JAPANESE MULTINATIONALS IN THAILAND: 
THE IMPACT OF INCENTIVES 
ON THE LOCATION DECISION

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This paper analyses the role of incentives and non-policy factors in Japanese MNEs’ investment decision in Thailand and the region (Australia, Singapore, Malaysia, Indonesia and Philippines). A questionnaire survey of Japanese MNEs was conducted with responses from 134 companies. Japanese MNEs did not differentiate between Thailand and other countries in the region as an investment location. Non-policy factors, especially size of the market, political and economic stability and labour costs, dominated the reasons Japanese MNEs selected investment locations. Policy variables, such as import tariffs, import tax exemptions, tax policies and subsidies and incentives, were second order factors in the location decision by Japanese investors. This applied to past investments (before the Asian economic crisis) and for future investment intentions. Thailand’s incentives to attract foreign investors were not viewed by Japanese MNEs as different from the incentives offered by other countries in the region. This suggests that countries in the region have entered into a zero-sum prisoners’ dilemma game, where each country offers the same types of incentives to MNEs.

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Introduction

Since the 1980s, the empirical work on foreign direct investment has focused on the corporate enterprise making the foreign investment rather than the location choice. Dunning (1998) has labelled this lacunae the ‘neglected factor’. The firm’s FDI decision involves two simultaneous and interdependent decisions: the choice of location for an overseas investment and the choice of the multinational form. The location decision lacks well-articulated theory. In contrast, internalisation theory, modified by resource-based and agency approaches, provides a comprehensive paradigm for explaining why ownership of assets is selected as the cross-border form of transacting in goods and services. The multinational form is selected to internalise transactions that occur in imperfect intermediate product markets and imperfect markets for the sale of firm-specific capabilities (Hymer, 1976; Dunning, 1973; Buckley and Casson, 1976; Hennart, 1982; Williamson; 1985; Wernerfelt, 1984; Nicholas, 1983; Peteraf, 1993; Markusen, 1995).

The location decision is usually treated as a secondary factor, grouped into broad categories, including market characteristics (size and growth); socio-political factors (stability and risk), cultural distance, tariffs and trade barriers and government incentive policies. Location factors enter the FDI decision ad hoc, divorced from the microeconomic perspective of the theory of the MNE. Recently, there has been a marriage between trade theory and the theory of the MNEs. The new trade theory allows for gains from trade to arise from imperfect competition, transport costs, increasing returns and trade policy regimes independent of comparative advantage. (Markusen, 1995; Horstmann and Markusen, 1996; Krugman, 1993) The MNE takes centre stage since industries characterised by imperfect competition and scale economies are often dominated by MNEs. (Markusen, 1995) The new trade theory combines both the institutional form of overseas involvement and the decision of the MNE to locate in a particular country.

The purpose of this study is to report new evidence on location decisions and the role of incentives in the context of Japanese FDI in Thailand compared to other countries in the region. The paper has four aims. First, it reviews the literature on location decisions and incentives with particular reference to Thailand. Second, it analyses how Japanese MNEs differentiate between policy and non-policy variables in country-specific location decisions. Third, the paper differentiates between policy variables, identifying the relative importance of a range of policy instruments. The data include observations both on initial investments and re-investments. Finally, the paper assesses the efficacy of incentives as a device for attracting Japanese MNEs to Thailand.

Location Decisions and Incentives

Country-specific location factors mean that states compete for MNEs. David (1984) termed ‘location tournaments’ the policy adjustments, promotional programmes and incentive regimes used by states to attract MNEs. State incentive policies create a path-dependent location process, where incentives lay down layer after layer of new firms upon inherited location formations. (Arthur, 1994) States also attract investment through endowments, or non-policy variables, such as the country’s resources, rate of economic growth or economic and political stability. (Krugman, 1991; David, 1991; Scott, 1996; Arthur, 1994) Both endowments and incentives
regimes create industry agglomeration economies, where firms share net benefits from locating together, include sharing of information, infrastructure, supply networks, labour markets and ancillary services (legal and financial). (Wheeler and Mody, 1992) Agglomerations are 'sticky', with countries or regions attracting further new investment quickly or shedding firms only reluctantly. The eastern US ‘rust belt’ is an example of 'sticky' agglomerations only slowly shedding firms while Silicon Valley and M4 corridor might be modelled as regions quickly attracting firms.

States can change incentives quickly, while it takes states years to alter endowments, such as labour force skills, infrastructure and market size. (Loree and Guisinger, 1995) Incentives allow states to build clusters of economic interdependent production within the global economy, creating an early start or first mover advantage. Scott (1996) argued that in the battle for industry clusters, states enter into predatory poaching wars, with MNEs playing regions off against each other. Following this line, Weigand (1983) encouraged CEOs to benefit from the intense bidding war conducted by governments.

A country’s level of economic development is a key factor shaping the impact of incentives. For a developing economy to get started, Wheeler and Mody (1992) recommended states focus on infrastructure development, stability, rapid economic and market growth, rather than incentives. For US MNEs, Loree and Guisinger (1995) found that both policy and non-policy variables played a role in the location decision, but that incentives that attract MNEs to a region might be historical accidents ‘locking-in’ firms to a sub-optimal regional cluster. In a survey of the literature, Blair and Premus (1987) emphasised a time dimension, with incentives more important after the 1980s than before, as markets became more integrated and transport and communication systems improved.

Aharoni’s (1966) interviews with executives revealed that investors looked to incentives only after some other factors made them investigate the possibility of investing in the country. Lim (1983) claimed that natural resources and a proven record of economic growth, mattered most for developing countries seeking FDI. In a survey of World Bank projects, Guisinger (1986) found that two out of three investments were due to investment incentives. But this result assumed that competing countries did not alter their investment policies to match the incentives of the state attracting new investment. According to Scott (1996) the battle for regional clusters saw states enter into predatory poaching wars, with MNEs playing regions off against each other. Loree and Guisinger (1995) found that both policy and non-policy variables played a role in the location decision by US MNEs between 1977 and 1982, but that incentives differed across time and between developed and developing economies. They warned that increasing incentives was not an easy way to increase FDI because such policies might provoke the prisoner’s dilemma trap, where all countries increased their incentives simultaneously but no country increased its relative share.

For US firms in the Caribbean region, Rolfe, Ricks, Pointer, McCarthy (1993) found the incentives were specific to market focus (local market penetration or export platform), nationality, first or reinvestment and time. Countries needed to determine the type of industry they prefer, then match the incentives to the needs of the targeted industries. This is consistent with Woodward and Rolfe (1993) who found that export-oriented investment in the Caribbean Basin sought unimpeded profit repatriation and free trade zones (including tax holidays). For Commonwealth developing countries, Cable and Persaud (1987) emphasised the importance of ‘fundamentals’, including political stability and natural resources, although project-specific investment was
modestly sensitive to tax incentives. Hughes and Dorrance (1987) found incentives, such as tax holidays, were expensive and did little to encourage foreign investment in East Asian Commonwealth countries where good reasons for investment existed in the form of natural resources, protected markets or an export base. In Latin America and Southeast Asia, Chen (1998) discovered that tax disincentives (property taxes) reduced FDI while growth of GDP and skilled workers attracted FDI. Overall, the importance of incentives in attracting FDI was mixed.

Nationality may matter for understanding the choice of investment location. Comparing Japanese and US MNEs, 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. In a study covering 59 Japanese MNEs in the US, Nakabaysahi (quoted in Donahue, 1997, p. 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, Taylor (1993) reported that Japanese firms favoured assisted areas, with only 24 percent of establishments located outside non-assisted areas. However, the choice of the UK as an investment country was dominated by production costs, reliable labour and good labour relations. Incentives, such as tax rates and financial assistance, determined where Japanese firms invested within a country, but only after the choice of host country was made. In a study of Japanese investment in Australia, Nicholas et al found that incentives were unimportant factors in the investment decision compared to non-policy factors, especially size and growth of the domestic economy and raw material supplies.

For Thailand, Chinwanno and Tambunlertchai (1993) found that Japanese FDI worsened the balance of payments, transferred little technology and contributed relatively little to economic development and employment. This view was shared by the Thai population in the 1970s, when there was popular opposition to Japanese MNEs in Thailand. Japanese MNEs came to Thailand to utilise low-cost labour, seek tariff protection and benefit from tax exemption incentives. In addition, the socio-economic environment and a well-specified investment promotion policy attracted Japanese MNEs, given Thailand’s open door to inward investment, without any effective constraints on foreign investors. (Chinwanno and Tambunlertchai, 1983) Mardon and Patik (1992) also identified low labour costs and the government’s open approach to FDI as major factors in attracting foreign MNEs to Thailand. They argued that FDI contributed greatly to Thailand’s economic growth, but at the cost of foreign control, little technology transfer and Thai local producers being driven from the market.

Jansen (1995) argued that Japanese FDI helped restore private investment and growth and that export-oriented FDI added to Thai export earnings. However, Jansen also conceded that FDI led to an even sharper increase in import demands than export earnings, causing a deterioration in the current account deficit. Choonhavan (1984) also warned that a balance of payments problem arose from FDI, but identified the fusion of foreign capital with the Thai ruling class that created an underpaid working class as a greater problem. In an input-output analysis, Petri (1992) showed that Japanese affiliated firms tended to offset their large direct trade deficits in the longer run with substantial indirect trade surpluses.

Direct and indirect backward and forward linkages between indigenous firms and Japanese MNEs were insignificant, although variations occurred across industry categories. (Anuroj, 1995) In a detailed case study of the colour television sector, Anuroj (1995) found little evidence that Japanese MNEs operated subcontracting
systems or established long-term relationships different from non-Japanese MNEs. However, the FDI policies did encourage Japanese MNEs to invest in Thailand to serve existing Japanese MNEs, but this was not different than the experiences of non-Japanese investors. Anuroj (1995) recommended that Thai FDI policies change to encourage the transfer of technology and develop linkages with indigenous firms rather than to induce capital inflow and employment.

The Survey and Data

The significance of Japanese FDI in Thailand and the region justifies the focus of this study on the factors influencing location decisions by Japanese MNEs. A list of Japanese MNEs that invested in Thailand and the region (Singapore, Australia, Indonesia, Malaysia, Philippines) was collected from Who Owns Whom (1997). A questionnaire survey in Japanese was designed to reveal the policy and non-policy factors in the investment decision by Japanese MNEs in Thailand, Australia, Singapore, Malaysia, Indonesia and the Philippines. The survey was translated from English into Japanese, back translated, then independently reviewed and revised.3

The survey was conducted through the Centre for Economic Research at Nagoya University, with endorsement through the “brand name” of the Centre. A reminder was sent to all non-responding firms 4 weeks after the first mail-out. The return rate was 34 percent, 134 firms from the total sample of 390 firms. The sample was stratified in two ways. First, manufacturing (63 percent) and non-manufacturing (31 percent) firms and, second, those with investments in Thailand and the region (61 percent) and those with no investments in Thailand (39 percent).

Three statistical tests were used to analyse the data. A Kruskal-Wallis one-way analysis of variance by ranks was used to determine whether the means from different samples are from the same population. (Siegel and Castellan, 1988) However, the test does not reveal where any differences lie as between variables. To determine which variables account for the differences in means, a Kruskal-Wallis post hoc pair-wise test of the differences in mean ranks was used. Finally, the Mann-Whitney U test was employed as a non-parametric version of an independent sample t test. (Bryman and Craner, 1997; Siegel and Castellan, 1988)

The FDI Location Decision

Types of Technology Transferred

MNEs transfer a bundle of technology and know-how to host countries. Product technology (4.0) and process technology (3.7) were the most important technology transferred into Thailand by Japanese MNEs (see Table 1) followed by management skill (3.5) and brand names (3.5). According to Kruskal-Wallis tests in Table 1, there were significant differences across countries in the types of technology and know-how transferred by Japanese MNEs to their subsidiaries. Kruskal-Wallis post hoc tests revealed that Japanese MNEs displayed few differences between know-how transferred to Thailand and the other countries in the region, except Australia and Singapore. Thailand received more product technology than Singapore; and more process technology than Australia or Singapore. Overall, Table 1 shows that Thailand received mainly the same types of know-how as its regional competitors, principally Malaysia, Indonesia and the Philippines. This suggests that Thailand’s incentive policy regime and non-policy factors did not shape a different profile of technology
transfer by Japanese MNEs to Thailand compared with Japanese technology transfer to Thailand’s regional competitors.

**Choice of Country**

Compared with 9 countries (both regional competitors and China, North America and Europe), Japanese MNEs rated Thailand (3.3) as the same as all other countries in the region as an investment location except China (4.0), which was more important, and Singapore (2.8) and Australia (2.2), which was less important (see Table 2). Thailand competed for Japanese investment without the special status of China, although Thailand was preferred over Australia and Singapore as an investment location. Using a Mann-Whitney test, there was no difference in how Japanese manufacturing and non-manufacturing firms treated Thailand or any other regional economy as an investment location, except China and Singapore. Japanese manufacturing firms preferred to invest in China, while Japanese non-manufacturing MNEs preferred to invest in Singapore.

Competing with regional neighbours for Japanese MNEs, Thailand was seen as one of a homogeneous group of countries in the region seeking foreign capital. To differentiate Thailand as an investment location from other equally attractive regional competitors, Thailand faced the task of selecting a mix of policy instruments, given that non-policy factors were fixed in the short to medium run. The survey data show that Thailand was unable to develop a set of policy incentives that differentiated Thailand from other countries in the region. One implication is that Thailand was caught in a zero-sum bargaining game with its neighbours.

While Thailand did not differentiate itself as an investment location from her regional neighbours, Thailand used a mix of policy and non-policy factors in attracting foreign investors. How important were policy versus non-policy variables in attracting Japanese MNEs, and what were the most important policy incentives and non-policy factors in attracting Japanese firms?

**Policy and Non-Policy Variables**

Table 3 reports incentives, tariffs and 17 non-policy variables as location factors. The 7 most important factors attracting Japanese MNEs were non-policy variables, size of local market (4.3), political (4.1) and economic stability (4.0), low production (3.9) and labour costs (3.8), infrastructure quality (3.7) and raw material availability (3.5). Ranking eighth, incentives (3.4) were of second order importance. According to Kruskal-Wallis tests, incentives ranked significantly lower than the three most important non-policy factors, but were significantly more important than the 6 least important factors in Table 3, which included tariffs and quotas. Tariffs and quota restrictions were rated only 2.8, and were significantly less important than the 7 most important non-policy variables and incentives. Non-policy variables dominated the reasons Japanese MNEs invested in the Asian region, with incentives playing a secondary role in attracting Japanese investors.

There were few significant differences in how Japanese non-manufacturing and manufacturing MNEs treated the Asian region. Manufacturing firms rated raw material supply and low production costs higher, but political and economic stability lower, than non-manufacturing firms. Surprisingly, firms investing in Thailand rated low labour cost (3.7), low production costs (3.7) and infrastructure quality (3.5) as of lower importance than firms that did not invest in Thailand. Thailand was not seen as a low-cost labour and production location relative to other countries in the region.
Policy and non-Policy Impact on Future Investments

The impact of the Asian economic and financial crises on Japanese MNEs’ location decisions is assessed in Table 4. Comparing Table 3 and Table 4, the same non-policy variables that dominated the pre-Asian crisis investment location decision by Japanese MNEs also dominate the post-Asian economic crisis location decisions. Size of the local market (4.4) and political and economic stability (4.4) dominated both pre and post-crisis investment decisions, and labour costs and raw material availability were more important variables than policy factors. Market size and political and economic stability were significantly different from all other factors in Table 4, with policy variables of only medium importance and clustered in the bottom half of the table.

Policy Variables

Policy variables did not drive the location decision for Japanese MNEs. They clearly played a second order role in the location decision as shown in both Table 3 and 4. To better understand the second order impact of policy factors, Table 5 ranks the policy variables by importance. Tax related incentives dominated the location decision by Japanese MNEs, ranking as the most important policy variables except for import duty exemptions (3.6) and unrestricted repatriation of dividends (3.5) and profits (3.4). Corporate tax concessions ranked medium-high, but all the other incentive variables were of medium or low importance. Table 5 shows that the top four policy variables (corporate tax concessions, import duty exemptions, tax holidays and unrestricted repatriation of dividends) were significantly different from the last 7 policy variables. There were no significant differences in the ranking of policy variables by manufacturing and non-manufacturing Japanese MNEs; nor did Japanese MNEs that invested in Thailand rate policy incentives differently from non-Thai investors. The challenge for Thailand was to structure an incentive policy regime that differentiated Thailand’s policies from her neighbours, delivering Thailand a competitive advantage in attracting Japanese MNEs.

Country Differences: Thailand and the Region

Non-policy investment location factors are likely to vary by country. To attract Japanese MNEs, did Thailand structure a set of incentive policies that differentiated Thailand from her regional neighbours? To answer this question, the survey investigated the importance of 7 policy and 7 non-policy factors for 6 countries (see Table 6). Non-policy variables again dominated Japanese MNEs’ decision to invest in Thailand. Policy variables were all of medium-low importance, ranking lower in importance than all non-policy variables except follow competitors in Table 6. Kruskal-Wallis tests (in bold) show that there were significant differences across countries as an export base, local market size, raw material/input availability, free trade zone, labour costs, local content exemption. However, the means highlighted in bold in Table 6 show that Thailand did not differ significantly from the other 5 countries, using a Kruskal-Wallis post hoc test. Considering the non-policy variables, although Thailand ranked high as a low labour cost country, Thai workers were seen as low cost labour only compared to Australia (2.3) and Singapore (2.7). Japanese MNEs did not view Thai labour costs as giving Thailand a competitive advantage as an investment location over any other regional economy. Similarly, Thailand ranked high for Japanese MNEs in terms of raw material/input availability,
but was not ranked significantly higher than her neighbours, except Australia (2.7). Turning to the policy variables in Table 6, Thai policy variables failed to differentiate Thailand from other countries in the region. Thai policy variables were ranked the same as all other countries in the region, except local content exemption in Australia.

Investigating the response of Japanese MNEs to policy and non-policy variables by industry category and involvement in Thailand, the only significant regional policy difference was labour costs. Thai labour costs ranked significantly lower than Singapore and Australia for non-manufacturing MNEs, but were the same as labour costs for all other countries. For manufacturing firms, the significant differences between Thailand and the region was the size of local market (more important than Singapore), free trade zone (less important than Singapore), and low labour rates (more important than Singapore). None of these differences were related to incentives. For Japanese firms investing in Thailand, none of the Thai policy variables differentiated Thailand as an investment location from all other countries in the region. Moreover, for Japanese firms that had not invested in Thailand, Thai policy variables were not viewed as significantly different from all other countries. The only significant difference across the region was in how Japanese MNEs rated labour rates. Australia and Singapore were seen as a more expensive source of labour, but Thai labour was not viewed as different from the remaining countries in the region.

Japanese MNEs did not differentiate between Thailand and other Asian countries on the basis of incentives. From the perspective of Thai policy-makers, incentives were probably a zero sum game, with incentive bargaining by each country in the region leading to a prisoners’ dilemma outcome. Not only did Thai policy variables not differentiate Thailand as an investment location from other countries in the region, Thailand did not have significant non-policy advantages over her neighbours.

Reinvestment in a country may involve a different set of location variables than the first investment in a country. In the sequential investment literature there is little recognition of the role of policy variables in attracting subsequent investment by existing MNEs, rather than first time investment. Kogut (1990) identified the difference between initial investments and the sequential advantages of the coordinated multinational system for subsequent investments. Scale economies and aggregation advantages interacted with economies of scope to drive both a different set of location decision factors and a different structure and organisational design for sequential investing firms. Japanese MNEs built capabilities through initial investments, with sequential investments allowing these capabilities to be used for diversification into non-core businesses. (Chang, 1995)

Japanese MNEs’ rating of the factors influencing their re-investment decision are reported in Table 7. Comparing Table 6 (first investments) with Table 7 (re-investments), there is no significant change in the way that Japanese MNEs ranked and rated the location variables for the region. Non-policy factors, especially political and economic stability (4.3), political and economic stability (3.8) and labour costs (3.8) dominated as medium-high influences. Only labour costs differentiated Thailand (3.8) from other countries, and only for Australia (2.4) and Singapore (2.7). Japanese MNEs did not see incentive policies as variables influencing the decision to reinvest in one country in preference to another, making the rapid building of agglomeration economies through policy variables difficult. Not only did policy variables have a second order effect, but Japanese MNEs did not differentiate between incentive policies by different countries.
Conclusion

This paper analysed the role of policy (incentives) and non-policy factors in Japanese investment location decision in Thailand and the region (Australia, Singapore, Malaysia, Indonesia and Philippines). Thailand received the same bundle of Japanese technology and know-how as Indonesia, Malaysia and the Philippines, although less product and process technology than Singapore and Australia. Surprisingly, differences in location factors for the six countries surveyed did not encourage the transfer of significantly different bundles of Japanese know-how across the group of countries.

Similarly, Japanese MNEs did not differentiate between Thailand and other countries in the region as an investment location, except China (which was a more important investment location) and Australia (which was a less important investment location). There were not significant differences across countries for Japanese manufacturing and non-manufacturing firms or Japanese firms with investment in Thailand and those without Thai investments. The exception was labour costs, with Japanese MNEs differentiating between Thailand and Australia and Singapore as a source of cheap labour. However, for the emerging economy group, Thai labour costs were ranked the same as labour costs in Indonesia, Malaysia and the Philippines.

The survey differentiated between the impact of location variables across countries. Non-policy factors dominated the reasons Japanese MNEs selected investment locations. This applied to past investments (before the Asian economic crisis) and for future investment intentions. Policy variables were second order factors in the investment decision by Japanese MNEs investing in Thailand and the region.

For Thailand, non-policy variables were fixed in the short-medium run, and these variables, especially the size of the market, political and economic stability and labour costs were viewed by Japanese investors as being the same across the region. Non-policy variables provide no competitive advantage to Thailand as a location for Japanese firms. Thai policy makers controlled policy variables, which provided a short-term device for attracting Japanese MNEs. However, Japanese investors saw no differences between the incentive policies of Thailand and her Asian neighbours. Further, Japanese investors ranked Thai incentives from low to medium importance, behind policy factors that ranked more highly. This conclusion held whether Japanese firms were considering their first investment or subsequent investments. The empirical evidence suggests that countries in the Asian region have entered into a zero-sum prisoners’ dilemma game, where each country offers the same types of incentives to MNEs.
### Table 1: Country Differences in Japanese MNEs’ Transfer of Technologies and Know-how

|                        | Kruskal Wallace test<sup>1</sup> | Mean rating<sup>23</sup> |
|------------------------|----------------------------------|--------------------------|
|                        |                                  | Thailand | Australia | Indonesia | Malaysia | Philippines | Singapore |
| Product technology     | .000                             | 4.04     | 2.77      | 3.97      | 3.62     | 3.79        | **3.33<sup>a</sup>** |
| Process technology     | .000                             | 3.74     | **2.45<sup>c</sup>** | 3.80      | 3.41     | 3.21        | **3.01<sup>b</sup>** |
| Management skills      | .034                             | 3.47     | 2.85      | 3.38      | 3.27     | 3.38        | 3.59      |
| Brand names/Trade marks| .795                             | 3.45     | 3.08      | 3.22      | 3.26     | 3.27        | 3.34      |
| Distribution & Marketing skills | .031 | 3.17 | 2.90 | 2.93 | 3.08 | 2.90 | 3.56 |
| HRM Practice           | .098                             | 3.12     | 2.60      | 2.92      | 3.02     | 2.94        | 3.15      |

**Notes:**
1. Tests for overall difference between the means for the six countries.
2. Means are on a scale 1 (no importance) to 5 (high importance).
3. Values in bold denote significant difference to Thailand (Kruskal-Wallis Test, at a alpha=0.10, b alpha=0.05, c alpha=0.01).

### Table 2: Rank Importance of Countries as Japanese MNEs’ Investment Locations<sup>123</sup>

|      | 1     | 2     | 3     | 4     | 5     | 6     | 7     | 8     | 9     |
|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Mean | 4.0   |       |       |       |       |       |       |       |       |
| 1.   | China | 3.3   | 3.3   | 3.1   | 3.0   | 2.8   | 2.8   | 2.2   |       |
| 2.   | North America | 3.6 | 4.0 | 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 |     |     |     | 2.2 |
| 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 difference (Kruskal-Wallis Test, alpha=0.05).
2. Cells with means indicate a significant difference (Kruskal-Wallis Test, alpha=0.05).
3. Means are on a scale 1 (no importance) to 5 (high importance).
Table 3: Policy and Non-Policy\textsuperscript{1} Factors in Japanese MNEs’ Location Decision\textsuperscript{2,3,4}

| Mean | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 |
|------|---|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|----|----|----|
| 1. Size of local market | 4.3 | | | | | | | | | | | | | | | | | |
| 2. Political stability | 4.1 | | | | | | | | | | | | | | | | | |
| 3. Economic stability | 4.0 | | | | | | | | | | | | | | | | | |
| 4. Low production costs | 3.9 | 4.3 | | | | | | | | | | | | | | | | |
| 5. Low labour costs | 3.8 | 4.3 | | | | | | | | | | | | | | | | |
| 6. Infrastructure quality | 3.7 | 4.3 | | | | | | | | | | | | | | | | |
| 7. Raw material availability | 3.5 | 4.3 | 4.1 | 4.0 | | | | | | | | | | | | | | | | |
| 8. Incentives (tax advantages) | 3.4 | 4.3 | 4.1 | 4.0 | | | | | | | | | | | | | | | | |
| 9. Size of export market | 3.1 | 4.3 | 4.1 | 4.0 | 3.9 | 3.8 | | | | | | | | | | | | | |
| 10. Establishment costs | 3.1 | 4.3 | 4.1 | 4.0 | 3.9 | 3.8 | 3.7 | | | | | | | | | | | | |
| 11. Labour skills | 3.1 | 4.3 | 4.1 | 4.0 | 3.9 | 3.8 | 3.7 | | | | | | | | | | | | |
| 12. Business ethic | 3.0 | 4.3 | 4.1 | 4.0 | 3.9 | 3.8 | 3.7 | | | | | | | | | | | | |
| 13. Country/region experience | 3.0 | 4.3 | 4.1 | 4.0 | 3.9 | 3.8 | 3.7 | 3.5 | | | | | | | | | | | |
| 14. Local suppliers | 2.8 | 4.3 | 4.1 | 4.0 | 3.9 | 3.8 | 3.7 | 3.5 | 3.4 | | | | | | | | | | |
| 15. Tariffs/quota on imports | 2.8 | 4.3 | 4.1 | 4.0 | 3.9 | 3.8 | 3.7 | 3.5 | 3.4 | | | | | | | | | | |
| 16. Favorable exchange rates | 2.8 | 4.3 | 4.1 | 4.0 | 3.9 | 3.8 | 3.7 | 3.5 | 3.4 | | | | | | | | | | |
| 17. Sources of finance | 2.8 | 4.3 | 4.1 | 4.0 | 3.9 | 3.8 | 3.7 | 3.5 | 3.4 | | | | | | | | | | |
| 18. Cultural proximity | 2.7 | 4.3 | 4.1 | 4.0 | 3.9 | 3.8 | 3.7 | 3.5 | 3.4 | | | | | | | | | | |
| 19. Competitive rivalry | 2.4 | 4.3 | 4.1 | 4.0 | 3.9 | 3.8 | 3.7 | 3.5 | 3.4 | 3.1 | 3.1 | 3.1 | 3.0 | | | | | | |

Notes: 1. Policy Factors are in \textit{italics}.
2. Blank cells indicate no significant difference (Kruskal-Wallis Test, at alpha=0.05).
3. Cells with means indicate a significant difference (Kruskal-Wallis Test, at alpha=0.05).
4. Means are on a scale 1 (no importance) to 5 (high importance).
Table 4: Policy and Non-Policy Factors\textsuperscript{1} in Japanese MNEs’ Future Location Decision\textsuperscript{2,3,4}

|                   | Mean | 1   | 2   | 3   | 4   | 5   | 6   | 7   | 8   | 9   | 10  | 11  | 12  | 13  | 14  |
|-------------------|------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| 1. Scale of local market | 4.4  | 3.7 | 3.6 | 3.2 | 3.2 | 3.2 | 3.1 | 3.0 | 3.0 | 3.0 | 2.9 | 2.6 | 2.4 |     |     |
| 2. Political & economic stability | 4.4  | 3.7 | 3.6 | 3.2 | 3.2 | 3.2 | 3.1 | 3.0 | 3.0 | 3.0 | 2.9 | 2.6 | 2.4 |     |     |
| 3. Lower labour cost | 3.7  | 4.4 | 4.4 | 3.1 | 3.0 | 3.0 | 3.0 | 2.9 | 2.6 | 2.4 |     |     |     |     |     |
| 4. Raw materials/input availability | 3.6  | 4.4 | 4.4 |     |     |     |     | 3.0 | 3.0 | 3.0 | 2.9 | 2.6 | 2.4 |     |     |
| 5. Import & tariff barriers | 3.2  | 4.4 | 4.4 |     |     |     |     |     |     |     | 2.6 | 2.4 |     |     |     |
| 6. Exemption of import taxes | 3.2  | 4.4 | 4.4 |     |     |     |     |     |     |     |     | 2.6 | 2.4 |     |     |
| 7. Country knowledge | 3.2  | 4.4 | 4.4 |     |     |     |     |     |     |     |     |     | 2.4 |     |     |
| 8. Establishment of export base | 3.1  | 4.4 | 4.4 | 3.7 |     |     |     |     |     |     |     |     |     | 2.4 |     |
| 9. State & local government incentives | 3.0  | 4.4 | 4.4 | 3.7 | 3.6 |     |     |     |     |     |     |     |     | 2.4 |     |
| 10. Tax holiday | 3.0  | 4.4 | 4.4 | 3.7 | 3.6 |     |     |     |     |     |     |     |     |     | 2.4 |
| 11. Exemption of local content | 3.0  | 4.4 | 4.4 | 3.7 | 3.6 |     |     |     |     |     |     |     |     |     |     |
| 12. Free Trade zone | 2.9  | 4.4 | 4.4 | 3.7 | 3.6 |     |     |     |     |     |     |     |     |     |     |
| 13. Government subsidies | 2.6  | 4.4 | 4.4 | 3.7 | 3.6 | 3.2 | 3.2 |     |     |     |     |     |     |     |     |
| 14. Follow competitors | 2.4  | 4.4 | 4.4 | 3.7 | 3.6 | 3.2 | 3.2 | 3.2 | 3.1 | 3.0 | 3.0 |     |     |     |     |

Notes:  
1. Policy Factors are in \textit{Italics}  
2. Blank cells indicate no significant difference (Kruskal-Wallis Test, at alpha=0.05).  
3. Cells with means indicate a significant difference (Kruskal-Wallis Test, at alpha=0.05).  
4. Means are on a scale 1 (no importance) to 5 (high importance).
| Rank | Policy Type                                    | Mean | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
|------|----------------------------------------------|------|---|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|
| 1    | Corporation tax concessions                  | 3.8  |   |   |   |   |   |   | 3.1| 3.0| 2.9| 2.9| 2.9| 2.8| 2.7| 2.7| 2.5|
| 2    | Import duties exemptions                     | 3.6  |   |   |   |   |   |   | 3.0| 2.9| 2.9| 2.9| 2.8| 2.7| 2.7| 2.5|
| 3    | Tax holidays                                 | 3.5  |   |   |   |   |   |   | 2.9| 2.9| 2.9| 2.8| 2.7| 2.7| 2.7| 2.5|
| 4    | Unrestricted repatriation of dividends       | 3.5  |   |   |   |   |   |   | 2.9| 2.9| 2.9| 2.8| 2.7| 2.7| 2.7| 2.5|
| 5    | Unrestricted repatriation of profits         | 3.3  |   |   |   |   |   |   |    | 2.7| 2.7| 2.7| 2.5|
| 6    | Withholding tax exemption                    | 3.2  |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |
| 7    | Sales tax exemptions                         | 3.2  |   |   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |
| 8    | Land tax exemptions                          | 3.1  | 3.8|   |   |   |   |   |    |    |    |    |    |    |    |    |    |    |
| 9    | Payroll tax exemptions                       | 3.0  | 3.8| 3.6|   |   |   |   |    |    |    |    |    |    |    |    |    |    |
| 10   | Local content requirements exemption        | 2.9  | 3.8| 3.6| 3.5| 3.5|   |   |    |    |    |    |    |    |    |    |    |    |
| 11   | Free trade zones                            | 2.9  | 3.8| 3.6| 3.5| 3.5|   |   |    |    |    |    |    |    |    |    |    |    |
| 12   | Infrastructure grants                        | 2.9  | 3.8| 3.6| 3.5| 3.5|   |   |    |    |    |    |    |    |    |    |    |    |
| 13   | Tax relief for infrastructure                | 2.8  | 3.8| 3.6| 3.5| 3.5|   |   |    |    |    |    |    |    |    |    |    |    |
| 14   | Employment grants                           | 2.7  | 3.8| 3.6| 3.5| 3.5|   |   |    |    |    |    |    |    |    |    |    |    |
| 15   | Loans at discount rates                      | 2.7  | 3.8| 3.6| 3.5| 3.5| 3.3| 3.2| 3.2| 3.2| 3.2|    |    |    |    |    |    |    |
| 16   | Land donations                              | 2.5  | 3.8| 3.6| 3.5| 3.5| 3.3| 3.2| 3.2| 3.2| 3.1|    |    |    |    |    |    |    |

Notes:  
1. Blank cells indicate no significant difference (Kruskal-Wallis Test, alpha=0.05).  
2. Cells with means indicate a significant difference (Kruskal-Wallis Test, alpha=0.05).  
3. Means are on a scale 1 (no importance) to 5 (high importance).
Table 6: Country Differences in Japanese MNEs’ First Investment Location Decision

| Factor                                | Kruskal Wallace test | Thailand | Australia | Indonesia | Malaysia | Philippines | Singapore |
|---------------------------------------|----------------------|----------|-----------|-----------|----------|-------------|-----------|
| Size of local market                  | .017                 | 4.2      | 4.1       | 4.2       | 3.8      | 4.0         | 3.6       |
| Political & economic stability        | .094                 | 4.0      | 4.0       | 3.7       | 3.9      | 3.7         | 4.0       |
| Labour costs                          | .000                 | 3.7      | 2.3*      | 3.9       | 3.6      | 3.6         | 2.7*      |
| Country knowledge                     | .466                 | 3.5      | 3.3       | 3.4       | 3.5      | 3.2         | 3.6       |
| Raw materials/input availability     | .009                 | 3.5      | 2.7*      | 3.3       | 3.4      | 3.0         | 3.2       |
| Establishment of export base          | .003                 | 3.1      | 2.4       | 3.1       | 2.9      | 3.0         | 3.6       |
| Import tariffs & barriers             | .287                 | 2.8      | 2.6       | 2.9       | 2.8      | 2.7         | 3.1       |
| Import tax exemption                  | .106                 | 2.8      | 2.2       | 2.8       | 2.8      | 2.5         | 2.8       |
| Tax reductions                        | .093                 | 2.7      | 2.0       | 2.6       | 2.6      | 2.3         | 2.7       |
| Local content exemption               | .038                 | 2.7      | 1.9*      | 2.6       | 2.6      | 2.5         | 2.5       |
| State & local govt. incentives        | .535                 | 2.6      | 2.3       | 2.5       | 2.5      | 2.3         | 2.5       |
| Government subsidies                  | .268                 | 2.5      | 2.1       | 2.3       | 2.4      | 2.1         | 2.3       |
| Free trade zone                       | .006                 | 2.4      | 1.9       | 2.4       | 2.4      | 2.4         | 2.9       |
| Follow competitors                    | .965                 | 2.3      | 2.1       | 2.1       | 2.2      | 2.0         | 2.2       |

Notes:
1. Policy Factors are in *Italicics*
2. Tests for overall difference between the means for the six countries
3. Means are on a scale 1 (no importance) to 5 (high importance).
4. Values in bold denote significant difference to Thailand (Kruskal-Wallis Test, at a alpha=0.10, b alpha=0.05, c alpha=0.01).
Table 7: Country Differences in Japanese MNEs’ Re-Investment Location Decision

|                      | Kruskal Wallace test\(^1\) | Mean rating\(^2\)  |
|----------------------|-----------------------------|---------------------|
|                      |                            | Thailand            |
|                      |                            | Australia           |
|                      |                            | Indonesia           |
|                      |                            | Malaysia            |
|                      |                            | Philippines         |
|                      |                            | Singapore           |
| Size of local market | .024                       | 4.3                 |
|                      |                            | 3.6                 |
|                      |                            | 4.3                 |
|                      |                            | 3.8                 |
|                      |                            | 4.0                 |
|                      |                            | 3.5                 |
| Political & economic stability | .933                     | 3.8                 |
|                      |                            | 3.7                 |
|                      |                            | 3.9                 |
|                      |                            | 3.7                 |
|                      |                            | 3.7                 |
|                      |                            | 3.9                 |
| Labour costs         | .000                       | 3.8                 |
|                      |                            | 2.4\(^c\)           |
|                      |                            | 4.0                 |
|                      |                            | 3.6                 |
|                      |                            | 3.7                 |
|                      |                            | 2.7\(^c\)           |
| Establishment of export base | .414                     | 3.6                 |
|                      |                            | 2.9                 |
|                      |                            | 3.7                 |
|                      |                            | 3.1                 |
|                      |                            | 3.6                 |
|                      |                            | 3.5                 |
| Raw materials/input availability | .693               | 3.6                 |
|                      |                            | 3.1                 |
|                      |                            | 3.6                 |
|                      |                            | 3.3                 |
|                      |                            | 3.6                 |
| Country knowledge    | .914                       | 3.4                 |
|                      |                            | 3.3                 |
|                      |                            | 3.3                 |
|                      |                            | 3.4                 |
|                      |                            | 3.7                 |
| Import tariffs & barriers | .878                     | 3.1                 |
|                      |                            | 2.8                 |
|                      |                            | 2.9                 |
|                      |                            | 2.8                 |
|                      |                            | 3.2                 |
| Import tax exemption | .924                       | 2.8                 |
|                      |                            | 2.6                 |
|                      |                            | 2.7                 |
|                      |                            | 2.7                 |
|                      |                            | 2.8                 |
| Local content exemption | .194                     | 2.8                 |
|                      |                            | 1.8                 |
|                      |                            | 2.5                 |
|                      |                            | 2.6                 |
|                      |                            | 2.8                 |
| Free trade zone      | .230                       | 2.7                 |
|                      |                            | 1.8                 |
|                      |                            | 2.6                 |
|                      |                            | 2.5                 |
|                      |                            | 3.0                 |
|                      |                            | 2.9                 |
| Tax reductions       | .782                       | 2.7                 |
|                      |                            | 2.5                 |
|                      |                            | 2.4                 |
|                      |                            | 2.5                 |
|                      |                            | 2.4                 |
| State & local govt. incentives | .755               | 2.6                 |
|                      |                            | 2.3                 |
|                      |                            | 2.3                 |
|                      |                            | 2.2                 |
|                      |                            | 2.3                 |
|                      |                            | 2.4                 |
| Follow competitors   | .646                       | 2.5                 |
|                      |                            | 2.0                 |
|                      |                            | 2.2                 |
|                      |                            | 2.2                 |
|                      |                            | 2.2                 |
|                      |                            | 2.5                 |
| Government subsidies | .924                       | 2.4                 |
|                      |                            | 2.4                 |
|                      |                            | 2.2                 |
|                      |                            | 2.3                 |
|                      |                            | 2.2                 |
|                      |                            | 2.4                 |

Notes:
1. Policy Factors are in *Italics*
2. Tests for overall difference between the means for the six countries
3. Means are on a scale 1 (no importance) to 5 (high importance).
4. Values in bold denote significant difference to Thailand (Kruskal-Wallis Test, at \(a\) alpha=0.10, \(b\) alpha=0.05, \(c\) alpha=0.01).
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2 The survey was translated by staff at the Japanese Teaching Unit in the School of International Business, UNSW and reviewed and revised by the Japanese staff at the Economics Research Centre, Nagoya University.
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