

How Do MNEs Manage Their Within-Country Activities? The Roles of Subnational Institutions and Global Value Chains

Abstract

This study investigates how Japanese MNEs distribute their manufacturing and higher value-added activities within China, the largest emerging economy with enormous subnational variations. Drawing upon the institution-based view and global value chain literature, we argue that foreign firms may distribute their investments in low- and higher-valued added activities across different subnational regions by considering both local institutional contingencies and the roles of the subsidiaries in global value chains. Using a large longitudinal dataset of Japanese investments in China between 1998 and 2010, our study finds that MNEs tend to undertake more manufacturing activities in regions with a lower quality of subnational institutions, but tend to invest more in R&D and/or marketing related higher-valued activities in regions with better developed market-supporting institutions. Moreover, the need of coordinating global value chains moderates the allocation of MNEs' investments at the subnational level. Specifically, a subsidiary's connection to the MNE's global manufacturing network strengthens the negative association between manufacturing investment and subnational institutional quality, while a subsidiary's linkage to the MNE's global distribution/market network amplifies the positive relationship between R&D/marketing investment and subnational institutional quality.



BIOGRAPHICAL SKETCH

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