effect is negligible and slightly negative when individuals or families are the final owners.

Across all years (Column 3), *Political Distance * Sunk Cost* in Table 3 remains insignificant (coefficient: 0.00391), unlike Table 1, which reports a minor but positive effect. Additionally, in Table 3, the three-way interaction term *Post-2018 * Political Distance * Sunk Cost* is -0.00792, again showing no statistical significance, compared to Table 1's positive coefficient of 0.0368. This further underscores that political distance and sunk costs interact more significantly in shaping veiled ownership among institutional owners, who may be more sensitive to geopolitical and regulatory shifts.

A rationale for the observed differences could be that individual or family owners often lack the extensive resources and cross-country networks needed to obscure ownership through complex structures involving multiple intermediaries. Unlike institutional owners, who can leverage a broad network of subsidiaries and related entities across jurisdictions to establish layers of immediate ownership, individual owners might face limitations in accessing the financial and legal resources required to establish such elaborate ownership chains. This constraint could reduce their capacity to strategically adjust veiled ownership in response to political distance and sunk costs. Institutional owners, on the other hand, typically have the means to implement such structures, allowing them to respond to shifts in political distance by restructuring ownership more readily. Thus, the more limited capacity of individual owners to utilize intermediate ownership structures

likely contributes to the less pronounced effect of *Political Distance* * *Sunk Cost* in Table 3 compared to Table 1.

In summary, the results suggest that the influence of political distance and sunk costs on veiled ownership is contingent on the type of final owner, with institutional owners displaying a stronger response to these factors than individual or family owners, especially in the post-2018 period.

4.3 Immediate owners

Table 4 explores how the political distance between immediate (direct) owners and the host country is influenced by the political distance between the host and final owners, contingent on whether final owners choose to obscure their ownership by employing an intermediate direct owner.

The variable *Political Distance* (between the host and final owners) exhibits a positive and significant association with the political distance between immediate owners and the host country, with a coefficient of 0.993 ($p < 0.01$). This suggests that as the political distance between the host and final owners grows, the immediate owners typically also exhibit a larger political distance from the host country.

However, the interaction term *Veiled Ownership* × *Political Distance (Host-Final)* yields a significant negative coefficient of -0.860 ($p < 0.01$). This finding indicates that when final owners utilize veiled ownership structures through immediate owners, the political distance between the immediate owner and the host country decreases significantly, given the political distance between the host and final owner. In other words, when the political distance between the host and final owner is substantial, veiled ownership is associated with the selection of immediate owners who are politically closer to the host. This likely reflects a strategic adjustment by final owners to mitigate risks arising from political friction by leveraging politically aligned intermediaries.

Overall, the results in Table 4 imply that veiled ownership serves as a strategic tool for managing political risk. When final owners are politically distant from the host country, they strategically select immediate owners who are politically closer to the host, likely to mitigate

potential scrutiny or political risks associated with foreign ownership. This analysis highlights veiled ownership as a flexible mechanism to bridge political divides in cross-border investments, especially where political risk is a critical concern.

4.4 No Tax Haven Centers

One might wonder whether the earlier empirical results are driven by tax considerations. However, our identification of the impact of political distance already leverages variations in sunk costs across 500 SIC sectors, where these variations are unlikely to be correlated with tax avoidance motives. To further address this concern, we exclude cases where immediate owners are located in tax havens as identified in Tørsløv, Wier, and Zucman (2023). These tax havens include Bermuda, the Cayman Islands, the British Virgin Islands, Hong Kong, Ireland, Luxembourg, the Netherlands, Puerto Rico, Singapore, and Switzerland.

The updated results are presented in Table 5. Column 1 of Table 5 reports the results for the pre-2018 period, where excluding tax havens reduces the sample size by approximately 10% relative to Column 1 of Table 1. In this period, the interaction between political distance and sunk cost remains statistically insignificant. Column 2 of Table 5 presents the results for the post-2018 period. Compared to Column 2 of Table 1, the post-2018 sample shrinks by 40% after excluding tax havens. Despite this reduction, we continue to find a significant effect of political distance interacted with sunk cost, consistent with the earlier findings in Table 1. Moreover, the coefficient for this interaction is 0.036, closely aligning with the value of 0.037 reported in Column 2 of Table 1. Thus, our primary conclusion—that political distance influences ownership structures in the era of de-globalization—remains robust and is not primarily driven by tax-related considerations.

Our analysis shows that political distance significantly shapes the choice of immediate owners in foreign direct investment, beyond tax considerations. While tax incentives drive complex ownership chains, they do not always align with political distance or explain sectoral differences in sunk costs. Political proximity proves as influential as, if not more than, tax factors, especially in high-sunk-cost sectors. As de-globalization intensifies, firms increasingly adopt veiled ownership strategies to navigate a fragmented global landscape. By linking FDI decisions

to political economy, our study highlights how political fragmentation shapes complex ownership structures.

4.5. The size of GFDI

So far, we have examined the existence of GFDI. However, the size of a GFDI project, reflected in the firm's capital, is also a key factor in understanding veiled ownership among ultimate beneficial owners. Larger GFDI investments often face greater scrutiny and regulatory oversight, potentially influencing the use of veiled ownership. To assess the role of GFDI size, we incorporate firm capital—reported by ORBIS and measured in dollar value—into our analysis.

Table 6 replicates the analysis from Column 3 of Table 1 but splits the sample into small and large GFDI investments based on the median GFDI size in our dataset. Small GFDI investments refer to those with a size below the median, while large investments are those above the median.[6] Column 1, which focuses on small FDI, shows a relatively insignificant coefficient for the interaction of political distance, sunk cost, and the post-2018 dummy. In contrast, Column 2, representing large FDI investments, reports a significantly positive coefficient for this interaction. This finding suggests that large-scale projects, which already attract considerable attention and regulatory scrutiny, are more likely to adopt veiled ownership strategies as political distance increases.

4.6. Alternative measure of deglobalization

Our analysis thus far examines the political distance between host and home countries in GFDI, measured by the Ideal Point Distance based on UN voting patterns. To further explore evolving geopolitical distance, we consider an alternative measure: the import contraction of host countries from home countries. To systematically assess trade disruptions, we classify percentage declines in imports into five categories, with the highest representing the most severe contractions. For instance, a key example of deglobalization is the sharp decline in China's exports to the US after

[6] Compared to Column 3 of Table 1, the sample size in Table 6 is reduced by 40% due to missing data on investment size for some FDI investments.

2018 due to escalating trade tensions. To account for broader trade trends, we adjust the decline in imports between home and host countries by the global decline in trade value

The results on trade contraction are presented in Table 7, where we replicate Table 1 but replace political distance with one-year-lagged import contraction. Our findings show that before 2018, the interaction between import contraction and sunk costs is insignificant (Column 1). However, post-2018, this interaction becomes significantly negative (Column 2), mirroring the pattern observed in Table 1. This suggests that as a home country's exports to a host country decline, investors increasingly use veiled ownership, routing investments through intermediaries more closely aligned with the home country.

5. Conclusion

This study provides new empirical insights into how geopolitical factors influence FDI structures in the era of de-globalization. By analyzing firm-level data from 2007 to 2022 on over 600,000 greenfield FDI (GFDI) projects across 120 host countries and 70 source countries, we demonstrate that political distance—particularly when combined with high sunk costs—plays a critical role in shaping ownership complexity. Since 2018, the prevalence of veiled ownership in high-sunk-cost sectors has increased by more than 60%, especially in cases where significant political distance separates source and host countries. This trend is even more pronounced in large-scale investments and remains robust after accounting for the role of tax havens. Institutional investors, in particular, exhibit a stronger preference for veiled ownership structures compared to individual investors, highlighting a more strategic approach to managing geopolitical risks.

Moreover, tradable sectors, which are directly integrated into global markets, show the greatest sensitivity to political distance and sunk costs, reflecting the heightened impact of international fragmentation on these industries. This finding underscores the broader implications of geopolitical fragmentation, as firms in tradable sectors face greater pressure to adapt their investment structures to mitigate exposure to politically distant markets. Furthermore, our results hold when de-globalization is measured through shifts in bilateral trade, reinforcing the link between geopolitical realignments and changes in investment strategies. These findings contribute to the growing literature on geoeconomic fragmentation by offering a micro-level perspective on how firms navigate shifting global linkages through ownership structures.

This study illustrates how political distance and geopolitical shifts influence investment patterns, providing a timely perspective on the challenges facing global investment governance. The post-2018 surge in veiled ownership carries significant implications for capital flows, regulatory oversight, and transparency. As firms navigate a fragmented geopolitical landscape, increasing FDI opacity complicates regulatory enforcement and may disrupt efficient capital allocation. Our findings highlight the pressing need for international regulatory frameworks to adapt to these evolving ownership structures, ensuring transparency and mitigating risks in an era of de-globalization.

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Table 1. Impact of Political Distance on Veiled Ownership-Baseline

VARIABLES	(1) Pre-2018	(2) Post-2018	(3) All years
Political Distance*Sunk Cost	0.00472	0.0372***	0.00244
	(0.00746)	(0.0102)	(0.00762)
Political Distance	0.0270***	0.00817	0.0322***
	(0.00902)	(0.0107)	(0.00838)
Post-2018*Political Distance*Sunk Cost			0.0368***
			(0.0128)
Post-2018*Sunk Cost			0.0137
			(0.0122)
Post-2018*Political Distance			-0.0327***
			(0.00878)
Post-2018			0.0500***
			(0.0105)
Constant	0.348***	0.415***	0.350***
	(0.00771)	(0.00847)	(0.00704)
Observations	153,150	80,655	233,843
R-squared	0.095	0.165	0.112

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 2. Impact of Political Distance on Veiled Ownership--Tradable Sectors

VARIABLES	(1) Pre-2018	(2) Post-2018	(3) All years
Political Distance*Sunk Cost	-0.0186*	0.0409***	-0.0197*
	(0.0105)	(0.0151)	(0.0108)
Political Distance	0.0138	0.0137	0.0305*
	(0.0172)	(0.0212)	(0.0164)
Post-2018*Political Distance*Sunk Cost			0.0516***
			(0.0178)
Post-2018*Sunk Cost			-0.00820
			(0.0203)
Post-2018*Political Distance			-0.0345*
			(0.0204)
Post-2018			0.00651
			(0.0238)
Constant	0.352***	0.308***	0.336***
	(0.0127)	(0.0157)	(0.0119)
Observations	14,131	5,335	19,493
R-squared	0.145	0.228	0.144

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 3. Impact of Political Distance on Veiled Ownership--Individual Owner

VARIABLES	(1) Pre-2018	(2) Post-2018	(3) All years
Political Distance*Sunk Cost	0.00282	-0.00198	0.00391
	(0.00400)	(0.00407)	(0.00405)
Political Distance	-0.00715*	0.00235	-0.000930
	(0.00405)	(0.00823)	(0.00523)
Post-2018*Political Distance*Sunk Cost			-0.00792
			(0.00561)
Post-2018*Sunk Cost			0.00662
			(0.00772)
Post-2018*Political Distance			-0.00443
			(0.00475)
Post-2018			0.0242***
			(0.00664)
Constant	0.102***	0.0974***	0.0877***
	(0.00275)	(0.00687)	(0.00379)
Observations	198,432	165,551	364,016
R-squared	0.128	0.192	0.143

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 4. Political Distance Between Host Country and Intermediary Owners

	(1)
Veiled Ownership*Political Distance (Host-Final)	-0.860***
	(0.0105)
Veiled Ownership	0.0197***
	(0.00510)
Political Distance	0.993***
	(0.00316)
Observations	236,368
R-squared	0.912

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 5. Impact of Political Distance on Veiled Ownership----No Tax Havens

VARIABLES	(1) Pre-2018	(2) Post-2018
Political Distance*Sunk Cost	0.00734	0.0360***
	(0.00777)	(0.0119)
Political Distance	0.0247***	-0.00258
	(0.00926)	(0.0117)
Observations	140,256	47,731
R-squared	0.105	0.195

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 6. Impact of Political Distance on Veiled Ownership —GFDI Size

VARIABLES	(1) Small GFDI	(2) Large GFDI
Political Distance*Sunk Cost	0.0342***	0.00517
	(0.0123)	(0.00862)
Political Distance	0.0358***	0.0204**
	(0.0119)	(0.00929)
Post-2018*Political Distance*Sunk Cost	0.0145	0.0459***
	(0.0167)	(0.0149)
Post-2018*Sunk Cost	0.00969	-0.0235
	(0.0161)	(0.0179)
Post-2018*Political Distance	-0.0244**	-0.0511***
	(0.0116)	(0.0123)
Post-2018	0.0241*	0.0823***
	(0.0140)	(0.0156)
Observations	69,761	73,116
R-squared	0.142	0.093

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table 7. Impact of Import Contraction on Veiled Ownership

VARIABLES	(1) Pre-2018	(2) Post-2018
Imports Contraction*Sunk Cost	0.00532	0.0121**
	(0.00329)	(0.00481)
Imports Contraction	-0.00332	-0.00279
	(0.00273)	(0.00458)
Observations	171,724	61,663
R-squared	0.099	0.179

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1