

Head & Mayer (2004) & Li et al. (2023)

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■ Questions (Meyer & Head, 2004)

Q1: WHY is this piece of work important?

Q2: WHAT theoretical framework is used to tackle the research question of this article?

Q3: WHAT empirical results are of interest to you?

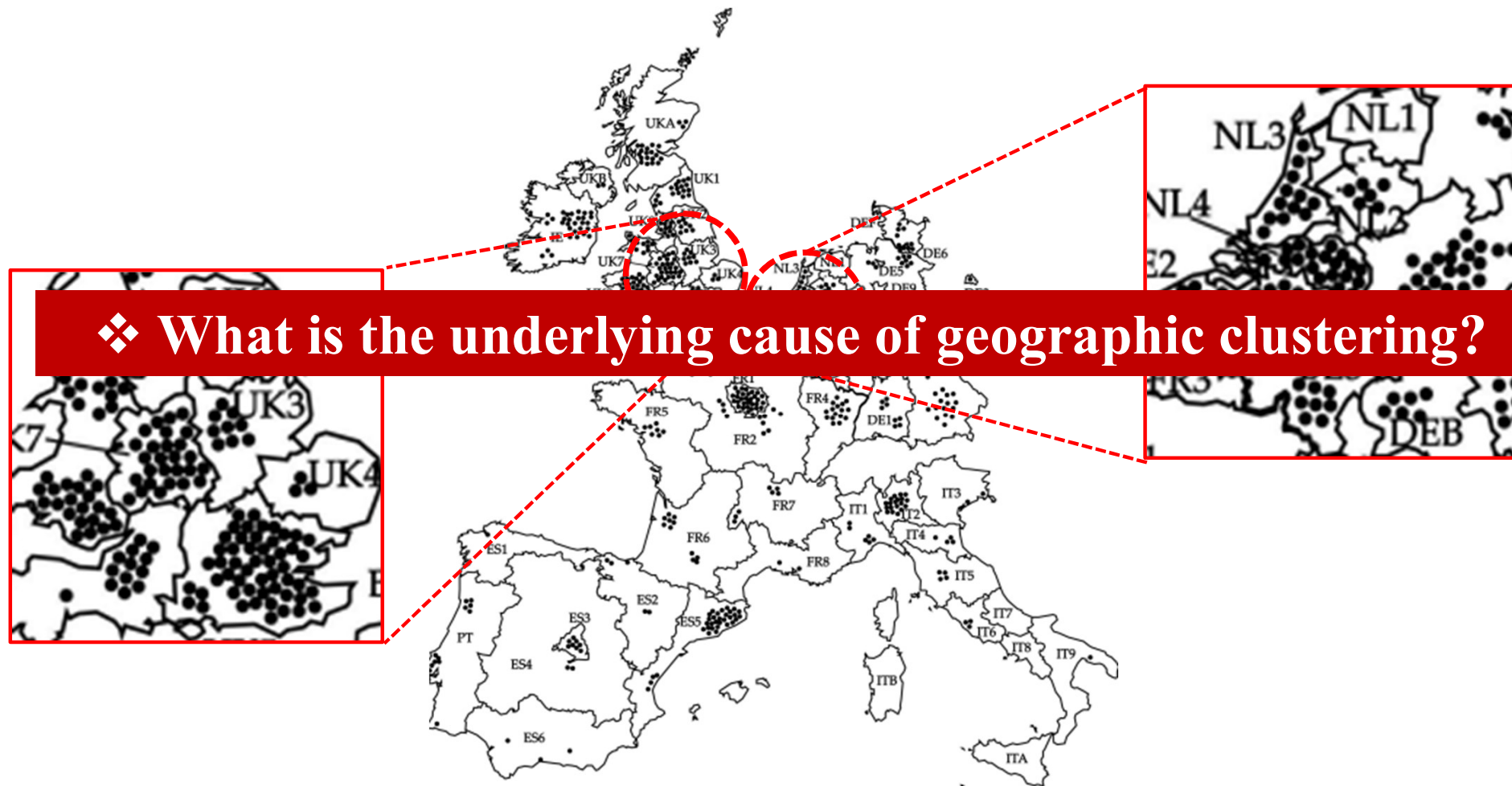
Q4: Evaluate the **STRENGTH** of the paper.

Q5: WHAT practical implications can be found?

Market Potential & FDI Location Strategy



■ Japanese Investors in Europe at the End of 1995



Source: Head & Mayer. (2004).

Market Potential & FDI Location Strategy



Japanese Investors in Europe at the End of 1995

Specification	452 Firms Choosing between 57 Regions					
	(1)	(2)	(3)	(4)	(5)	(6)
ln wages	0.47 ^c (0.25)	-0.20 (0.26)	-0.12 (0.28)	0.17 (0.25)	0.50 (0.34)	0.13 (0.36)
Unemployment rate	-8.90 ^a (1.69)	-4.50 ^a (1.70)	-1.57 (1.95)	-3.22 ^c (1.78)	-4.34 ^c (2.28)	-1.35 (2.43)
Obj. 1 eligibility	-0.25 (0.21)	-0.12 (0.22)	0.25 (0.22)	0.01 (0.22)	-0.22 (0.24)	-0.24 (0.25)
ln regional area	0.31 ^a (0.05)	0.05 (0.06)	0.58 ^a (0.06)	0.59 ^a (0.06)	0.58 ^a (0.07)	0.21 ^b (0.08)
Social charges rate	-2.26 ^a (0.38)	-2.28 ^a (0.38)	-2.25 ^a (0.38)	-1.56 ^a (0.38)	0.24 (1.83)	-0.01 (1.86)
Corporate tax rate	-4.82 ^a (0.59)	-4.80 ^a (0.58)	-5.03 ^a (0.60)	-4.96 ^a (0.61)	-0.40 (2.36)	-0.34 (2.34)
ln regional GDP =ln v_r		0.80 ^a (0.08)				
ln Harris market potential =ln $\sum_j E_j d_{rj}$			1.88 ^a (0.21)			
ln Krugman market potential =ln M_r				1.11 ^a (0.13)	1.07 ^a (0.14)	0.34 ^b (0.16)
ln(1 + domestic industry count)						0.52 ^a (0.08)
ln(1 + Japan industry count)						0.86 ^a (0.11)
ln(1 + network count)						1.24 ^a (0.22)
National fixed effects	No	No	No	No	Yes	Yes
Likelihood ratio index	0.054	0.079	0.077	0.073	0.079	0.126

Standard errors in parentheses.

^a Significant at 1% level.

^b Significant at 5% level.

^c Significant at 10% level.

Source: Head & Mayer. (2004).

Market Potential & FDI Location Strategy

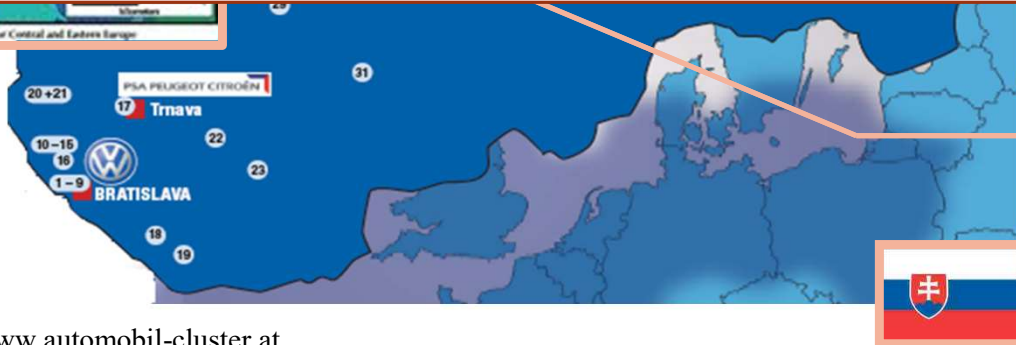


■ Agglomeration



> Agglomeration Advantages

- **Labour pooling:** The concentration of industrial activities in a specific location leads to an optimal balance between supply & demand in the labour market;
- **Intermediate inputs:** The abundance of suppliers of specialized input & services enhance specialisation.
- **Technological spillovers:** Agglomeration of firms with similar products creates the development of technological knowledge.

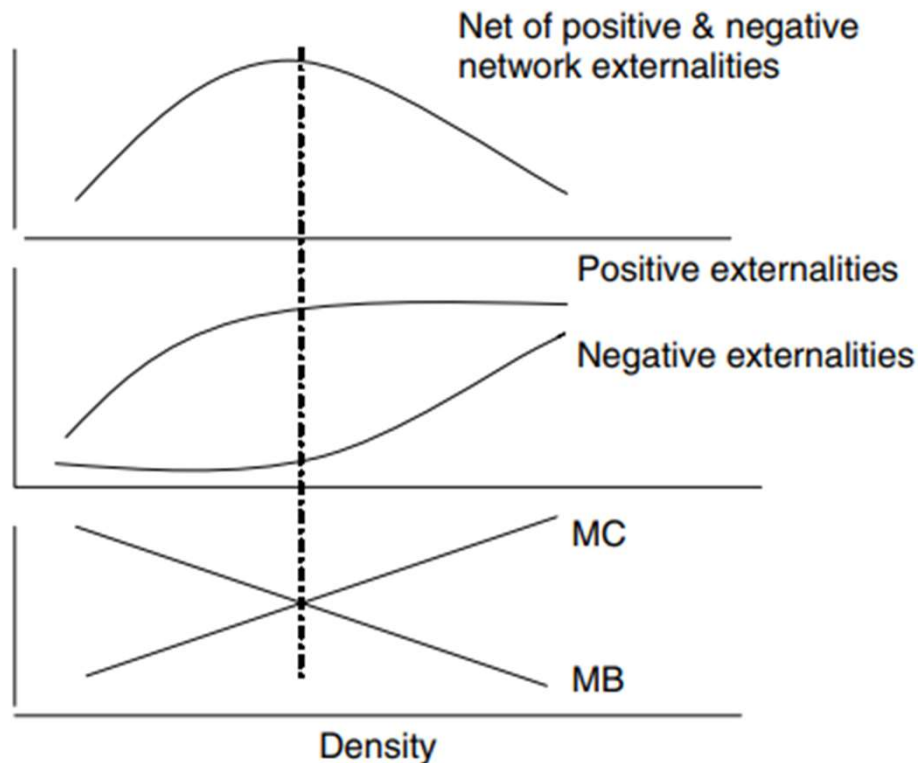


Source: www.automobil-cluster.at



■ Too Much Agglomeration - Less FDI?

❖ Rationale for a Curvilinear Relationship



KEY POINTS

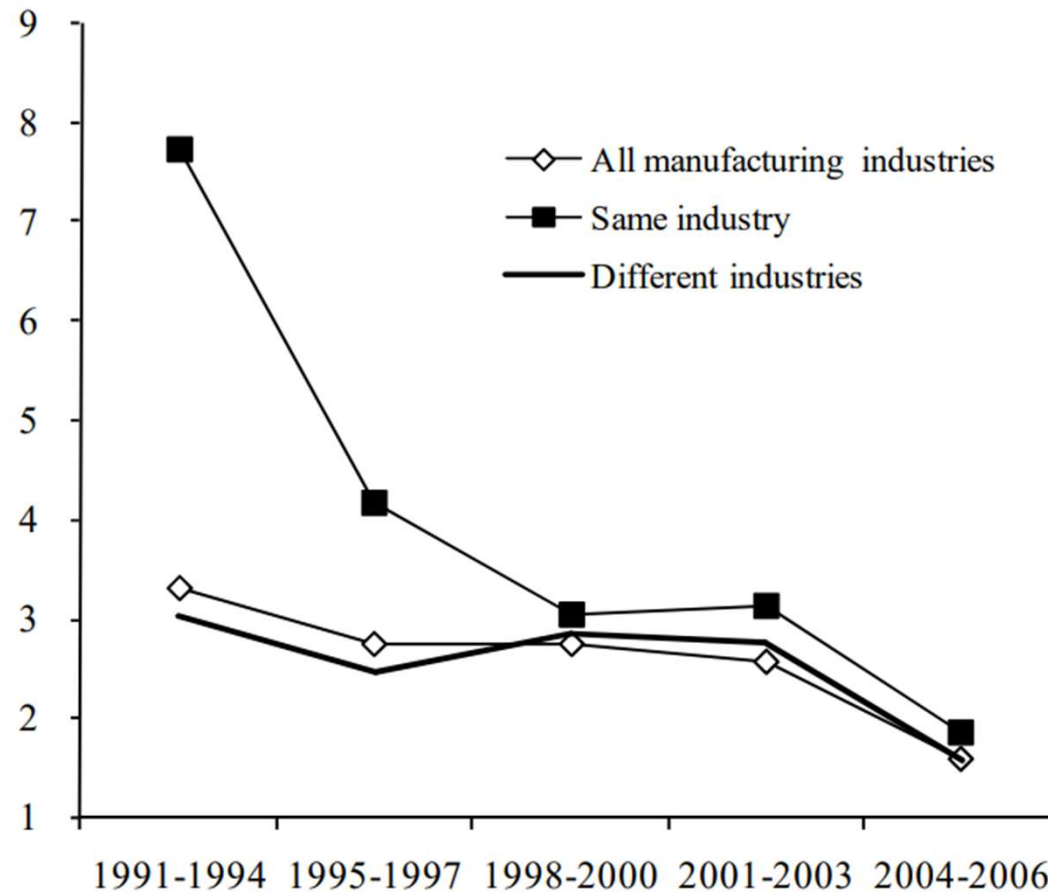
- > Population density positively influences startups' performance due to **legitimacy & acceptance**.
- > **However**, after a certain level, population density **negatively** impacts the founding rate due to **increased competition**.
- > **Marginal costs from agglomeration** will **increase** since the **competition in both product & factor markets** will become more severe & **potential hazards from groupthink** would become larger.

Source: Chang & Park (2005: 598) in *Strategic Management Journal*.



■ Learning Process

❖ The Evolution of Coefficients of Agglomeration over Time



Source: Kawai (2010: 189).

Market Potential & FDI Location Strategy



■ Statistical Approach

The screenshot displays the Stata/SE 12.0 software interface. The 'Statistics' menu is open, showing various statistical options. The 'Conditional logistic regression' and 'Nested logit regression' options are highlighted with green boxes. The command window shows the command 'set maxvar- 5000 maximum variables'. The interface includes a menu bar (File, Edit, Data, Graphics, Statistics, User, Window, Help), a command window, and a variables list on the right. The system tray at the bottom shows the date and time as 8:13 on 2023/03/21.



■ Questions

Q1: WHAT is the motivation of this article?

Q2: WHAT is the research context of this study?

Q3: WHAT is the concept of agglomeration economies in general?
Explain **POSITIVE & NEGATIVE** effects of agglomeration.

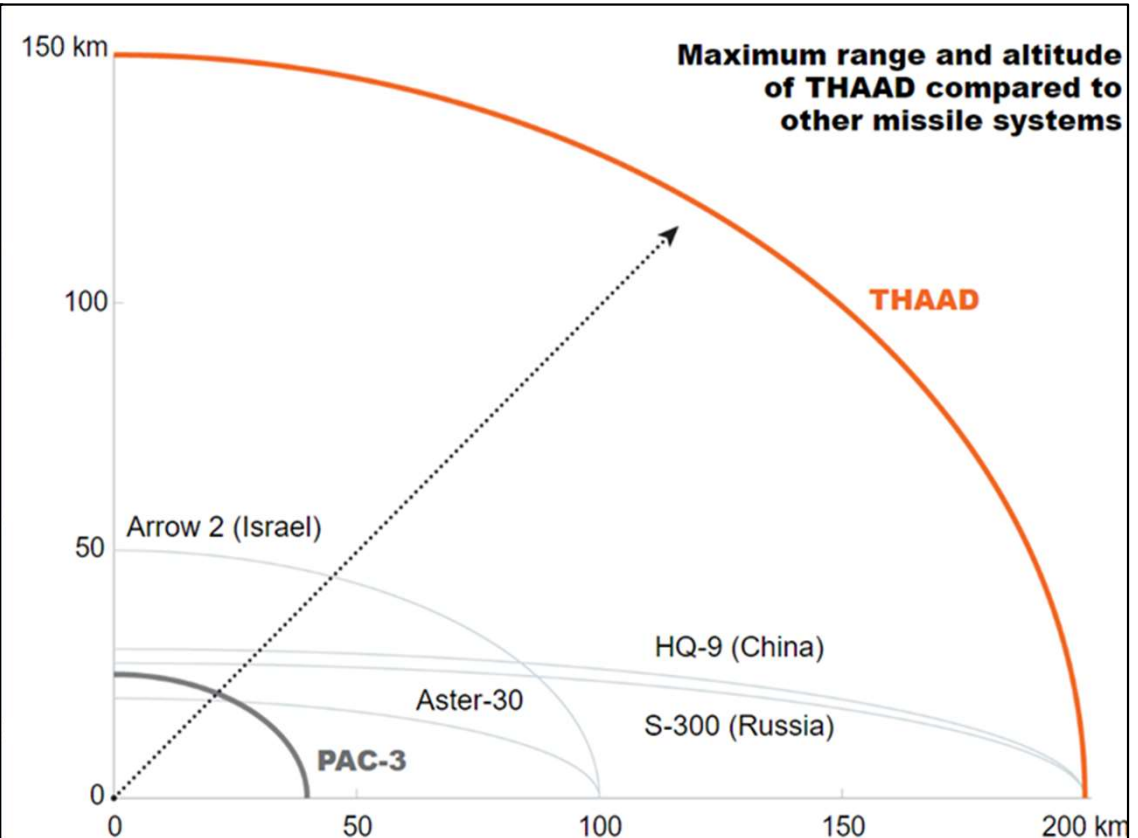
Q4: Identify several **UNIQUE EXAMPLES/CASES** of agglomeration.

Q5: Country-of-origin agglomeration is a key antecedent of Korean firms' location selection in a given province. **WHY? WHAT organizational & situational factors** do you think important in strengthening or weakening this association? **WHAT** is the rationale?

Q6: WHAT is this study's managerial relevance?



■ Why China Is Very Mad?



❖ China argues that the long-term THAAD deployment leads to threatening Chinese security because the system could neutralize its nuclear deterrent.



■ The THAAD Deployment in 2017

Companies

Amid THAAD fuss, Hyundai, SK selling key assets in China

Companies

Lotte caught in THAAD dispute

Economic Punishments by China

DECEMBER 2017 (REVISED JANUARY 2019) CASE HBS CASE COLLECTION

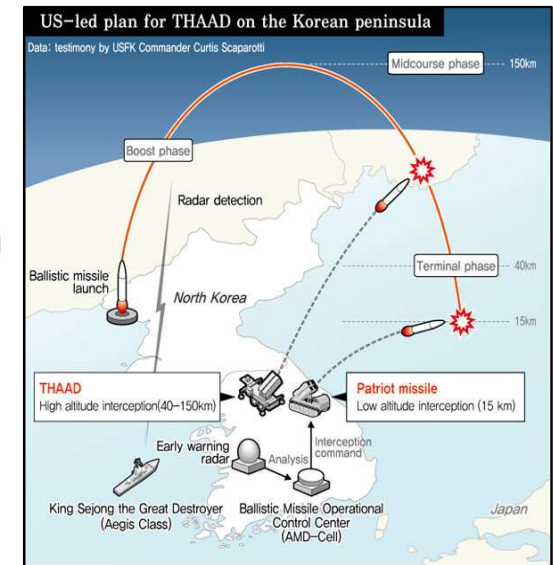
**In the Eye of a Geopolitical Storm:
South Korea's Lotte Group, China and
the U.S. THAAD Missile Defense
System (A)**

THAAD missile system agitates
South Korea-China ties

[THAAD] Samsung, LG await China's battery certification amid THAAD
woes

**Korean corporations saw major declines in sales in China
following THAAD debacle**

THAAD retaliation weighs on Samsung, LG





■ The THAAD Deployment in 2017

- A sharp drop of inbound Chinese tourists;
- Boycotting of consumer & cultural products;
- Restriction of the issuance of multiple entry visas to China;
- More strict rules on Korean goods;
- The delaying of procedures for a long time &
- The banning of K-pop stars from appearing in publics.

More Detailed Data

- Tourist arrivals from China dropped by 48.3% in 2017.
- 87 of 99 hypermarkets of the Lotte Group were closed in China.
- Samsung SDI & LG Chem did not receive subsidies for their EVs.
- Beijing Hyundai's sales dropped a 75.7% (↓), from 20.1 trillion won in 2016 to 4.9 trillion in 2022.

Meyer & Nguyen (2005).
*“Foreign Investment Strategies & Sub-National Institutions in
Emerging Markets: Evidence from Vietnam”.*

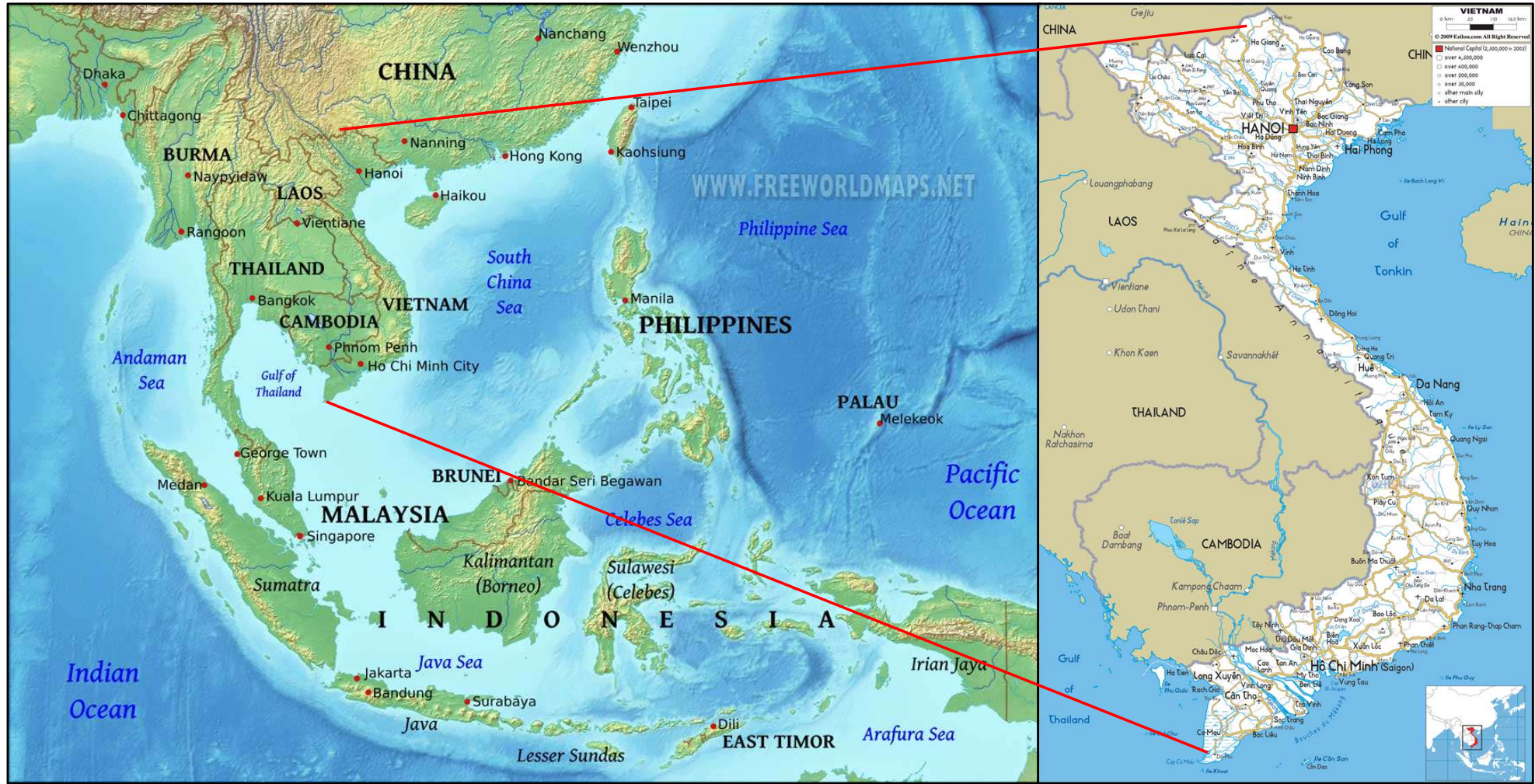
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FDI Strategies & Sub-National Institutions



Where & How to Enter Southeast Asia





■ Reading Questions

Q1: What is the major argument of this article? **How** is it related to the IB context? **Why** do you think it very important?

Q2: What is the uniqueness or originality of this article?

Q3: What does it mean by “institutions influence the evolution of resources & capabilities”?

Q4: Clarify how institutional change looks like in Vietnam.

Q5: Explain how institutions affect (1) location strategies & (2) foreign investors' entry mode choice in Vietnam.

Q6: What does it mean by “the more developed market-supporting institutions in a region are, the more likely foreign investors are to establish greenfield operations in that sub-national region.”?



■ Questions

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■ Question 1

❖ Key Points

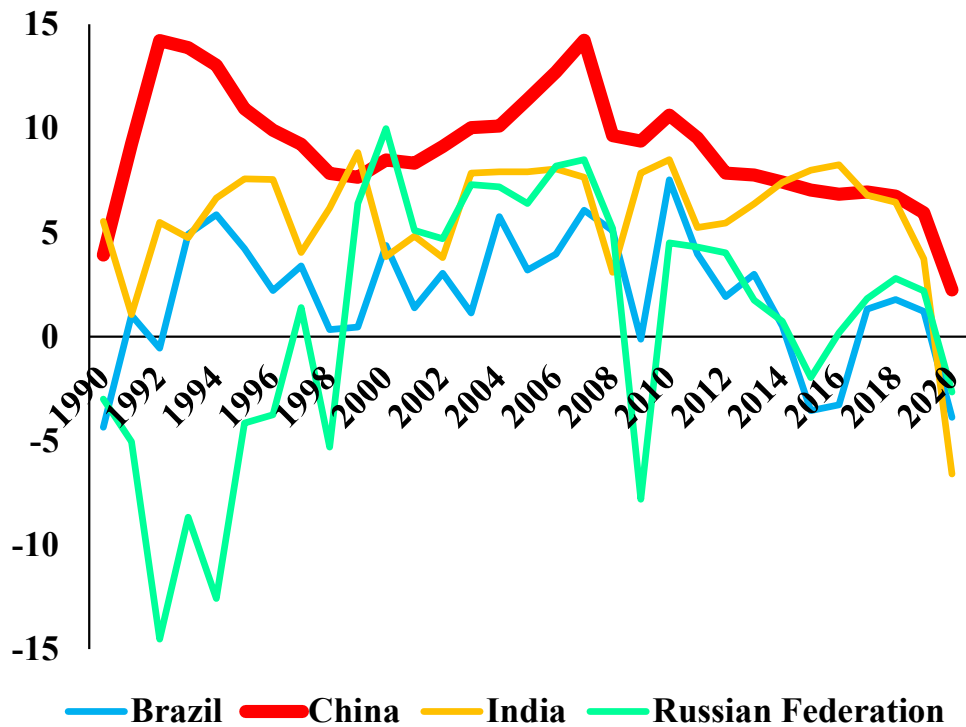
- > Investors need to adapt their FDI strategies to formal & informal institutions prevailing at the host location, especially when entering emerging economies like **BRICs & VIPs**.
- > **Institutions** play a critical role in affecting foreign firms' market entry strategies (*i.e.*, **location choice & entry mode**) in **Vietnam**.
- > **Sub-national institutional forces** are **influential** in deciding where & how to set up foreign investors' local business operations.

FDI Strategies & Sub-National Institutions

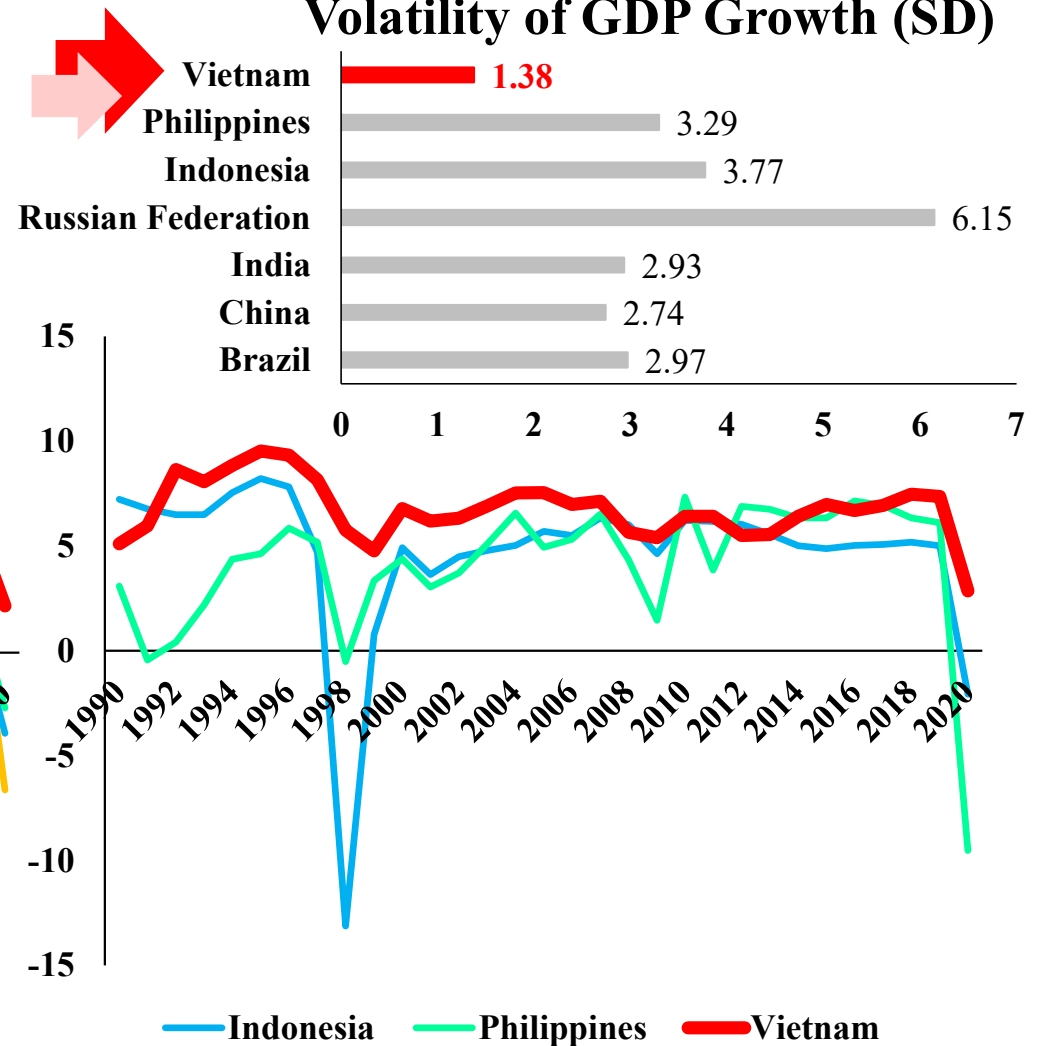


Question 1

❖ GDP Growth (Annual %)



Volatility of GDP Growth (SD)



Source: Own illustration based on World Bank (<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>).

FDI Strategies & Sub-National Institutions



■ Question 1

Country	Indonesia	Malaysia	Philippines	Thailand	Vietnam
Land Area (sq. km)	1,877,519	328,550	298,170	510,890	313,429
Corruption Perception Index	37	51	34	36	36
FDI, Net Inflows (BoP, current US\$)	19.2	4.1	6.8	-4.9	15.8
Population (million people)	272	33	112	71	97
Population Growth (%)	0.840	1.200	1.627	0.235	0.906
FDI per Capita (current US\$)	70.53	122.25	60.81	-69.22	163.48
Average GDP Growth (2010-2020)	4.74	4.36	4.96	2.74	6.24
Average GDP per Capita Growth (2010-2020)	3.59	2.83	3.18	2.25	5.17
Hourly Earnings for Professionals (Euro)	2.62	7.52	3.89	5.59	2.69
Hourly Earnings for Plant Workers (Euro)	0.99	2.09	1.43	1.84	1.49
Government Expenditure on Education (% of GDP)	3.49	3.92	3.73	3.15	4.11
Political Stability	-0.45	0.11	-0.75	-0.58	-0.08
Regulatory Quality	0.23	0.68	0.13	0.08	-0.22
Government Effectiveness	0.35	1.06	0.10	0.23	0.23
Property Rights	59.8	86.5	54.6	59.5	52.6
Judicial Effectiveness	56.2	74.6	34.2	48.8	40.1
Government Integrity	37.2	49.4	38.7	43.4	33.8
Tax Burden	83.4	85.7	76.7	80.7	79.5
Government Spending	91.7	84.6	87.9	85.9	75.9
Fiscal Health	90.2	80.2	96.3	96.4	58
Business Freedom	70	87.8	59.5	83	65.6
Labor Freedom	49.2	74.5	57.4	63.7	62.5
Monetary Freedom	78.4	81.6	66.9	74	68.2
Trade Freedom	80.8	82	81.6	83	79.6
Investment Freedom	50	60	60	55	40
Financial Freedom	60	50	60	60	50

Source: Own illustration based on multiple sources.



■ Questions

Q1: What is the major argument of this article? How is it related to the IB context? Why do you think it very important?

Q2: What is the **uniqueness** or **originality** of this article?

Q3: What does it mean by “*institutions influence the evolution of resources & capabilities*”?

Q4: Clarify how economic & institutional change looks like in Vietnam.

Q5: Explain how institutions affect (1) location strategies & (2) foreign investors’ entry mode choice in Vietnam.

Q6: What does it mean by “*the more developed market-supporting institutions in a region are, the more likely foreign investors are to establish greenfield operations in that sub-national region.*”?



■ Question 2

❖ Key Points

- > The vast majority of prior work directed attention **exclusively to national institutions**.
- > **Few IB studies** consider the important strategic decision of where to locate an FDI project in a country.
- > Most studies focus on FDI among **mature market economies**.
- > The beauty of this study is to look into the issue of **variations in institutional development within a country**.
- > This paper explains the extent to which **sub-national institutions** influence ‘2’ **aspects of corporate strategies**.
- > “**Location advantages**” have long been a **neglected factor** relative to “*ownership advantages*” & “*internalization advantages*” on **Dunning’s OLI framework** (*i.e.*, locational advantages).



■ Questions

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■ Question 3

❖ What are institutions affecting FDI at the country level?

- > Investment incentives, lower tax rates, & absence of performance requirements (Loree & Guisinger, 1995) as well as a one-stop agency, industrial zones, tax holidays, & subsidies.
- > Institutions moderate **transaction costs** in markets in which foreign investors operate (Meyer, 2001).
- > Institutions may **facilitate** or **inhibit** foreign investors' **access to complementary resources**.

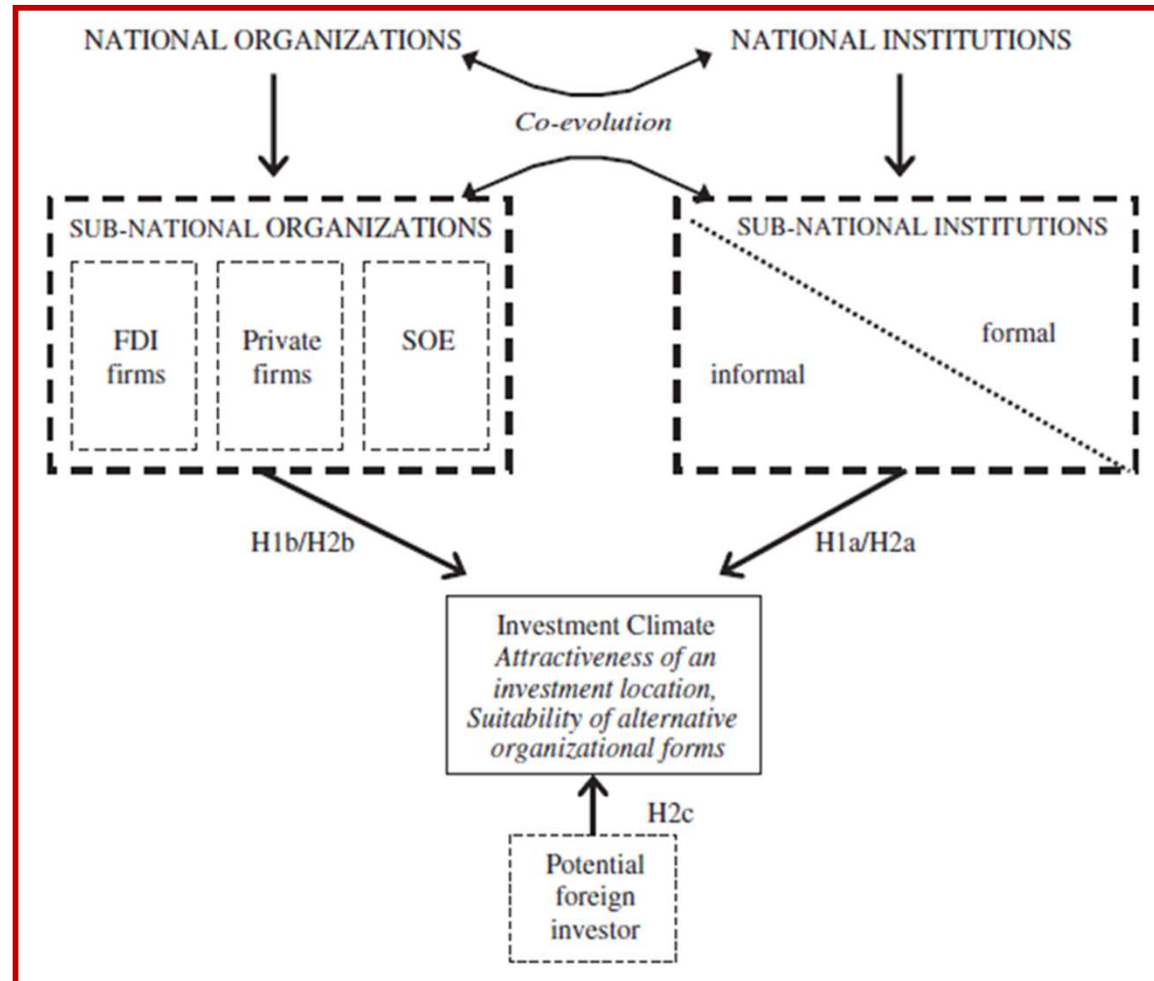
❖ Implementation of FDI policies often takes place locally !

- > Foreign investors have to **negotiate with local authorities** over **regulatory resources**, including (1) business licenses, (2) real estate, (3) access to public utilities, (4) tax incentives & (5) subsidies.
- > These policy variations are related to **administrative decentralization**.

FDI Strategies & Sub-National Institutions



■ Question 3





■ Questions

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Q4: Clarify how **economic & institutional change** looks like in **Vietnam**.

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■ Question 4

❖ Key Points

- > Vietnam began a gradual path of reform in 1986 following the Chinese example of gradualism.
- > **However**, the communist party still remains firmly in power.
- > **SOEs** still contribute more than the domestic private sector to **GDP**.
- > Historically, private businesses were subject to **substantial discretionary interference by governmental authorities**.
- > The reforms **decentralized some policy responsibilities**, which led to varying degrees of change within the country.
- > **The foreign investment law of 1996** authorized provinces to grant **investment licenses** for some FDI projects.
- > For larger FDI projects, **provinces are responsible for supporting foreign investors** in the preparation of application at central level.



■ Questions

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■ Question 5

❖ Location Strategies (Access to Local Resources)

- > Under the decentralized administration in Vietnam, provincial institutions vary by the level of **access to local resources**.
- > The establishment of **industrial zones**: Offer **lower profit tax**, especially **if at least 80% of output is exported**.
- > **Provincial authorities** can **signal their commitment** to create an investor-friendly business climate by providing **real estate for industrial zones**.

❖ Location Strategies (Incumbents = SOEs)

- > Incumbents affect informal rules to **protect their market share**.
- > In transition economies, **lobbies** are related to **SOEs** that can draw upon **long-standing personal networks with authorities**.
- > The **SOEs** control **local resources**, including **business networks, distribution channels & labor markets**.



■ Question 5

❖ Entry Mode Choice (Access to Local Resources)

- > **Institutional barriers** inhibit access to local resources, but foreign investors can **overcome** them through a **JV with a local partner**.
- > **Scarce local resources** often relate to **intangibles** (*e.g.*, reputation, marketing & technological assets, or to business networks)
- > In Vietnam, **access to real estate is a key constraint**.

❖ Entry Model Choice (Incumbents = SOEs)

- > Incumbent firms are a **powerful lobby** influencing the local institutional framework.
- > **SOEs** are still **important players** & newcomers may find a partnership an important means to **attain legitimacy**.
- > Where **SOEs are strong**, foreign investors may find it **more difficult to prosper alone**.



■ Questions

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FDI Strategies & Sub-National Institutions



■ Question 6

Institution-Specific Factors

Table IV. Determinants of FDI location; province-level data; negative binomial regression model

<i>Model</i>	<i>Cumulative FDI</i> 1	<i>Cumulative FDI</i> 2	<i>Cumulative FDI</i> 3	<i>New FDI</i> 4
IP real estate	0.001 (0.000)****	0.001 (0.000)****	0.001 (0.000)****	0.001 (0.000)*
IP dummy	–	–	0.848 (0.359)**	–
State-ownership	–0.247 (0.490)	–0.279 (0.497)	–0.790 (0.519)	–0.264 (0.877)
Population	0.4 (0.2)**	0.3 (0.2)*	0.4 (0.2)**	–0.0 (0.3)
Transport	2.680 (0.737)****	2.558 (0.820)****	1.996 (0.724)***	0.90 (1.182)
Education	0.717 (0.256)***	0.728 (0.257)****	0.669 (0.244)***	0.300 (0.456)
GDP growth	0.003 (0.001)**	0.003 (0.001)**	0.003 (0.001)**	0.004 (0.002)*
Wage level	–	0.001 (0.002)	–	–
FDI in t – 1	–	–	–	0.004 (0.004)****
Intercept	1.088 (0.437)**	0.874 (0.786)	1.372 (0.428)****	–0.511 (0.738)
N (provinces)	61	61	61	61
χ^2 (df)	56.63 (54)	70.47 (53)	55.93 (53)	74.70 (53)

Note: Standard errors in parentheses; * = 10%, ** = 5%, *** = 1%, **** = 0.05%.

FDI Strategies & Sub-National Institutions



Question 6

Institution-Specific Factors

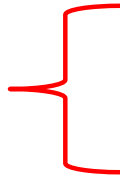


Table V. Entry mode choice; FDI survey data; logistic regression model

<i>Model</i>	<i>Greenfield</i> 1	<i>Greenfield</i> 2	<i>Greenfield</i> 3	<i>Greenfield</i> 4
IP real estate	0.001 (0.000)**	0.001 (0.000)*	0.001 (0.000)***	0.001 (0.000)*
State-ownership	-3.75 (1.36)***	-4.50 (1.53)****	-4.20 (1.48)****	-
Market orientation	-0.022 (0.01)****	-0.023 (0.007)****	-0.022 (0.006)****	-0.017 (0.006)****
Trend	0.230 (0.09)**	0.236 (0.097)**	0.218 (0.095)**	0.269 (0.091)****
Transport	-3.33 (1.78)*	-5.45 (2.63)**	-3.41 (1.83)*	-1.48 (1.52)
GDP growth	-	-	-	0.002 (0.006)
Population	-	0.000 (0.000)	-	-
Education	-	-	0.002 (0.002)	-
Psychic distance	-0.313 (0.220)	-0.351 (0.227)	-0.305 (0.220)	-0.328 (0.216)
FDI stock	0.002 (0.001)*	0.002 (0.001)*	0.001 (0.001)	0.001 (0.001)*
Parent strategy	0.453 (0.470)	0.414 (481)	0.492 (0.476)	0.415 (0.453)
Newcomer	-0.991 (0.593)*	-1.108 (0.602)*	-0.905 (0.604)	-0.871 (0.562)
Industry growth	0.088 (0.47)*	0.084 (0.047)*	0.082 (0.048)*	0.092 (0.046)**
Six industry dummies	Yes*	Yes*	Yes	Yes
Intercept	-459.0 (188.4)**	-476.4 (194.3)**	-440.9 (191.0)**	-548.1 (182.1)****
n (projects)	152	152	152	152
χ^2 (df)	73.0 (16)	75.0 (17)	73.9 (17)	64.0 (16)
Nagelkerke R ²	0.51	0.52	0.52	0.46
Correctly classified	81.6%	81.6%	82.9%	81.6%

Note: Standard errors in parentheses; * = 10%, ** = 5%, *** = 1%, **** = 0.05%.



■ Reading Assignments for 17.03.2025 (Monday)

❖ FDI Strategies – Foreign Market Exit

- **Buckley, P. J., Horn, S. A., Cross, A. R., & Stillwell, J. (2013).** “The Spatial Redistribution of Japanese Direct Investment in the UK between 1991 & 2010”, *Business History*, 55(3), 405-430.
- **Thams, Y., & Dau, L. A. (2023).** “Do Liberal & Conservative-Leaning CEOs Approach De-Internationalization Differently? Zooming in on the Onset of the 2022 Russia/Ukraine Crisis”, *Journal of World Business*, 58(5), 101475.
- **Schmid, D., & Morschett, D. (2023).** “Retailers’ Foreign Market Exits over Time: A Strategic Management Perspective”, *International Business Review*, 32(5), 102164.

The End of Today's Lecture



ご清聴有難う御座いました。

Thank you so much!

Vielen Dank für Ihre Aufmerksamkeit!

Grazie mille !

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