



Determinants of Regional Headquarters of MNCs in Asia

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What's FDI?

- Foreign Direct Investment

An investment made to acquire lasting interest in enterprises operating outside of the economy of the investor:

cross border mergers and acquisitions, establishment of corporations, acquiring real estates, etc...

Introduction 1

What's FDI?

- Mergers and Acquisitions (M&A)

Combining of different companies that can help an enterprise grow rapidly in its sector.

Often occur in service, IT, finance sectors.

- Greenfield Investment (GFI)

Establishing of new companies abroad. Investor obtains their labors, facilities and clients all by themselves.

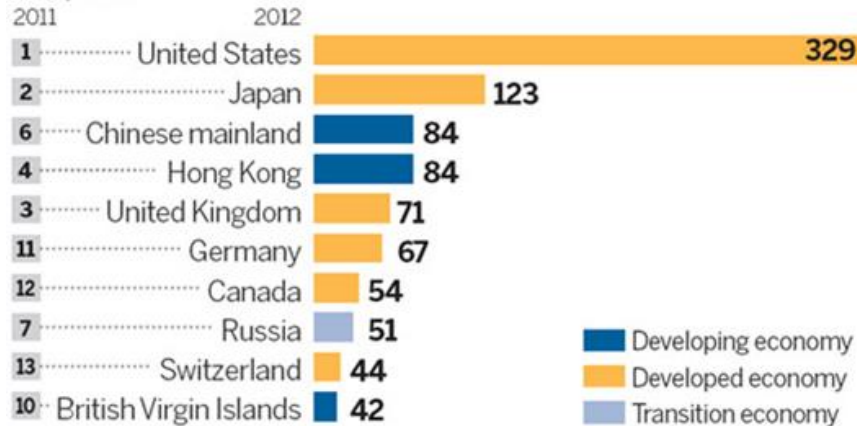
Often occur in manufacturing sector.

Introduction 2

FDI trend: The whole world

TOP INVESTOR ECONOMIES IN 2012

Unit: \$ billion

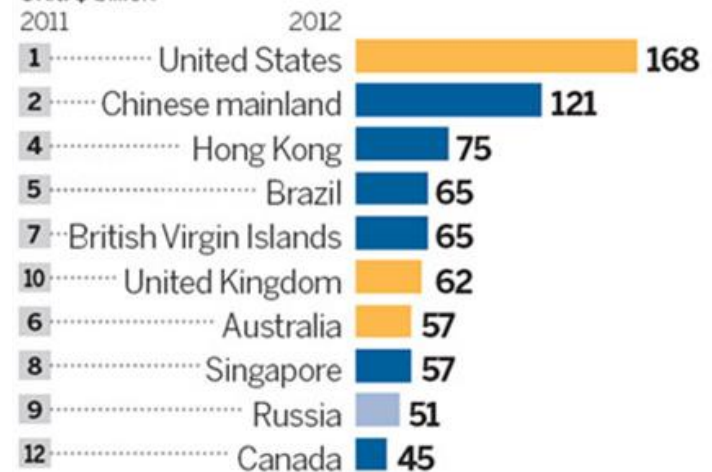


Source: United Nations Conference on Trade and Development

LIYI / CHINA DAILY

TOP HOST ECONOMIES IN 2012

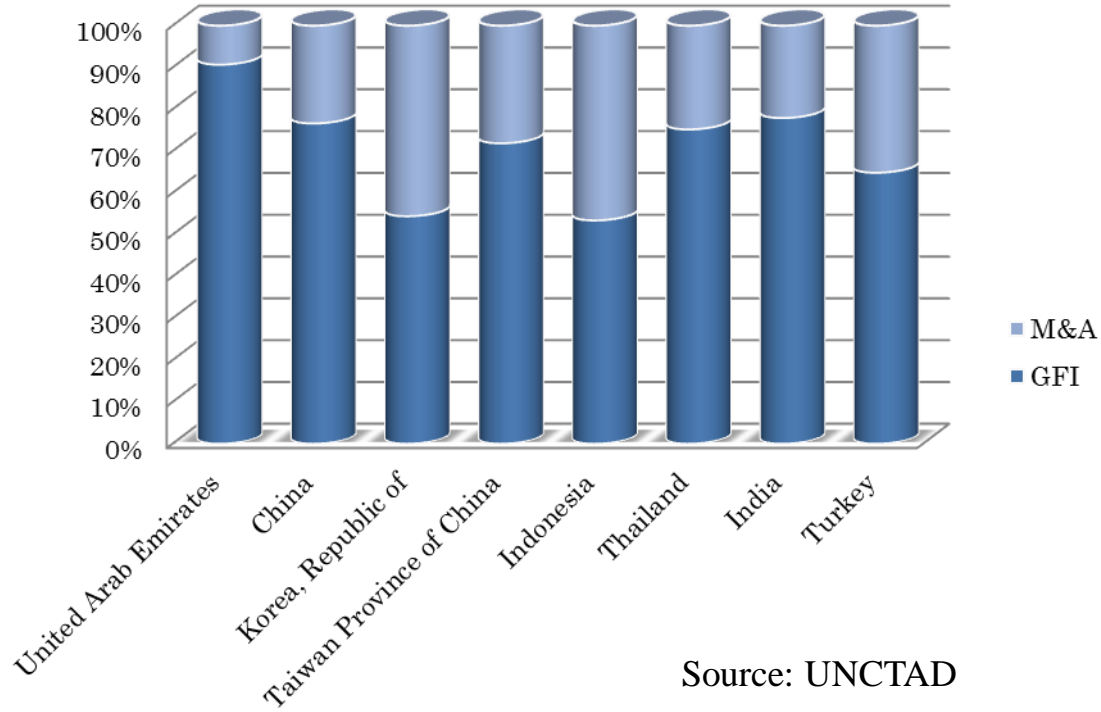
Unit: \$ billion



Introduction 3

FDI trend: Asia

The ratio of M&A and Greenfield Investment in Asia

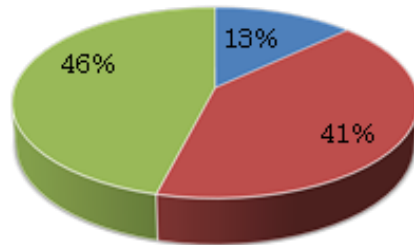


Introduction 4

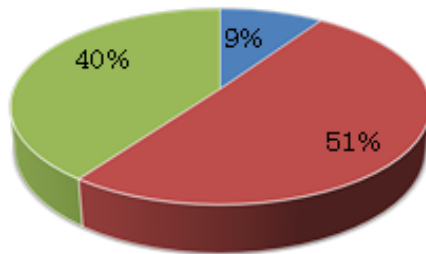
FDI trend: Asia

Industrial Structure of Asian countries

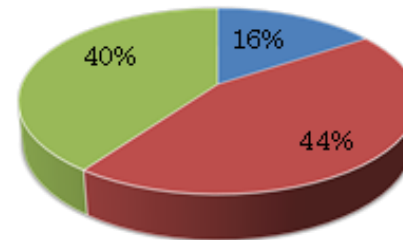
China



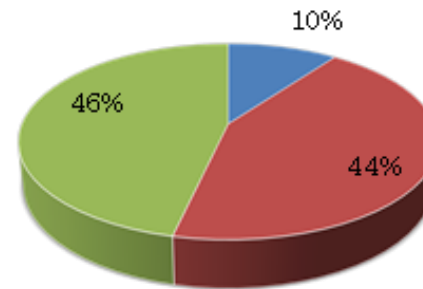
Malaysia



Indonesia



Thailand



■ primary
■ secondary
■ tertiary

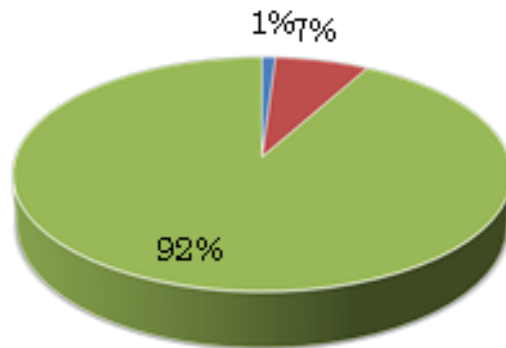
Source: WDI

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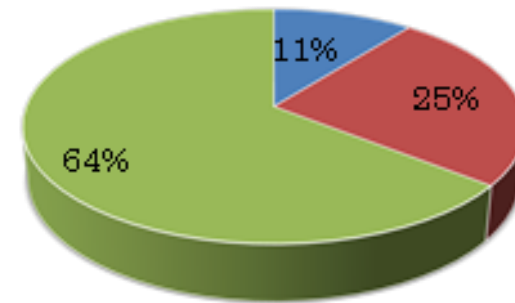
FDI trend: Asia

Industrial Structure of Hong Kong and Singapore

Hong Kong



Singapore



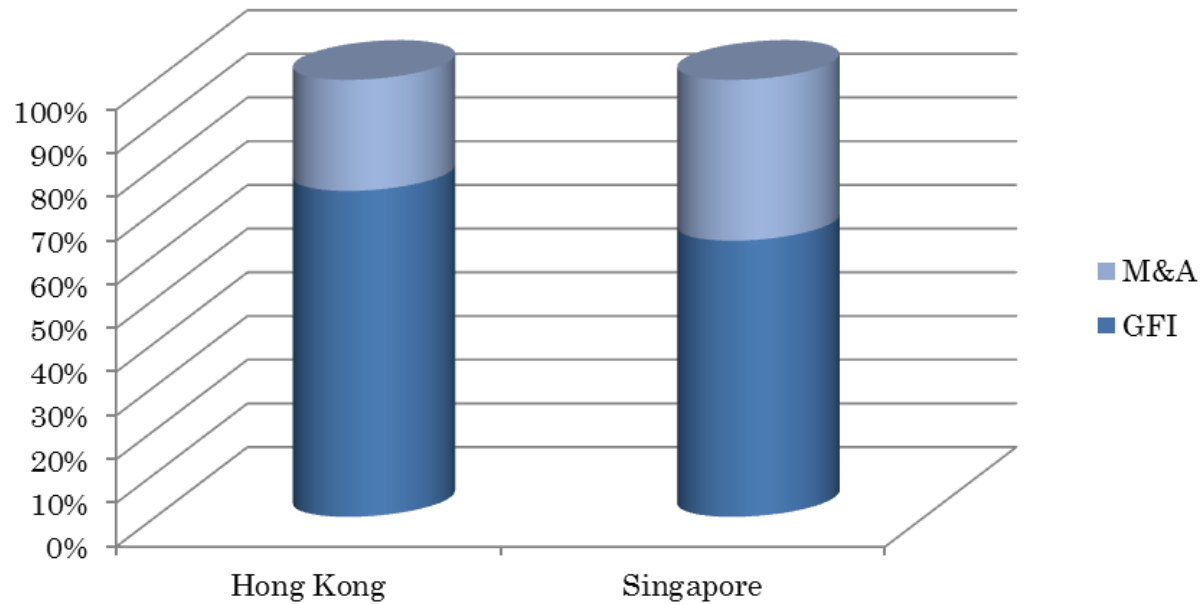
- Primary
- Secondary
- Tertiary

Source: WDI

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FDI trend: Asia

The ratio of M&A and Greenfield Investment
in Hong Kong and Singapore

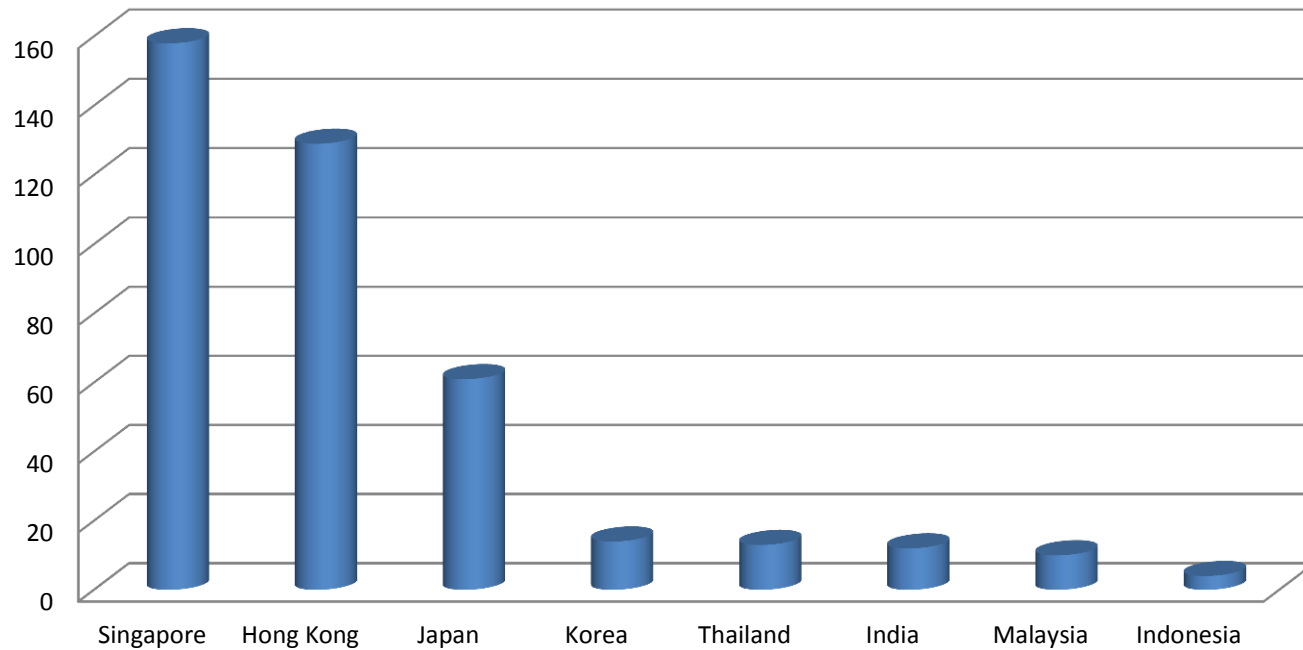


Source: UNCTAD

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Regional Headquarters in Asia

The number of regional headquarters in Asia

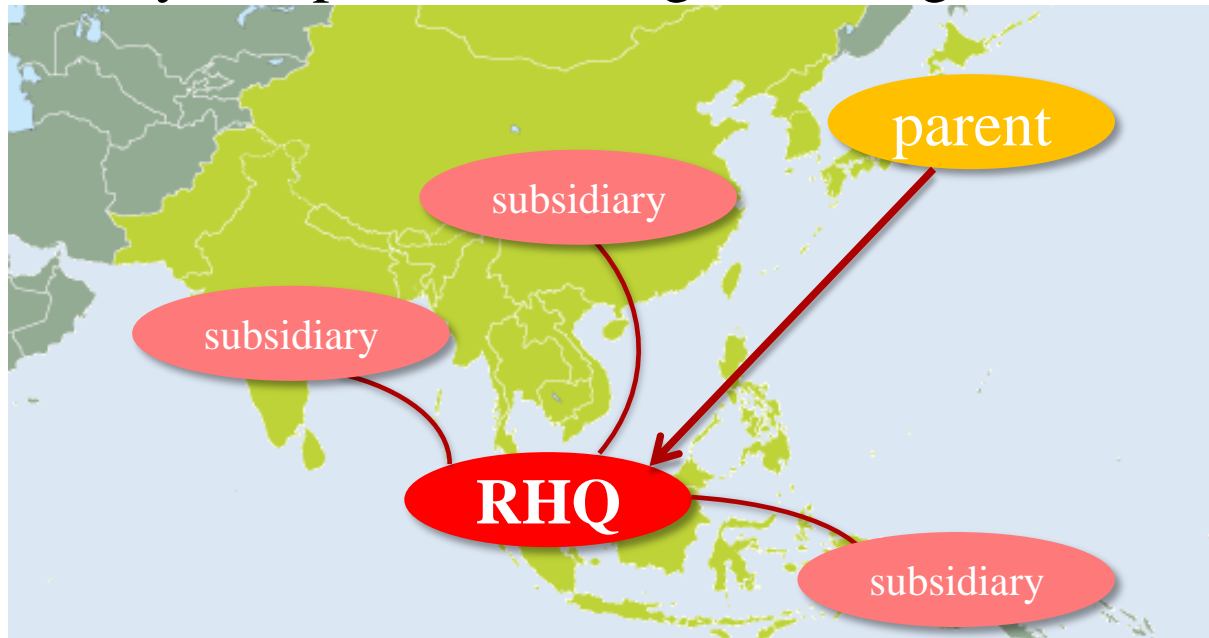


Source: METI

Introduction 8

What's RHQs?

An institution established to integrate decision-making of its subsidiary companies existing in the region.



Introduction 9

Merits for Investor & Host

For Investor:

Promote efficient management of its subsidiary companies.

-capital transfer

-decision making

For Host:

Jobs for higher educated people are created.

Business information are concentrated.

Introduction 10

Question & Previous works

What aspects of Asian countries determine the inflow of RHQs?

METI (2010):

As determinants of RHQs, 3 aspects play important roles: education, infrastructure, tax rate.

Introduction 11

Value Added

- Testify the theory of METI (2010) quantitatively.
- Sectoral analysis
- Newest data

Introduction 12

Model

$$RHQ_{it} = \beta_0 + \beta_1 \ln GDP_{it} + \beta_2 TAX_{it} + \beta_3 EDUT_{it} + \beta_4 EDUL_{it} + \beta_5 INFC_{it} + \beta_6 INFA_{it} + \beta_7 INFR_{it} + \varepsilon_{it}$$

i ... host country

t ... time

RHQ ... the number of regional headquarters flowing to country i

1. All industry
2. Manufacturing sector
3. Service sector

GDP ... Gross Domestic Product

TAX ... corporate tax rate

EDUT ... the ratio of tertiary educated workers

EDUL ... the ratio of English speaker

INFC ... the number of containers carried from the port

INFA ... the number of airport

INFR ... Road density (km of road per 100 sq. km of land area)

Model & Method 1

Targets

Countries:

Japan, Hong Kong, Korea, India, Thailand, Malaysia, Singapore, Indonesia

Period:

1990~2009

Sector:

1. All industry 2. Manufacturing sector 3. Service sector

Model & Method 2

All industry

Dependent variable: HQ			
Independent variables	Estimate	t-value	Pr(> t)
(Intercept)	37.065744	0.4622	0.64810
lnGDP	-0.330767	-0.0780	0.93845
TAX	-0.767855	-2.0168	0.05504
EDU_t	0.707910	2.2787	0.03188
EDU ₁	0.192671	0.8923	0.38108
lnINF _c	-0.338868	-0.1139	0.91030
lnINF _a	-0.065252	-0.0100	0.99207
INFr	0.041060	1.2198	0.23440
Adj. R-Squared : 0.62801			
Observations : 32			

Results 1

Manufacturing industry

Dependent variable: HQ manufacturing			
Independent variables	Estimate	t-value	Pr(> t)
(Intercept)	-6.8952910	-0.4475	0.65854
lnGDP	-0.6596612	-0.8099	0.42594
TAX	0.0760342	1.0393	0.30900
EDUt	0.1630118	2.7308	0.01165
EDUI	0.0367646	0.8861	0.38433
lnINFc	0.2854724	0.4992	0.62220
lnINFa	1.3040415	1.0442	0.30682
INFr	0.0073040	1.1293	0.26995
Adj. R-Squared : 0.5231			
Observations : 32			

Results 2

Service Industry

Dependent variable: HQ service			
Independent variables	Estimate	t-value	Pr(> t)
(Intercept)	47.209069	0.6308	0.53414
lnGDP	0.143383	0.0362	0.97139
TAX	-0.851661	-2.3969	0.02468
EDU_t	0.571312	1.9705	0.06042
EDU _l	0.163840	0.8131	0.42417
lnINF _c	-0.915405	-0.3296	0.74459
lnINF _a	-0.886142	-0.1461	0.88507
INFr	0.033648	1.0711	0.29479
Adj. R-Squared : 0.61981			
Observations : 32			

Results 3

Speculation

- Consistently, TAX has significant negative correlation and EDUT has significant positive correlation with dependent variables.
- EDUT in service sector has more strong correlation rather than that of manufacturing.
- INFR and INFA in manufacturing sector have more strong correlation rather than that of service.

Results 4

Conclusion

TAX:

Low rate of corporate tax can attract RHQs strongly, because parent companies can cut tax cost largely.

Countries whose tax rates are high can catch up with low-taxed countries by introducing special tax measures.

EDUCATION:

Highly educated workers are necessary for managing RHQs and whole subsidiary companies in the region. Rather than workers who speak English, those with higher academic degree are required.

Concluding Remarks 1

Conclusion

INFRASTRUCTURE:

Basically RHQs undertake the role of management, thus the ability of transporting containers does not have any effects. RHQs tend to be placed close to the major market, thus road needs to be provided sufficiently which enables easy access to the market from RHQs.

Concluding Remarks 2

Data

RHQ	Ministry of Economy, Trade and Industry
GDP	WDI, World Bank
TAX	WDI, World Bank
	JETRO
	JBIC
EDUT	WDI, World Bank
EDUL	WDI, World Bank
INFC	WDI, World Bank
INFA	WDI, World Bank
INFR	WDI, World Bank

Data

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