

MAKING INVESTMENT CHOICES: JAPANESE MNEs INVESTING IN AUSTRALIA AND THE REGION

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ABSTRACT

Regions and countries compete for MNEs. Surprisingly, we know little about policy effectiveness and the relative importance of policy factors and non-policy factors in managerial location decisions. Drawing on internalisation-resource, trade and location theory, this paper develops a model of policy and non-policy location variables, testing the model against 137 Japanese managers' decisions to invest in Australia and the ASEAN5 (Thailand, Singapore, Malaysia, Indonesia and the Philippines). Japanese managers treated Australia and ASEAN5 as different regions, but treated the ASEAN5 as the same region. A range of non-policy variables were ranked higher than policy variables as factors attracting Japanese MNEs to Australia or the ASEAN5, while policy variables were most important in shifting investment between ASEAN5 countries. In a study of incentive effectiveness, managers ranked the same incentive variables for Australia lower than for the ASEAN5. We also discovered that the transfer of parent competencies to subsidiaries in Australia was ranked significantly lower in importance than competencies transferred to ASEAN5 countries. Implications for policy-makers and economic development are drawn.

Keywords: FDI location decision, Japanese MNEs, new trade-economic geography

INTRODUCTION

Location is a key unit of analysis in international business research. Empirical studies of MNEs and foreign direct investment (FDI) have long identified the importance of

the 'Triad' economies of the European Union, the United States and Japan as home and host locations for the world's leading MNEs and the dominant regions for inter-regional direct investment flows (Rugman and Verbeke 2004, van den Berghe and van Tulder 2002, UNCTAD 1991, Ohmae 1985). Recently, Rugman and Verbeke (2004) have argued that empirical evidence on MNE sales and investment supports a broader conceptualisation of the triad, encompassing North America, an expanded European Community, and Asia. Yet, Asia, as a region, is ill-defined, whether in terms of geography, clearly delineated patterns of trade and investment flows, or the regional investment strategies of the world's leading MNEs. In particular, the recent surge of FDI into China, which became the world's largest recipient of FDI in 2003, has significantly altered the patterns of investment in the Asia-Pacific (UNCTAD 2004). The investment location decisions by Japanese MNEs epitomize these changes, with the last decade recording a significant shift in Japanese FDI away from Australia and the member countries of ASEAN and to the emerging economic power of China (UNCTAD 2004). These intra-regional shifts and their driving forces are of keen interest to policy-makers, particularly in those economies experiencing declining shares of inward FDI.

Understanding regional investment patterns is both a theoretical and empirical challenge. The theoretical specification of the spatial distribution of FDI and of MNEs' location-specific decision-making strategies remains weak links in international business research (Buckley and Ghauri 2004, Dunning 1998). While the investment activities of firms create macro-patterns in the geographic distribution of FDI, location decisions are fundamentally microeconomic and firm-specific. Managers decide to use the multinational enterprise (MNE) as the form of overseas investment and select a particular country within a region. Understanding the phenomena of multinational enterprises (MNEs) requires theoretical models that address not only 'why firms' as the form of cross-border transacting, but also address the second comparative question of 'why there?'

This paper considers regional investment location decisions for Japanese MNEs investing in the Asia-Pacific, especially the largest ASEAN economies of Singapore, Malaysia, Indonesia, the Philippines and Thailand (the ASEAN5) and Australia. We specify a location choice model that integrates standard theories of MNE with new trade, or new economic geography, theory. The integration of new trade-location theory into models of the MNE allows for a richer assessment of the complexity of location in shaping MNE growth strategies. Based on this integrated theoretical model, the paper derives hypotheses, undertakes empirical tests, and presents new evidence on location decisions by Japanese MNEs investing in different countries in the Asia-Pacific 'region'. Critically, the model facilitates identification of those location-specific variables that governments can adjust in the relatively short-run to enhance the host economy's attractiveness to FDI and those aspects that are the outcome of gradual,

less-deliberative processes of economic evolution. The study then analyses the impact of locations on the importance of different types of firm-specific competencies transferred by Japanese MNEs to their subsidiaries. We also test for differences across industry sectors. The paper concludes with policy recommendations on the efficacy of incentives as a device for attracting Japanese and other MNEs to Australia and the ASEAN5.

MODELLING THE MNE, LOCATION DECISIONS AND INCENTIVES

Much of the empirical and theoretical work on FDI has focused on the corporate enterprise making the foreign investment, rather than the choice of location. The FDI decision comprises two simultaneous and interdependent decisions: the selection of the location for an overseas investment and the choice of the multinational form. Internalisation-resource theory explains why MNEs are selected as the cross-border form of transacting in know-how, goods and services, rather than markets or intermediate arrangements, such as licenses, franchises and non-equity strategic alliances (McManus 1972, Buckley and Casson 1976, Hymer 1976, Hennart 1982). In the internalisation-resource view, international competition between MNEs arises from the heterogeneity in firm-specific competencies, comprising resources, such as brandnames and product technologies, and capabilities, such as supplier management expertise, that enable MNEs to uniquely create value and attract market share (Penrose 1959, Williamson 1985, Teece 1985, Hamel and Prahalad 1990, Wernerfelt 1984, Teece, Pisano and Shuen 1997). Heterogeneity in firm-specific competencies is sustained by barriers to imitation and mobility, such as legal devices of protection (patents and trademarks) and scale economies. Protected, at least in the medium run, by the nonimability and nonmobility of their firm-specific competencies, firms either vertically integrate or diversify their product and geographic market scope to earn rents on their existing resources. Hence, the internalisation-resource model explains why domestic firms select the MNE as the form of internationalising their production.

While internationalisation-resource theories of the firm address the question of firm boundaries and sources of competitive advantage, a complete model of the MNE must not only answer why competencies are transferred within the firm across national borders, but also why one location is selected over another. Dunning (1998) has dubbed location the neglected factor, lacking a well-articulated theory. The location decision has been treated as a secondary factor, with a range of location factors, such as market characteristics (size and growth), socio-political factors (stability and risk), cultural distance, tariffs and trade barriers, and government incentive policies, entering the FDI decision *ad hoc*. As a result, location factors have been divorced from microeconomic perspectives of the theory of the MNE. Insights

into why MNEs combine their resources with factors in one location, rather than another, remain sadly lacking. The new trade-location theory or the new economic geography provides a framework for combining both the decision to form a MNE and decision to locate the MNE in a particular geographic region (Buckley and Ghauri 2004. See also Shaver and Flyer 2000, for a single host country application of the framework). The paper outlines how the new trade-location theory and the theory of the MNE might be integrated; specifies testable hypotheses; and tests these hypotheses using data on Japanese MNEs' location decisions.

With its focus on fixed resource endowments and trade policy regimes, traditional comparative advantage trade theory is concerned with inter-country trade (factor and good) flows. In traditional trade theory, there is no place for MNEs. In contrast, the new trade-location theory allows MNEs to arise endogenously by exploiting imperfectly competitive markets, increasing returns and trade policy regimes, independent of a country's sources of comparative advantage (Markusen 1995, Horstmann and Markusen 1996, Krugman 1993). Due, in part, to their reliance on mathematical models, the new trade-location models have received relatively little attention from international business researchers. However, these abstract trade-location models sit comfortably with the more descriptive internalisation-resource models of the MNE. In the new trade-location models, nonimitable and nonmobile firm-specific resources, especially knowledge assets, give rise to increasing returns and scope economies in multiplant production, whereby know-how in domestic plants is replicated in overseas plants at marginal cost. What is being 'traded' are the firm-specific resources, transferred internally within the MNE, but across national borders (Markusen, 1995). Sharing the same theoretical underpinnings as the internalisation-resource models, the new trade-location theory explains the choice of MNE form for transferring firm-specific resources across national borders.

In contrast to the internalisation-resource approach, the new trade-location theory combines explanations for the form of the MNE and the location decision in one model. The theory explains when location factors, such as natural resource endowments, transport costs and trade policy regimes, allow firm-specific resources to be used more productively in two locations, say Japan and Australia, than other locations (say Japan and Thailand or Japan and Singapore). Although location decisions in trade-location models are abstract, the models cut through the complexities of the real world by focusing on a limited set of location factors, delivering outcomes that correspond well with the empirical evidence that MNEs are present when tariffs and transport costs are high (Caves 1996); governments implement policies encouraging foreign investment; and countries have natural resource endowments, including highly skilled labour (Krugman 1998, Markusen 1995).

Finally, the new trade-location models also differentiate between policy and non-

policy factors in the location decision. Trade-location theory models MNEs as organisations scanning geographic space for an optimum location to combine their firm-specific resources with host country and regional location factors. Not all locations compete equally, since non-policy and policy factors will make some regions more attractive than others. The new trade-location theory emphasises a circular process (Krugman 1998): country location advantages attract MNEs and the more MNEs that locate in a country the more attractive the country for other MNEs. Considering policy factors first, states compete for MNE through 'location tournaments', or the policy adjustments, promotional programmes and incentive regimes that attract and retain MNEs (David 1984). State policy creates a path-dependent location process, using incentives to lay down layer after layer of new firms upon inherited location formations (Arthur 1994). The result is 'sticky places in slippery spaces' (Markusen 1994), such as Silicon Valley, the M4 corridor in south-west England, and the U.S. Northeast 'rust belt' (Wheeler and Mody 1992, Krugman 1991, David 1984, Scott 1996, Arthur 1994).

Second, non-policy factors also make regions and countries attractive to investors. For example, the Southeast Asian economies' growth miracle before 1997 and China's economic prowess drew investors to both regions (Wade 1990, World Bank 1993, UNCTAD 2001). According to the new trade-location theory, investment is attracted to those clusters within regions and countries where firms can share information, infrastructure, supply networks, labour markets and ancillary services (legal and financial). These factors give rise to increasing returns or external economies, making it more profitable to use the MNE's competencies to combine resources through international production in one location, rather than another. These agglomeration economies attract new investment, laying down new layers of firms on existing agglomerations.

We hypothesise that managers will narrow their location decision from large multi-country geographical spaces to smaller areas, before a specific country is selected. Non-policy factors, including natural resource endowments, the rate of economic growth, and economic and political stability of the multi-country region are likely to dominate the factors making it cheaper to organise resources (production) in one multi-country region over another. Once the region is selected, country-specific non-policy and policy factors determine in which country within the region the MNE will locate its investment. Policy variables are likely to have a greater impact on shifting investment between countries within a multi-country region, than across different multi-country regions.

These predictions from the new trade-location models are broadly consistent with the empirical data on MNE investment. Surveys of investment intentions reveal that investment incentives are ranked below non-policy factors in the choice of location. Aharoni's (1966) interviews with executives showed that incentives did not

bring about the decision to locate overseas, a result confirmed by subsequent studies (Lim 1983, Mody and Srinivasan 1998, Wheeler and Mody 1992, Chen 1998). According to Markusen (1995), most firms choose the foreign production location and then instruct their tax departments to minimise taxes. While not provoking the overseas investment decision, incentives have been assigned a contributory role of influencing the precise location of investment (Taylor 1993, Rolfe, Ricks, Pointer and McCarthy 1993, Cable and Persaud 1987, Woodward and Rolfe 1993). For example, Mody and Srinivasan (1998) reported that Japanese MNEs placed no importance on market size and corporate tax rates, but attached great value to labour quality and low wage inflation compared to US investors (see also Henisz and Delios 2001). In a study covering 59 Japanese MNEs in the US, Nakabayashi (quoted in Donahue 1997, 173) found that incentives were of minor importance in the location decision, although incentives provided a sign of 'goodwill'. For Japanese MNEs in the UK between 1984 and 1991, production costs, reliable labour and good labour relations dominated the location decision, but 76 percent of Japanese firms located in assisted areas (Taylor 1993). Of course, we are not stating that incentives were not effective in the location decision. In a survey of World Bank projects, Guisinger (1985) found that two out of three investments went ahead only because of investment incentives. While the empirical data suggest that non-policy factors dominate the location decision, we follow Guisinger (1992) call for a country's incentives to be measured against other countries' incentive policies to assess incentive effectiveness.

The new trade-location theory and empirical data on MNE location decision-making, allow a number of hypotheses to be specified. The following hypotheses are tested using data on the FDI decision by managers in Japanese MNEs investing in Australia and the ASEAN5:

H1: Japanese MNEs differentiate regions based on the attractiveness of countries as investment locations.

H2: There are significant differences in Japanese MNEs assessment of policy (including incentive policy) and non-policy factors, and between policy variables, in their location decisions.

H3: Japanese MNEs rank the same policy and non-policy variables differently between regions.

H4: Japanese MNEs ranked the importance of firm-specific competencies as sources of subsidiaries' competitive advantage differently between regions.

THE SAMPLE AND DATA

To test the above hypotheses, a list of Japanese MNEs that invested in the Asia-Pacific region (Australia, Singapore, Indonesia, Malaysia, Thailand, and the Philippines) was collected from *Who Owns Whom* (1997). A questionnaire survey in Japanese was

designed to reveal the incentive policies, non-incentive policies and non-policy factors in the investment decision by Japanese MNEs in Singapore, Australia, Thailand, Malaysia, Indonesia and the Philippines. The survey questions were 'pre-tested' with Australian business people, Australian government investment policy regulators, and Australian and Japanese academic colleagues. The survey was then translated from English into Japanese, back translated, then independently reviewed and revised.

The survey was sent to headquarter executives: either the President or, when a name was not available, to the Director of International Operations. The 'brand name' and endorsement of the Centre for Economic Research at Nagoya University promoted the survey to Japanese executives. Following Dillman (1978) a reminder letter was sent to all non-responding firms within 4 weeks of the first mail-out (Claycomb, Porter and Martin 2000). The initial and follow-up mailing yielded responses from 134 firms from the total sample of 390 firms, or a return rate of 34 percent, with a balance between manufacturing (63 percent) and non-manufacturing (31 percent) MNEs. Japanese MNEs were further stratified into those with investments in Australia (61 percent) and those without (39 percent). A number of parametric (t tests) and non-parametric tests, such as Mann-Whitney and Kruskal-Wallis tests, were employed to analyse the data.

EMPIRICAL RESULTS

Choice of Country

The means in column two of Table 1 present the rank order of importance Japanese managers placed on nine countries or regions (ASEAN5, China, Australia, North America and Europe) as investment locations, with China (4.0) ranked as the most important location and Australia (2.2) as the least important. Reading Table 1 as a matrix, when means are displayed in the pair-wise rankings between, for example, Australia and China, managers ranked each country significantly differently. When the pair-wise rankings are blank, there was no significant difference between countries, such as Thailand and Indonesia. It is clear from Table 1 that Japanese MNEs rated Australia (2.2), ASEAN5 (2.8-3.3), Europe (3.3), North America (3.6) and China (4.0) as regions, with China and North America, for example, ranked as equally important regions. In terms of competing for Japanese MNEs investing in the Asia-Pacific, Australia was viewed as a separate region, ranking significantly below the ASEAN5 and China in importance for Japanese investors.

Equally important, the blank cells in Table 1 show that Japanese MNEs saw the ASEAN5 as a region, ranking the importance of each ASEAN5 country as an

investment location the same.¹ Industry classification was not a significant factor, with manufacturing and non-manufacturing MNEs ranking the countries and regions roughly equivalently. The only differences in the assessment of countries as investment locations by manufacturing versus non-manufacturing MNEs was the preference for China by manufacturing MNEs and the preference for Singapore for non-manufacturing MNEs, reflecting its status as a regional financial and trade services hub.

These tests support Hypothesis 1 that Japanese MNEs identified different investment regions based on their attractiveness as investment locations.

Table 1. Rank Importance of Countries as Japanese MNEs' Investment Locations¹

Country	Mean ²	1	2	3	4	5	6	7	8	9
1 China	4.0			3.3	3.3	3.1	3.0	2.8	2.8	2.2
2 North America	3.6						3.0	2.8	2.8	2.2
3 Europe	3.3	4.0							2.8	2.2
4 Thailand	3.3	4.0								2.2
5 Indonesia	3.1	4.0								2.2
6 Singapore	3.0	4.0	3.6							2.2
7 Malaysia	2.8	4.0	3.6							2.2
8 Philippines	2.8	4.0	3.6	3.3						
9 Australia	2.2	4.0	3.6	3.3	3.3	3.1	3.0	2.8		

Notes: ¹ Blank cells indicate no significant differences between countries using Kruskal Wallis at 0.05. Cells with means indicate significant differences between countries using Kruskal Wallis at 0.05. ² Means on scale 1 (no importance) to 5 (high importance).

Policy and Non-Policy Variables

Both non-policy and policy variables moulded the location decision by Japanese MNEs. We hypothesised that Japanese MNEs ranked non-policy and policy factors differently in their investment decision. We further hypothesised that Japanese managers ranked policy and non-policy factors differently between regions, but ranked the policy and non-policy factors the same for countries within a region.

Column 1 in Table 2 shows that the scores of the non-policy variables dominated the ranking of motivations for Japanese MNEs' overseas investments, with incentives ranked number eight and 16 (policy variables are in italics in Table 2). Using Mann-Whitney tests for differences in ranks, six tiers of location factors were identified. Blank cells indicate no statistical difference between factors, while cells showing

¹ Test available from the authors.

means indicate a statistical difference. Tier 1 is defined by size of the local market, where 4.3 is statistically different from all the other means for the variables 2-19; political stability and economic stability form tier 2, since the mean 4.1 is statistically significantly different from size of the local market and from all other factors 4-19. Tier three comprises factors four to eight, including incentives; tier four comprises factors 9-12; tier five comprises factors 14-18; and tier six is competitive rivalry. The first part of Hypothesis 2 is confirmed, with Japanese MNEs assessing non-policy and policy factors significantly differently and with incentive policy ranked in tier three behind non-policy variables in tiers one and two. The ranking of policy variables should not be interpreted to mean that incentives and tariffs/quotas on imports were not effective in influencing Japanese MNEs' location decisions. Incentive effectiveness is addressed below.

Hypothesis 2 also suggested that Japanese MNEs ranked policy variables significantly differently. Mann-Whitney tests were conducted for a range of policy variables in Table 3. The blank areas in Table 3 delineate six tiers of policy variables, defined by the same method employed in Table 2, with the tiers again shaded for convenience. Tier one comprises corporate tax concessions and import duties exemptions, and tier two tax holidays, unrestricted repatriation of profits and sales tax exemptions. Items six to nine were grouped into a default tier. This was a poorly behaved grouping, with differences between these factors. Tier four comprised variables 10-12; tier five included items 13-15; land donations formed a final category. Hence, the results provide support for the last part of Hypothesis 2, that Japanese MNEs differentiated between policy factors in their location decisions.

Using an expanded set of location factors, Table 4 allowed us to explore Hypothesis 3 that Japanese MNEs rank the same policy and non-policy variables differently between regions. We examined Hypothesis 3 using data on the Japanese MNEs' ranking of location variables for Australia and the ASEAN5 countries. Reading down the 'Australia' column in Table 4, tier 1 variables comprising local market size (4.1) and political and economic stability (4.0), were ranked significantly higher than tier two, country knowledge (3.3), which was ranked higher than tier 3 variables, comprising raw material availability (2.7) and import tariffs and barriers (2.6). Tier four variables comprise export base (2.4), labour costs (2.4), state and local government incentives (2.3) and import tax exemptions (2.3), followed by tier 5, comprising tax reductions (2.1), following competitors (2.1), and government subsidies (2.1), and tier 6 with local content exemption (1.9) and free trade zones (1.9). There were no significant differences in how Japanese non-manufacturing and manufacturing MNEs ranked Australian policy and non-policy variables. The hierarchy of policy and non-policy variables for Australia in Table 4 is consistent with the ranking of policy and non-policy variables in Table 2.

Table 2. Policy and Non-Policy Factors in Japanese MNEs' Location Decision

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	
	Mean²	4.3	4.1	4.1	3.8	3.7	3.5	3.4	3.1	3.1	3.1	3.0	3.0	2.8	2.8	2.8	2.8	2.7	2.4	
1 Size of local market	4.3		4.1	4.1	3.8	3.7	3.5	3.4	3.1	3.1	3.1	3.0	3.0	2.8	2.8	2.8	2.8	2.7	2.4	
2 Political stability	4.1	4.3		3.8	3.8	3.7	3.5	3.4	3.1	3.1	3.1	3.0	3.0	2.8	2.8	2.8	2.8	2.7	2.4	
3 Economic stability	4.1	4.3		3.8	3.8	3.7	3.5	3.4	3.1	3.1	3.1	3.0	3.0	2.8	2.8	2.8	2.8	2.7	2.4	
4 Low production costs	3.8	4.3	4.1	4.1			3.5	3.4	3.1	3.1	3.1	3.0	3.0	2.8	2.8	2.8	2.8	2.7	2.4	
5 Low labour costs	3.8	4.3	4.1	4.1			3.5	3.4	3.1	3.1	3.1	3.0	3.0	2.8	2.8	2.8	2.8	2.7	2.4	
6 Infrastructure quality	3.7	4.3	4.1	4.1				3.4	3.1	3.1	3.1	3.0	3.0	2.8	2.8	2.8	2.8	2.7	2.4	
7 Raw material availability	3.5	4.3	4.1	4.1	3.8	3.8			3.1	3.1	3.1	3.0	3.0	2.8	2.8	2.8	2.8	2.7	2.4	
8 Incentives (tax advantages)	3.4	4.3	4.1	4.1	3.8	3.8	3.7		3.1	3.1	3.1	3.0	3.0	2.8	2.8	2.8	2.8	2.7	2.4	
9 Size of export market	3.1	4.3	4.1	4.1	3.8	3.8	3.7	3.5	3.4				3.0	2.8	2.8	2.8	2.8	2.7	2.4	
10 Establishment costs	3.1	4.3	4.1	4.1	3.8	3.8	3.7	3.5	3.4					2.8	2.8	2.8	2.8	2.7	2.4	
11 Labour skills	3.1	4.3	4.1	4.1	3.8	3.8	3.7	3.5	3.4					2.8	2.8		2.8	2.7	2.4	
12 Business ethics	3.0	4.3	4.1	4.1	3.8	3.8	3.7	3.5	3.4					2.8	2.8	2.8	2.8	2.7	2.4	
13 Country/region experience	3.0	4.3	4.1	4.1	3.8	3.8	3.7	3.5	3.4	3.1						2.8	2.8	2.7	2.4	
14 Local suppliers	2.8	4.3	4.1	4.1	3.8	3.8	3.7	3.5	3.4	3.1	3.1	3.0				2.8			2.4	
15 Tariffs/quota on imports	2.8	4.3	4.1	4.1	3.8	3.8	3.7	3.5	3.4	3.1	3.1	3.0							2.4	
16 Favourable exchange rates	2.8	4.3	4.1	4.1	3.8	3.8	3.7	3.5	3.4	3.1	3.1	3.0	3.0	2.8					2.4	
17 Sources of finance	2.8	4.3	4.1	4.1	3.8	3.8	3.7	3.5	3.4	3.1	3.1	3.0	3.0						2.4	
18 Cultural proximity	2.7	4.3	4.1	4.1	3.8	3.8	3.7	3.5	3.4	3.1	3.1	3.0	3.0						2.4	
19 Competitive rivalry	2.4	4.3	4.1	4.1	3.8	3.8	3.7	3.5	3.4	3.1	3.1	3.0	3.0	2.8	2.8	2.8	2.8	2.7	2.4	

Notes: 1. Policy factors in italics. 2. Blank cells indicate Mann-Whitney not significant at 0.05 and cells with means indicate Mann-Whitney significant at 0.05. Means are on a scale 1 (no importance) to 5 (high importance).

Table 3. Ranking of Policy Variables in Japanese MNEs' Location Decision¹

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Mean	3.8	3.6	3.5	3.5	3.3	3.2	3.2	3.1	3.0	2.9	2.9	2.9	2.8	2.7	2.7	2.5
1 Corporation tax concessions			3.5	3.5	3.3	3.2	3.2	3.1	3.0	2.9	2.9	2.9	2.8	2.7	2.7	2.5
2 Import duties exemptions			3.5		3.3		3.2	3.1	3.0	2.9	2.9	2.9	2.8	2.7	2.7	2.5
3 Tax holidays	3.8	3.6			3.3	3.2	3.2	3.1	3.0	2.9	2.9	2.9	2.8	2.7	2.7	2.5
4 Unrestricted repatriation of profits	3.8					3.2		3.1	3.0	2.9	2.9	2.9	2.8	2.7	2.7	2.5
5 Sales tax exemptions	3.8	3.6	3.5			3.2		3.1	3.0	2.9	2.9	2.9	2.8	2.7	2.7	2.5
6 Unrestricted repatriation of dividends	3.8		3.5	3.5	3.3		3.2	3.1	3.0	2.9	2.9	2.9	2.8	2.7	2.7	2.5
7 Withholding tax exemptions	3.8	3.6	3.5			3.2		3.1	3.0	2.9	2.9	2.9	2.8	2.7	2.7	2.5
8 Land tax exemption	3.8	3.6	3.5	3.5	3.3	3.2	3.2		3.0	2.9		2.9	2.8	2.7	2.7	2.5
9 Infrastructure grants	3.8	3.6	3.5	3.5	3.3	3.2	3.2	3.1		2.9			2.8	2.7	2.7	2.5
10 Payroll tax exemptions	3.8	3.6	3.5	3.5	3.3	3.2	3.2	3.1	3.0				2.8	2.7	2.7	2.5
11 Local content requirements exemption	3.8	3.6	3.5	3.5	3.3	3.2	3.2						2.8	2.7	2.7	2.5
12 Free trade zones	3.8	3.6	3.5	3.5	3.3	3.2	3.2	3.1					2.8			2.5
13 Loans at discount rates	3.8	3.6	3.5	3.5	3.3	3.2	3.2	3.1	3.0	2.9	2.9	2.9				2.5
14 Tax relief for infrastructure	3.8	3.6	3.5	3.5	3.3	3.2	3.2	3.1	3.0	2.9						2.5
15 Employment grants	3.8	3.6	3.5	3.5	3.3	3.2	3.2	3.1	3.0	2.9	2.9					2.5
16 Land donations	3.8	3.6	3.5	3.5	3.3	3.2	3.2	3.1	3.0	2.9	2.9	2.9	2.8	2.7	2.7	2.5

Notes: ¹ Blank cells indicate Mann Whitney not significant at 0.05 and cells with means indicate Mann-Whitney significant at 0.05. Means are on a scale 1 (no importance) to 5 (high importance).

Table 4. Country Differences in Japanese MNEs' First Investment Location Decision¹

	Kruskal Wallis test ²	Mean rating ³					
		Australia	Indonesia	Malaysia	Philippines	Singapore	Thailand
Size of local market	13.790	4.1 (0.18)	4.24 (0.14)	3.82 (.015)	4.02 (0.16)	3.59 (0.18)	4.18 (0.12)
Political & economic stability	9.414	4.0 (0.17)	3.74 (0.10)^a	3.94 (0.10)	3.72 (0.11)^a	3.99 (0.12)	3.98 (0.10)
Country knowledge	4.606	3.3 (0.18)	3.42 (0.12)	3.53 (0.13)	3.24 (0.14)	3.57 (0.13)	3.50 (0.11)
Raw materials/ input availability	15.239	2.7 (0.22)	3.34 (0.13)^c	3.41 (0.12)^c	3.00 (0.17)	3.15 (0.15)^a	3.46 (0.11)^c
Import tariffs & barriers	6.207	2.6 (0.20)	2.89 (0.13)	2.83 (0.14)	2.70 (0.16)	3.13 (0.16)^b	2.80 (0.13)
Export base	18.116	2.4 (0.24)	3.07 (0.15)^b	2.85 (0.19)	3.02 (0.24)^a	3.60 (0.19)^c	3.07 (0.16)^b
Labour costs	86.027	2.4 (0.14)	3.93 (0.12)^c	3.62 (0.13)^c	3.63 (0.17)^c	2.67 (0.12)^a	3.66 (0.12)^c
<i>State & local govt. incentives</i>	4.099	2.3 (0.19)	2.46 (0.14)	2.53 (0.16)	2.26 (0.16)	2.52 (0.14)	2.61 (0.14)
Import tax exemption	9.077	2.3 (0.17)	2.83 (0.15)^b	2.80 (0.17)^b	2.48 (0.19)	2.78 (0.16)^b	2.76 (0.14)^b
Tax reductions	9.446	2.1 (0.19)	2.61 (0.15)^b	2.57 (0.16)^b	2.33 (0.17)	2.67 (0.16)^b	2.70 (0.13)^c
<i>Follow competitors</i>	0.973	2.1 (0.17)	2.14 (0.12)	2.23 (0.15)	2.08 (0.13)	2.24 (0.14)	2.25 (0.13)
Government subsidies	6.413	2.1 (0.17)	2.33 (0.13)	2.41 (0.15)	2.11 (0.16)	2.28 (0.14)	2.52 (0.13)^b
Local content exemption	11.795	1.9 (0.15)	2.58 (0.15)^c	2.61 (0.15)^c	2.48 (0.20)^a	2.51 (0.14)^b	2.70 (0.13)^c
Free trade zone	16.133	1.9 (0.17)	2.39 (0.14)^b	2.38 (0.15)^a	2.38 (0.19)^a	2.89 (0.16)^c	2.40 (0.13)^b

Notes: ¹. Policy factors in italics. ². Bold indicates Kruskal-Wallis tests significant at 0.05. ³. Means on a scale 1 (no importance) to 5 (high importance). Bold means indicates Mann-Whitney tests significant at a 0.10; b 0.05; c 0.01.

The Kruskal-Wallis tests in Table 4 point to differences (see bold font) between location factors attracting Japanese MNEs to Australia and countries in the ASEAN5. To reveal where these differences lay, we undertook Kruskal-Wallis *post hoc* tests, displayed by the bold means under each ASEAN5 country (columns 4-8), which identify a significant difference in half the location factors between Australia and the ASEAN5 countries. The bold means reveal that Japanese managers invested in Australia for different policy and non-policy factors than for the ASEAN5 countries,

partially confirming Hypothesis 3. Again, there were no significant differences for manufacturing versus non-manufacturing Japanese MNEs in their scoring of variables in Table 4.²

We also conducted similar tests of the differences in the location variables between ASEAN5 countries. There were no significant differences in Japanese MNEs ranking of the policy and non-policy factors between the ASEAN4 countries – Indonesia, Philippines, Malaysia and Thailand. Singapore was an outlier, displaying some significant differences with the other ASEAN4 countries. While recognising some divergence between Singapore and the other ASEAN4 countries, these results provide additional support for treating the ASEAN5 countries as a region.

Finally, when considering investment decisions, it is important to recognise that not all investments represent ‘new entries’. In Australia, a significant proportion of FDI is re-investment by incumbent MNEs. Conducting similar tests for re-investments by Japanese MNEs, Japanese managers ranked policy and non-policy factors significantly differently than they ranked these factors for initial investments. The only significant differences between Australia and ASEAN5 were labour costs, local content exemptions, and free trade zones. Between the countries of ASEAN5, Singapore was significantly different than the ASEAN4 for labour costs and Thailand-Indonesia-Singapore displayed some differences on the size of the local market. Re-investment policy regimes should be differentiated from policies to attract investment.

Types of Competencies

Hypothesis 4 suggested that Japanese MNEs transferred different competencies to different regions. The transfer of different competencies arises from the matching of the MNE’s bundle of firm-specific know-how to the host country’s location attributes. Specifying ASEAN5 and Australia as different investment regions, Table 5 displays the means Japanese managers assigned to the importance of parent know-how for their subsidiaries’ competitive advantages. According to Kruskal-Wallis tests, there were significant differences (shown in bold in Table 5) between Australia and the ASEAN5 countries, except for brandnames and trademarks. The bold means under each ASEAN5 country in Table 5 reveal significant differences between the importance of parent know-how transferred to Australia and to the particular ASEAN5 country. The greatest differences in know-how transfer were product and process technology, management skills and HRM practice. Tests confirmed that the significant differences in the importance of know-how between Australia and ASEAN5 held for manufacturing versus non-manufacturing Japanese MNEs. These results support Hypothesis 4.

We also tested for intra-ASEAN5 differences in know-how transfer. These differences were much less marked than those between Australia and ASEAN5. While Singapore received different product technology, process technology and management

skills than the ASEAN4 countries, differences between ASEAN4 countries were minimal. Indonesia, Malaysia, Thailand and the Philippines received different levels of process technology. Non-manufacturing Japanese MNEs brought product technology to Malaysia, process technology to the Philippines and brand name know-how to Thailand, in contrast to manufacturing firms.

Table 5. Country Differences in Japanese MNEs' Transfer of Parent Know-how

	Kruskal Wallis test ¹	Mean rating ²					
		Australia	Indonesia	Malaysia	Philippines	Singapore	Thailand
Product technology	24.6	2.8 (0.25)	3.97 (0.15)^c	3.62 (0.19)^b	3.79 (0.20)^c	3.33 (0.18)^a	4.04 (0.13)^c
Process technology	29.4	2.5 (0.25)	3.80 (0.17)^c	3.41 (0.20)^c	3.21 (0.22)^b	3.01 (0.17)^a	3.74 (0.15)^c
Management skills	12.1	2.9 (0.19)	3.38 (0.13)^b	3.27 (0.14)^a	3.37 (0.17)^b	3.59 (0.14)^c	3.47 (0.13)^c
Brand names/ Trade marks	2.4	3.1 (0.22)	3.22 (0.17)	3.26 (0.19)	3.27 (0.20)	3.34 (0.17)	3.45 (0.15)
Distribution & Marketing skills	12.3	2.9 (0.22)	2.93 (0.14)	3.08 (0.17)	2.90 (0.18)	3.56 (0.15)^b	3.17 (0.14)
HRM Practice	9.3	2.6 (0.18)	2.92 (0.13)	3.02 (0.13)^b	2.94 (0.15)^a	3.15 (0.12)^c	3.12 (0.13)^b

Notes: ¹ Bold indicates Kruskal-Wallis tests significant at 0.05. ² Means on a scale 1 (no importance) to 5 (high importance). Bold means indicates Mann-Whitney tests significant at a 0.10; b 0.05; c 0.01.

DISCUSSION AND CONCLUSION

These empirical results have important public policy implications. Australia's investment strategy emphasises long-run non-incentive policies, such as the right macro policy settings for growth and low inflation, and the continuation of the microeconomic reform agenda (Blackburne 2001). The thrust of investment policy is to 'market' Australia on the basis of its non-policy location factors, emphasising the country's comparative advantages, especially natural resources and leading industry sectors (such as biotechnology, resource processing, ITC and agribusiness). There is an emphasis on keeping regulatory costs, including those emanating from the Australian Consumer and Competition Commission and the Australian Tax Office, low, by cutting red tape and making Invest Australia a one-stop shop for investors. Incentives have a low importance in Australia's policy regime, and the Blackburne Report (2001) for the Federal Government on Australia's investment and attraction efforts called for them to be kept to a minimum, with rigorous criteria and transparency.

Our results in Table 4 confirm that Japanese managers differentiated between

Australia and the ASEAN5 as investment locations on the basis of market size, labour costs, export base and availability of inputs. For each non-policy variable, Japanese managers scored Australia significantly lower than each ASEAN5 country. Programmes to market Australia's non-policy variables aim to raise foreign investors' ranking of these non-policy variables relative to ASEAN5 countries, attracting new investment away from the ASEAN5 region. Since non-policy variables take years to change, and are not subject to easy policy manipulation, marketing programmes assume that there are significant asymmetries in investors' knowledge of Australia versus ASEAN5 countries. Persistent information asymmetries by MNE managers on the attributes of Australia and ASEAN5 seem unlikely. If Australia's non-policy variables need to change, rather than changing investors' perceptions of these variables, then Australia's attractiveness compared to ASEAN5 will only occur in the long run.

Turning to policy variables, these are attractive because they are subject to government adjustment in the short run. Australia offers relatively few incentive policies, although investment-specific incentives can be negotiated. Australia's policy variables, including tax reductions, import tax exemptions, local content exemptions and free trade zones, were ranked by Japanese managers significantly differently to those policies in the ASEAN5 (see Table 4). Japanese MNEs scored import tariffs, incentives and subsidies the same between Australia and ASEAN5. These comparative Australia-ASEAN5 tests measured incentive effectiveness. While simply ranking policy variables does not test policy effectiveness (Guisinger 1985), our measure of significant differences between the same policies in Australia versus ASEAN5 is a test of incentive effectiveness. The policy makers' dilemma is to identify effective policies that allow Australia to implement incentive regimes that achieve significant drawing power to attract investment away from other regions and countries. In each case, incentive policies were ranked significantly lower for Australia than the same set of policy factors in ASEAN5 (see Table 4).

These results suggest that the Australian government should modify its investment incentive approach, whereby Singapore, Malaysia, Thailand and New Zealand are treated as rival investment locations (Blackburne Report 2001) and Australia is seen as competing against 'other countries of the Asian region' (Mortimer Report 1997, 12). Since Japanese MNEs ranked incentive policies as significantly less attractive in Australia than those same policies in ASEAN5, it is unlikely that Australia's incentive policies will shift investment from the ASEAN5. Australia's investment incentive regime is less effective than that of the ASEAN5 countries.

The empirical results also provide lessons for policy-makers setting incentive regimes in the ASEAN4. Since Japanese MNEs did not differentiate between policy variables in the ASEAN4 countries, these governments face a zero sum bargaining game or location tournament. As each country enters a bidding war to offer incentives

to attract Japanese MNEs, the incentives of one country were matched, perhaps with a time lag, by the other ASEAN4 countries. These games involve an investment winner and an investment loser. Such location tournaments with MNEs meant each ASEAN4 country offered more generous incentives to Japanese investors than Japanese MNEs would have received without incentive bargaining and that the overall level of Japanese FDI in ASEAN4 did not increase. Harmonising incentive regimes within ASEAN4 should rank as a major intra-regional governmental priority.

We also found that re-investments were sensitive to different incentives than initial investment incentives, suggesting scope for government incentive regimes to differentiate between new and current investors (Song 2002). While 40 percent of new investment in Australia comes from existing investors (Blackburne 2001, 11), Australia has no separate set of re-investment incentives. This is also typical of ASEAN5 countries. In a recent survey of 270 MNEs in Australia, we discovered that three quarters of firms would not re-invest without incentives. The need for an appropriate re-investment incentive regime is indicated.

MNEs match their firm-specific resources to the attributes of the investment location. Japanese MNEs ranked the importance of know-how transferred to their subsidiaries in Australia significantly different to the know-how transferred to ASEAN5. This is an important area for further research, since the types of know-how transferred impacts on the economic development of the host country's industry and economy. Host governments should encourage the transfer of know-how, such as HRM practices, that will improve productivity and provide externalities to host country firms. A further investigation of know-how transfer, its implementation within subsidiaries and its leakage to host country firms would provide a measure of the benefits that MNEs bring to the host economy and society. Our data suggest that there are significant differences in know-how transfer by region, possibly with winner and loser regions.

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