The Regional Interdependence of FDI Activity

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Abstract
This research examines the regional effect of MNEs' foreign subsidiary localization. We hypothesize that the number of subsequent foreign subsidiaries in a country is in part determined by a firm's prior foreign subsidiary activity at the regional level. We test our hypotheses using data on 1,076 Japanese MNEs that created 3,466 foreign subsidiaries (1,837 wholly owned FDIs and 1,629 joint ventures) over the period 1996-2001. We use a multi-level Negative Binomial approach with three levels of analysis: localization decisions in a country (49 countries), in a region (six regions), and at the headquarters level. In this way, we test the regional effects controlling for country and corporate dimensions. We also run separate models to differentiate wholly owned and joint venture localization decisions.

Our results strongly support the semi-globalization perspective in that the regional level effects are significant and different from the country level effects for all foreign subsidiaries, for wholly owned subsidiaries and for JVs. Japanese MNEs adopt a regional perspective that complements their decisions at the country and firm levels. They seek regional agglomeration benefits and make arbitrage decisions between countries in the same region

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