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# The Future of Foreign Direct Investment and the Multinational Enterprise

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Editors



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INVESTOR IN PEOPLE

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This volume grew out of a symposium organized at Tel Aviv University in May 2010 to honour Yair Aharoni, who had just received the prestigious Israel Prize for Administrative and Management Science. The papers presented on that occasion by the co-editors and others became the nucleus of what developed quickly into a broad-based exploration of FDI and MNEs – and a Festschrift to Yair Aharoni. We thank Asher Tishler, dean of the Faculty of Management, Tel Aviv University, for organizing the symposium. Above all, we thank the distinguished authors for enthusiastically joining us in this project, and for their thoughtful and timely contributions.

Ravi Ramamurti would like to thank Dean Tom Moore of Northeastern University for his steadfast support, which made possible this book and everything else he has accomplished in recent years, including founding and growing the Center for Emerging Markets. Tom's professional, ethical, and transparent leadership and selfless service to the university will be sorely missed. Ramamurti would also like to thank Senior Associate Dean Bill Crittenden for his encouragement and guidance over the years. His research benefited greatly from funds provided by the Jeff Bornstein Senior Fellowship and grants provided to the Center for Emerging Markets by the Liberty Mutual Foundation and the BIE Program of the US Department of Education. Like everything else, this project could not have been completed without the support of his wife Meena and their three children – Bharat, Gita, and Arjun. In this instance at least, he showed his appreciation by treating them to a memorable week of sightseeing and relaxation in Israel following the TAU symposium!

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## DEDICATION TO YAIR AHARONI



(Photograph by Dan Porges, reproduced with permission)

This book is dedicated to Yair Aharoni, professor emeritus at Tel Aviv University. Since receiving his doctoral degree in 1961, he has authored more than 100 journal articles and book chapters, 150 case studies, 7 books in Hebrew, 6 books in English, and edited 6 more books in English – all pertaining to international business, strategy, and public policy. His seminal work, *The Foreign Investment Decision Process* (1966), was based on his 1961 dissertation at Harvard Business School and presaged what came to be known as the behavioral theory of the firm. An eclectic and original thinker, he wrote about a wide range of topics that affected managers and policy makers. Aharoni was among the first to theorize about state-owned enterprises, multinationals from small countries, the globalization of services, and the political economy of multinational enterprises. His research built on existing theories and frameworks but dared to incorporate new variables and perspectives when necessary, based on his deep understanding of real-world issues.

Aharoni is a fellow of the Academy of International Business and of the International Academy of Management. For his academic achievements he was awarded the Landau Prize in 2007 and the Israel Prize for Management and Administrative Science in 2010.

The chapters in this book, written by a distinguished group of scholars, many of whom are also his friends and admirers, build on Aharoni's lifelong contributions to the study of foreign direct investment and multinational enterprise. In keeping with his contributions, they attempt to peer into the future and address important new trends and issues in these areas.

### ABOUT YAIR AHARONI

Yair Aharoni is professor emeritus at Tel Aviv University, where he was earlier the Daniel and Grace Ross Professor of International Business and the Issachar Haimovic Professor of Business Policy. In addition, Aharoni has served as the Thomas Henry Carroll Ford Foundation Visiting Professor of Business Administration at Harvard Business School (1978–1979) and the J. Paul Sticht Visiting Professor of International Business at Duke University (1987–1995), where he was also director of Duke's Center of International Business Education and Research (1992–1995). Professor Aharoni has also held visiting appointments at Boston University, the City University of New York, Columbia University, Copenhagen Business School, Helsinki Business School, IMEDE, New York University, Odense University, Stanford University, and the University of California at Berkeley.

Aharoni's books in English include *Accounting Practices in Israel* (1964); *The Foreign Investment Decision Process* (1966); *Business in the International Environment* (1977); *Markets, Planning and Development* (1977); *The No-Risk Society* (1981); *The Management and Evolution of State-Owned Enterprises* (1986); *Israel's Political Economy: The Dreams and the Realities* (1991). His books in Hebrew include *The Functions and Role of Directors* (1963); *Accounting for Management* (1974, 1978, 1980); *Structure and Conduct in Israeli Industry* (1975); *State Owned Enterprises in Israel and Abroad* (1979); *Business Strategy* (1982); and *The Political Economy of Israel* (1992).

In addition, Aharoni has edited the following six books or special issues: *The Emerging International Monetary Order and the Banking System* (1976); *State-Owned Enterprises in the Western Economies* (1981) (with Raymond Vernon); *Coalitions and Competition: The Globalization of Professional Business Services* (1993); *Global Strategic Alliances Among Service Organizations*, special issue of *International Studies of Management and Organization* (1996) (with John Forsyth); *Changing Roles of State Intervention in Services in an Era of Open International Markets* (1997);

*Globalization of Services: Some Implications for Theory and Practice* (2000)  
(with Lilach Nachum).

Throughout his distinguished academic career, Aharoni has also been an institution builder in Israel. He served as the first Dean of the Faculty of Management at Tel Aviv University, was instrumental in establishing the Israel Institute of Business Research, and helped start the Top Executive Program of which he was the first Director. He was also Chief Executive Officer of the Jerusalem Institute of Management and served for five years as the rector of the College of Management in Rishon LeZion, Israel.

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# INTRODUCTION: RESEARCH ON FDI AND MNEs IN A CHANGING WORLD

Niron Hashai and Ravi Ramamurti

## ABSTRACT

*This chapter focuses on the four topics pertaining to foreign direct investment (FDI) and multinational enterprises (MNEs) that are the focus of this volume: (1) managerial decision-making processes that result in FDI and internationalization; (2) the changing national origin of MNEs, particularly those spawned by emerging markets; (3) the changing scope of MNEs, as they fine-tune and globally disperse their value chains, expand into new services, and rely increasingly on networks, alliances, and offshoring to enhance global competitiveness, and speed up internationalization to the point of being “born global”; and (4) the changing relationship between MNEs and home and host countries. After surveying Yair Aharoni’s significant contributions in each of these areas, the chapter offers a preview of the volume’s contents on each topic. It concludes with an agenda for future research by international business scholars.*

**Keywords:** Managerial decision making; origin of MNEs; scope of MNEs; MNE-state relations

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Almost 50 years ago the seminal work of Yair Aharoni opened up several fascinating questions about how and why firms internationalize. Looking back at his lifetime of scholarship, one is struck by how often he was ahead of most scholars in writing about important new trends in international business. He was among the first to explore the role of multinationals from small countries, among the pioneers to work on state-owned enterprises and their internationalization, among the earliest to explore the globalization of services, and at the forefront of exploring the complex relationship between multinational enterprises (MNEs) and home/host governments. It is only natural therefore that a volume dedicated to Yair Aharoni should try to peer into the future, looking for important new issues and trends in foreign direct investment (FDI) and MNEs. Taking on this challenge are a group of very distinguished international business scholars, most of who have known and admired Aharoni's work for many years.

To be sure, this is also a historic moment at which to contemplate the future of FDI and MNEs. In the short run, the global financial crisis of 2008–2009 significantly curtailed FDI flows. Given the central role of international finance in facilitating foreign trade and investments, the financial crisis and the resulting credit crunch hurt the growth rate of many countries (OECD, 2009; UNCTAD, 2009). In turn, this blunted the motivation for cross-border investment; hurt the profitability of international operations; and created fears of protectionist trade policies, government rescue packages for domestic firms, and restrictions on foreign capital (UNCTAD, 2009). Official statistics confirm that outward FDI did fall quite dramatically after the crisis – by fully 47 percent between 2007 and 2009, from more than US\$2 trillion to just US\$1.1 trillion. Furthermore, the fall was surprisingly asymmetrical, with developed countries experiencing an average decline of 53 percent, and developing countries experiencing an average decline of only 15 percent. Interestingly, outward FDI from China kept growing even through the global recession, fueled by the massive reserves accumulated by the government and the bargain prices at which assets could be acquired abroad (Sauvant & Davies, 2010). Data from the second half of 2009 and the first half of 2010 indicated that a modest recovery in global FDI outflows may have been underway. Accordingly, UNCTAD (2010) projected global outward FDI flows to rise to US\$1.2 trillion in 2010, US\$ 1.3–1.5 trillion in 2011, and approach US\$1.6–2.0 trillion in 2012. These FDI projections were fraught with risks and uncertainties arising from the fragility of the global economic recovery and the possibility of a double-dip recession. However, historical data reassures one that global FDI flows tend to ebb and