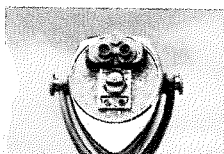


CRITICAL DISCUSSION QUESTIONS

- 1 Identify the top five (or ten) source countries of FDI into your country. Then identify the top 10 (or 20) foreign MNEs that have undertaken inbound FDI in your country. Why do these countries and companies provide the bulk of FDI into your country?
- 2 Identify the top five (or ten) recipient countries of FDI from your country. Then identify the top 10 (or 20) MNEs headquartered in your country that have made outbound FDI elsewhere. Why do these countries attract FDI from the top MNEs in your country?
- 3 Worldwide, which countries were the largest recipient and source countries of FDI last year? Why? Will this situation change in five years? Ten years? How about 20 years down the road? Why?
- 4 MNEs are bargaining with host governments that – in many countries – are elected by the population. Is it legitimate to pressure governments to make concessions that the voting public would not agree with? Should agreements between MNEs and governments always be made public?

RECOMMENDED READINGS

- P.J. Buckley, 2018, *The Global Factory*, Cheltenham: Elgar** – explores the networks and value chains managed by MNEs from the perspective of internationalization theory.
- M. Casson, 2018, *The Multinational Enterprise: Theory and History*, Cheltenham: Elgar** – collection of papers by one of the foremost theorists on the MNE.
- J.H. Dunning, 2000, The eclectic paradigm as an envelope for economic and business theories of MNE activities, *IBR*, 12, 141–171** – a summary of the OLI paradigm.
- J.H. Dunning & S. Lundan, 2008, *Multinational Enterprises and the Global Economy*, 2nd ed., Cheltenham: Elgar** – the most comprehensive book on the MNE, including theoretical foundations, empirical evidence and policy issues.
- M. Forsgren, 2013, *Theories of the Multinational Firm*, 2nd ed., Cheltenham: Elgar** – a monograph critically reviewing five alternative theoretical perspectives on MNEs.
- R. Grosse, ed., 2005, *International Business and Government Relations in the 21st Century*, Cambridge: Cambridge University Press** – a collection of articles examining institutions and politics surrounding MNEs.
- UNCTAD, annual, *World Investment Report*, Geneva: United Nations** – a rich source of FDI data and analysis of current trends.



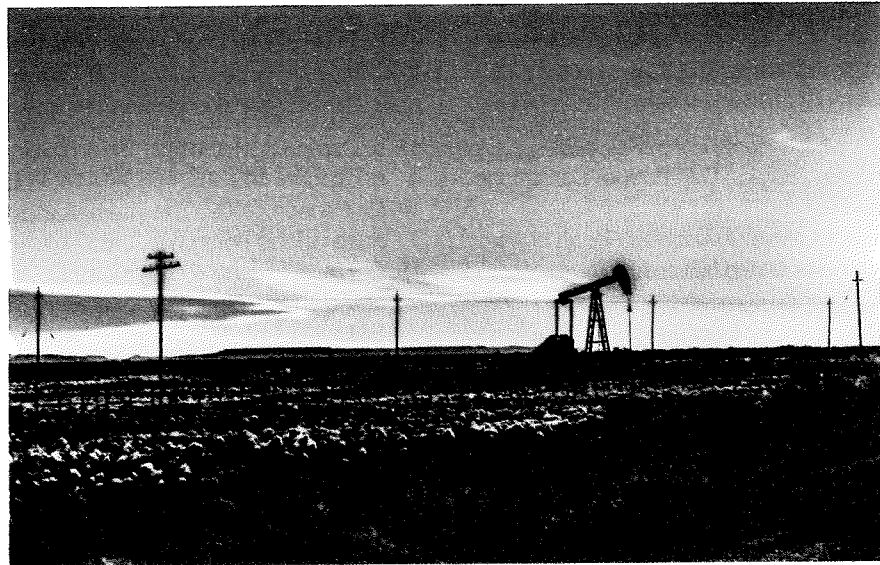
CLOSING CASE

Politics and FDI in Argentina

Argentina's relationship with foreign investors in its energy industry has historically been rocky. Yet since the 1990s, pro-market reform policies centred on trade liberalization, deregulation and privatization have brought more stability. More foreign investors have showed up. In 1993, YPF, the state-owned oil giant, was privatized. In 1999, Spain's Repsol bought 57% of the shares of YPF and became its controlling shareholder. Although Argentina suffered from the government's default on its \$155 billion public debt (a world record at that time) in 2002, and the country struggled to recover, Repsol's operations had been relatively smooth – until 2012.

Argentina was again engulfed in a major crisis. Facing a severe trade deficit, the government, under President Cristina Fernández de Kirchner, introduced radical measures to curb imports. Importers of foreign cars were required to find export buyers of Argentine wines, otherwise port authorities would not release their cars. Foreign print publications, including magazines and newspapers, were held at Buenos Aires airport unless subscribers went there to pay a highly unpopular fee – an import tax of sorts.

In addition to making the life of Argentine firms and citizens harder, Fernández also targeted big businesses. Specifically, Repsol was singled out as a high-profile target. Its alleged wrongdoing was that it failed to boost



oil and natural gas production needed to keep up with rising local demand. In 2003, when Néstor Kirchner, Fernández's ex-husband and predecessor, took office, Argentina was a net energy exporter. Ten years later, Argentina imported 15% more than its energy production, resulting in more than \$10 billion of cash outflows. The government argued that the largest producer, *YPF*, which contributed 45% of the country's energy production, was responsible, because it had failed to invest in the infrastructure needed by the sector.

Fernández's measures were popular with ordinary Argentines. Many of them blamed the free-market reforms and privatization of the 1990s for the economic devastation of the 2000s. A popular view was that the privatization of 1993 sold *YPF* under value, thus enabling associates of the then president Carlos Menem to enrich themselves. The *YPF* renationalization bill passed Congress by a landslide, and in May 2012, Fernández signed the measure into law and formally (re)nationalized – initially without compensation – *Repsol's* assets, which according to *Repsol* were worth more than €7.4 billion. Fernández also nationalized the country's private pension funds and (re)nationalized the flagship airline, *Aerolíneas Argentinas*. So she did not just target foreign investors such as *Repsol*.

Outraged, both *Repsol* and the Spanish government protested, but there was little they could do. In retaliation, Spain limited imports of biofuels from Argentina, which annually exported over €1 billion to Spain. Spain also threatened to initiate complaints to the World Trade Organization, called for EU-wide boycotts of Argentine products and took the case to

the World Bank's International Centre for Settlement of Investment Disputes (ICSID).

While renationalizing *YPF* brought more revenues and helped the president's popularity, according to *The Economist*, 'it is a disaster for Argentina'. In the short run, Argentina and *Repsol* fought over compensation and the valuation of *YPF*, and *Repsol* sued the Argentine government in the Spanish courts. Eventually, in 2014, they agreed a \$5 billion compensation to be paid to *Repsol*. In the long run, the expropriation had ramifications far beyond the oil industry and beyond foreign investors from Spain, as foreign investors became more cautious about sinking their funds into Argentina.

CASE DISCUSSION QUESTIONS

- 1 From a resource-based perspective, what motivated *Repsol's* direct investment in Argentina?
- 2 From an institution-based view, how can companies protect their interests in countries with unstable institutions, such as in Argentina?
- 3 Why did the Argentinian government act the way it did?

Sources: Based on (1) *Bloomberg Businessweek*, 2012, Argentina goes rogue again, April 23: 16–17; (2) *The Economist*, 2012, Cristina scrapes the barrel, April 21; (3) *The Economist*, 2012, Fill 'er up, April 21; (4) M. Guillén, 2001, *The Limits of Convergence* (p. 135), Princeton, NJ: Princeton University Press; (5) Hernandez, V. 2012, YPF nationalization: Is Argentina playing with fire? *BBC News Online*, April 17; (6) *El País*, 2012, Repsol acusa a Argentina de expropiar YPF para tapar la crisis económica y social, April 17; (7) *Reuters*, 2012, Argentina nationalizes oil company YPF, May 4 (8) *BBC News*, 2014, Argentina suspends P&G over tax claims, November 3.