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INWARD AND OUTWARD INCENTIVES FOR THE INTERNATIONALIZATION OF FIRMS

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Inward and Outward Incentives for the Internationalization of Firms

A thesis presented to the Instituto COPPEAD de Administração, Universidade Federal do Rio de Janeiro, as part of the mandatory requirements for the degree of Doctor of Sciences in Business Administration (D.Sc.)

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ABSTRACT

SILVA RÊGO, Bernardo Frossard. **Inward and Outward Incentives for the Internationalization of Firms**, Rio de Janeiro, 2020. Tese (Doutorado em Administração) - Instituto COPPEAD de Administração, Universidade Federal do Rio de Janeiro, Rio de Janeiro, 2020.

Since the 1990s, the volume of foreign direct investment (FDI) has been increasing. The growing economy of emerging markets is one of the factors to be accountable for it. Thus, this new scenario augmented the competition for FDI, since it could bring capital, jobs, resources and technology to the countries. As a result, governments have been offering incentives such as financial, fiscal and informational aiming at reducing transaction costs to firms and win this competition. Therefore, the goal of this thesis is to discuss the role played by these incentives and how they reduce transaction costs to firms. Moreover, we investigate how institutions affect incentives and how governments employ them as an industrial policy mechanism to improve development. This thesis is composed by six essays. Three of them correspond to the literature review, where we show how institutions and policies are been studied in the international business arena. The last three essays represent the empirical part. In this section, quantitative and qualitative methodologies were applied to demonstrate the impact of incentives, as well as to understand the role of government institutions for the encouragement of investments. After them, we conclude by presenting a model to support future discussions on incentive policies for FDI.

Keywords: incentives; policy; foreign direct investment; institutions; internationalization

RESUMO

SILVA RÊGO, Bernardo Frossard. **Incentivos para a Entrada e Saída de Investimentos para a Internacionalização de Empresas.** Rio de Janeiro, 2020. Tese (Doutorado em Administração) - Instituto COPPEAD de Administração, Universidade Federal do Rio de Janeiro, Rio de Janeiro, 2020.

Desde os anos 1990, o volume de investimento direto externo (IDE) vem aumentando. Um dos responsáveis por isso é o crescimento econômico dos mercados emergentes. Nesse sentido, esse novo cenário aumentou a competição pelo IDE, uma vez que esse tipo de investimento pode trazer capital, empregos, recursos e tecnologia para os países. Como resultado, os governos têm oferecido incentivos financeiros, fiscais e informacionais com vistas a reduzir os custos de transação para as empresas e vencer essa competição. Desse modo, o objetivo desta tese é discutir o papel desempenhado por esses incentivos e entender como eles reduzem os custos de transação para as empresas. Além disso, investigamos como as instituições afetam os incentivos e como os governos os empregam como mecanismo de política industrial para melhorar o desenvolvimento. Para isso, esta tese é composta por seis ensaios. Três deles correspondem à revisão de literatura, onde mostramos como as instituições e políticas de incentivo são estudadas no campo dos negócios internacionais. Já os últimos três ensaios representam a parte empírica. Nesta seção, são empregadas metodologias quantitativas e qualitativas para demonstrar o impacto dos incentivos, bem como para entender a participação de instituições governamentais no encorajamento de investimentos no país. A partir daí, conclui-se apresentando um modelo para subsidiar discussões futuras sobre políticas de incentivos ao investimento externo.

Palavras-chave: incentivos; política; investimento direto externo; instituições; internacionalização

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LIST OF ABBREVIATIONS

CAMEX: Chamber of International Trade

FDI: Foreign Direct Investment

GMM: General Method of Moments

IB: International Business

IPA: Investment Promotion Agency

MAPA: Ministry of Agriculture, Cattle and Supplying

MDIC: Ministry of Development, Industry and Foreign Trade

MRE: Ministry of Foreign Affairs

MNE: Multinational Enterprise

OECD: Organization for Economic Cooperation and Development

OFDI: Outward Foreign Direct Investment

UNCTAD: United Nations Conference on Trade and Development

WAIPA: World Association of Investment Promotion Agencies

WTO: World Trade Organization

SUMÁRIO

1. INTRODUCTION

This doctoral thesis aims to contribute to the discussion regarding the institutional theory in the international business (IB) arena. Specifically, we discuss the role played by formal rules in the form of incentives to the internationalization of firms and how do they impact that movement by lowering transaction costs. Moreover, we look to the other side of incentives and discuss how countries employ these mechanisms as industrial policy tools to enhance development.

1.1 THE CONTEXT

Since the 1990s, the world has been witnessing a considerable rise in foreign direct investment (FDI) levels due to the higher levels of globalization, which enabled the faster movement of goods, services, and capital across regions (World Bank, 1999, 2016). At the same time, society has seen the reduction of institutional barriers to these flows (World Bank, 2002, 2005), which influenced sustainable growth and the reduction of poverty in the world (World Bank, 2001). Scholars concluded that FDI was a key component in this process as it is responsible for the injection of capital, generation of employment and the transference of technology and resources (Alfaro, 2016; Alfaro, Chanda, Kalemli-Ozcan, & Sayek, 2004; Bobonis & Shatz, 2007; Borensztein, De Gregorio, & Lee, 1995; Saggi, 2002; Tavares-Lehmann, Sachs, Johnson, & Toledano, 2016).

Nevertheless, the decision-making process of a firm internationalization is not perfect, as it is subjected to biases (UNCTAD, 1999b). Thus, since decision-makers do not possess all the information available, firms only consider a small pool of investment location to invest (International Finance Corporation, 1997). Several scholars pointed out that the main determinants of FDI are economic factors such as market size, low-cost unskilled labor, raw resources and technology (Banno, Piscitello, & Varum, 2015; Bevan & Estrin, 2000; Blomström & Kokko, 2003; Morisset & Pirnia, 2000; Sauvant, McAllister, & Maschek, 2010; Y. Wei, Zheng, Liu, & Lu, 2014). However, according to Santos, Khan (2019) and to a report from UNCTAD (1998), business facilitation would be another important determinant of FDI. This report defines business facilitation as the provision of facilitation services for foreign investors, such as promotional activities and administrative support.

The importance of these determinants is growing as the pool of FDI shrinks, given the rise in the competition for fewer projects (Wells & Wint, 2000; World Bank, 2009). Thus, governments are encouraging FDI through a series of mechanisms that include the use of financial, tax, and promotion incentives. Well-designed incentives can channel resources for the development of technologies, infrastructure, labor qualification, and sustainable practices (UNCTAD, 2014). In this regard, we adopted the definition of incentives proposed by (TAVARES-LEHMANN, *et al*., 2016, p. 5), “Investment incentives are targeted measures designed to influence the size, location, impact, behavior, or sector of an investment project—be it a new project or an expansion or relocation of an existing operation”.

Thus, investment incentives are used to reduce market failures or to tip the balance in favor of a given region. These incentives are frequently found in the form of financial, fiscal, regulatory, or informational services (Blomström, 2002; OECD, 2001; Tavares-Lehmann, 2016; Tuomi, 2009). Governments eager to encourage FDI use these types of incentives in order to compete against other regions and look more interesting to investors (Sauvant, 2012).

Given all the policy tools available and the competition between regions, policy-makers face complex choices when formulating policies and making decisions about the use of incentives, such as when, how, and where to use. Nevertheless, some countries have these incentives at their disposal because they are mimicking counterparts (Oxelheim & Ghauri, 2004; Tavares & Young, 2005). This could be because “little is known about their prevalence, distribution, effectiveness, and impacts”, due to the lack of transparency (TAVARES-LEHMANN, *et al*, 2016, p. 2). Thus, the data on investment incentives are limited.

Moreover, the academic literature has been focusing on understanding trade incentives (J. Chen, Sousa, & He, 2016; Coudounaris, 2018; Freixanet, 2012; Navarro-García, 2016; Rabino, 1980; Seringhaus, 1993; Walters, 1990; T. Wilkinson & Brouthers, 2006; T. J. Wilkinson, Keillor, & D’Amico, 2005; T. J. Wilkinson, Thomas, & McNally, 2011), which can be blurring the perception about investment incentives studies.

Those are two of the reasons why this theme is understudied. While we have a considerable number of studies from the World Bank and UNCTAD (UNCTAD, 1999a, 2000, 2003, 2006, 2008, 2018; United Nations, 2018; World Bank, 2015, 2018), the academic literature is far from maturity. Few works have been found on fiscal (Abdioglu, Binis, &

Arslan, 2016; Azemar & Desbordes, 2010; Buettner & Ruf, 2007; Guadalupe Lugo-Sanchez, 2018; Klemm & Van Parys, 2012), financial (Burger, Jaklic, & Rojec, 2012; Gallagher & Irwin, 2014; O' Sullivan, 1993; Shapiro, Vecino, & Li, 2018; Wren, 2005; Wren & Jones, 2011) and informational incentives (Anderson & Sutherland, 2015; Harding & Javorcik, 2011, 2012; Lim, 2008, 2018; Wint, 1992, 1993). Nevertheless, most of these studies concern a single country and they are focused on developed countries or China. Thus, we need more studies on emerging markets given their diversity in terms of institutions, size, economy, among others. This is in line with the call for more policy studies in the IB field (Buckley, Clegg, Cross, & Voss, 2010; Golub, 2009; Götz, 2016; World Bank, 2015). Therefore, we observed the necessity of more studies to understand investment policies. In this regard, the main question here is about the government structure to deal with FDI encouragement in emerging markets, and whether incentives are effective in encouraging investments.

1.2 STUDY ORGANIZATION

This doctoral thesis is built around six essays. Three of them will compose the literature review. The intention is to not only build this work over various studies but also to point out literature gaps to be filled by this and other studies. The other three articles will compose the empirical part. These three essays intend to understand the role and structure of incentives for the government and the firms.

Chapter two, containing essay 1 'Institutions and International Business', is the first part of the literature review. The intention with it is to reveal how the institutional theory has been incorporated into the main IB theories, which shows its growing importance to understand the internationalization phenomenon. From it, we highlight the discussion regarding the influence of government policies as a formal rule which impacts firm capabilities in both home and host country. Moreover, the 'institutional fit' appeared to be important to the main theories of IB. Thus, apart from reviewing the literature of institutional theory, it also highlights the role played by government policies to reduce transaction costs in the international movement of firms.

In line with chapter two, essay 2 'Institutional Theory and Its Influence over Outward Foreign Direct Investment Studies' explores the intersection between institutional theory and outward foreign direct investment (OFDI). It shows how government support influences firm-specific advantages and how political institutions permeate the entire process of internationalization. Moreover, it shows the lack of studies concerning other emerging markets than China. Thus, both essays 1 and 2, help us to identify an important discussion regarding institutional theory and which it was missing: internationalization incentives.

In order to conclude our literature review, we reached the incentives review in essay 3 ‘Foreign Direct Investment Policies: A Review’. Here, by making use of a more descriptive approach, we analyzed the literature on FDI policies. By dividing it into categories, we present a macro-view of the current situation in the field. Our result pointed to a lack of studies, especially those concerning specific policies in emerging markets (China is the exception), and that was published in IB journals. Thus, apart from presenting the literature on policy incentives for internationalization, this essay shows the current gap we have in the literature concerning this theme.

In addition to the three essays presented in the previous chapters, this doctoral thesis is composed of three more studies, as mentioned in the introduction. These papers focus on measuring the impact of incentives and understand the investment encouragement structure. Thus, we try to understand ‘how FDI incentives influence the level of investment?’

This question is motivated by the fact that we still do not know the real impact of incentives in the FDI flow, although we know it exists (Tavares-Lehmann et al., 2016). Moreover, we intend to help countries and policy-makers by doing so, as some countries do not know the importance of FDI encouragement structures (Oxelheim & Ghauri, 2004; Tavares & Young, 2005).

Apart from the content analysis applied in the literature review essays, this thesis employed both quantitative and qualitative methods to answer the previous question.

The first one, essay 4 ‘The Impact of Incentives in Inward Foreign Direct Investments’, analyzes the impact of investment incentives on greenfield FDI. Drawing on location choice theories, we propose that the effectiveness of financing and fiscal incentives for greenfield projects in attracting FDI depends on the institutional conditions of the host country, with incentives acting as substitutes for weak institutions. The analysis of FDI incentive in 106 countries in 2010-2017 indicate that both financial and fiscal incentives seem to attract FDI, but the latter is only significant in countries with poor institutions. The results support the notion that good institutions pay off as countries with better institutions require fewer incentives to attract foreign investment.

It is important to state here that we had the intention to perform a similar study to measure OFDI. We have emailed more than 80 governments to get the data and understand their support to outward FDI. Nevertheless, data scarcity and the reluctance of governments to answer such demands made it unfeasible.

After looking at the impact of financial and fiscal incentives, we tackle information incentives. In essay 5 'Investment Promotion Agency: The Case of APEX-Brasil', we discuss the role performed by IPAs from emerging markets, highlighting their main functions and organizational structure. Hence, the objective of this study is to understand how emerging market IPAs deal with investment attraction by analyzing the relationship with their governments and discussing the main functions of an IPA. For that, we employed a case study as "a research strategy that examines, through the use of a variety of data sources, a phenomenon in its naturalistic context, with the purpose of ''confronting'' theory with the empirical world." (PIEKKARI, WELCH, PAAVILAINEN, 2009, p. 569). In this case, we based ourselves in studies in which IPAs have been taken into consideration, as it is the one-stop-and-shop for investors. Here, we choose APEX-Brasil as a single case in order to make it possible a deeper understanding about the structure of such agency in an important emerging country.

After looking at financial, fiscal, and informational incentives purposes and impacts, we propose in essay 6 'A Framework for Foreign Direct Investment Policies' an incentive policy framework in which firms and countries aim is to reduce transaction costs, arguing that the investment promotion agency should act as a hub based on information exchange and the construction of networks. As we noted the importance of incentives to FDI and the problems in the FDI encouragement structure, we built our framework to help practitioners achieve the most from FDI, helping countries to enhance development and firms to increase its capabilities. This would improve the benefits of the investment for the country and reduce the costs for foreign firms. After this essay, we draw our thesis conclusions.

2. ESSAY 1. INSTITUTIONS AND INTERNATIONAL BUSINESS

2.1. INTRODUCTION

Several international business (IB) studies have sought to understand the motivations that lead firms to enter the international market, how they select their entry modes, decide their location and the role played by networks in the internationalization process (Dunning, 1977, 1988; Johanson & Vahlne, 2009). However, few of them have targeted their analyses to understanding the role of institutions either from the country of origin (home country) or from the host country in this process (Mudambi & Navarra, 2002; Oliver, 1997; Peng, 2002).

Although it was only recently that the institutions became a significant aspect to be considered when analyzing the internationalization phenomenon (Peng, 2002; van Hoorn & Maseland, 2016), they have motivated the main theories that guide the studies on the subject (OLI paradigm and Uppsala school) to review their models, at least in part. This is because the basic role of these theories is to contribute through a conceptual and logical framework toward evaluating empirical phenomena, which naturally implies having a moving and flexible character since they are impacted by changes to the context in which they are applied. Therefore, in order not to lose explanatory power, a revalidation of the model is an almost continuous requirement to be tested by critical theories and empirical studies.

The dynamics of globalization is indeed one of the phenomena that have directly impacted the theoretical and conceptual reviews of these perspectives where an increasing number of firms have gone global by not only operating in the export industry, but also by adopting more intensive versions of internationalization, such as the foreign direct investment (FDI) (Keegan & Green, 2012). This phenomenon involves both developed and developing countries, and small- and large-sized corporations, making the process even more complex and interdependent. In particular, today’s theoretical explanations have neither sufficiently supported the understanding about the peculiar nature of the international movements of multinational corporations originally based in emerging markets nor their motivations, modes of operation or choice of target markets (Cuervo-Cazurra, 2012; Guillen & Garcia-Canal, 2009; Knoerich, 2019; Mathews, 2006; Ramamurti, 2012; A. Rugman, 2010).

In this context of great transformation, the economic and behavioral theories have sought to take in new elements that are critical to understanding the phenomenon of internationalization of firms, approaching each other through some points of conceptual convergence. At the root of the economic theory lies the objective rationality of the players whose actions and decisions are based on minimizing costs and maximizing benefits (Dunning, 1980, 1988). At the other end is the behavioral theory, which is highlighted by the studies of the Uppsala model (Johanson & Vahlne, 1977) and starts from the common assumption that underlies the limited rationality of agents, understanding the internationalization process as a result of the firm's experience and perceptions in its interaction with other agents, peoples and cultures, and of its operations in uncertain environments. It is also important to highlight that these FDI theories have been object of question, since it has been difficult for them to incorporate new conceptual discoveries (Knoerich, 2019).

In this way, Mudambi and Navarra (2002) highlighted the role played by institutions in a globalized market. In an international environment marked by the mobility of firms and production factors, the legal, political and administrative systems tend to be the internationally immobile framework whose costs determine the attractiveness of a location. Moreover, Wang and Li (2018) found that the international performance of firms is directly or indirectly affected by institutions, while Hasiner and Yu (2019) showed how institutions affected Chinese trade flows. Hence, institutions affect the capacity of firms to interact, thus affecting the relative transaction and coordination costs of production and innovation.

Because of this, the objective of this study is to analyze the main contributions of new institutional economics (NIE) to the IB arena. Therefore, our aim is to show how the NIE is being incorporated into both the eclectic paradigm and the Uppsala school's view, and how it is modifying them. To do this, this work will be recovering the foundations of the "Old" and the "New" institutional economics, revisiting their basic elements and underscoring their main contributions to IB studies. After discussing this literature, we perform a literature review on articles that discuss the OLI paradigm or the Uppsala school interaction with institutions. Based on the results of this review, we propose a framework as a contribution that would help future studies in the understanding of emerging market environments.

To do so, the paper is structured as follows. First, we will present a brief discussion of the institutional economics and the transition from the “old” to the “new,” making clear the main characteristics that have been appropriated by the internationalization theories. Second, both Dunning’s eclectic paradigm (economic view) and the Uppsala school (behavior view) will be explained highlighting their major revisions and aspects added. Then, the methodology applied to this study will be presented so that we can discuss our findings and propose a framework construction. Lastly, we will show our conclusions.

2.2. LITERATURE REVIEW

2.2.1. Institutions: between the “old” and the “new” institutional economics

The term “institutional economics” was coined by Hamilton (1919) at the American Economic Association in 1918. The main ideas of institutionalism comprise institutions, habits, rules and their evolution (Mayhew, 1987). According to Hodgson (1998, p. 169), institutionalism shows “how specific groups of common habits are embedded in, and reinforced by, specific social institutions.” By doing this, the institutionalists move from the abstract to concrete, facilitating specific and historically located approaches to analysis.

In his article “Why is economics not an evolutionary science?” Veblen (1961) opens the debate in the context of economics advocating the idea of a more empirical science far from the strictly deductive and atomistic formulations that were typical of the then dominant neoclassical approach. According to Veblen (1961), the orthodox perspective would not be able to explain market imperfections and more complex structures, requiring new parameters to analyze the functioning of the economy based on a more evolutionary and procedural perspective of a non-static reality. In this context, institutions are in the spotlight as they are considered regulators of the economic environment, being formed by the crystallized formats of collective habits, which change during the course of history through the transformative actions of subjects.

In addition to Veblen, other authors lent more weight to this perspective such as Commons (1931), who believed that the meaning of institutions also originates in a procedural analysis with institutions being a material and historical product of collective actions through organized or non-organized demands such as the State, the Church, the family and firms, which generate the rules that govern control, punishment and resolution of conflicts among individuals. Thus, these institutionalists would share, according to Hodgson (2002), the concept of “top down” (holistic) causation in which the institutions would be the root cause of the phenomena, but one institution would emerge if and only if another institution previously existed, that is, for the old institutionalists the unit of analysis is the institution, not the individual.

In this direction, Hodgson (1998) poses that the macroeconomic order and its relative stability is reinforced through positive feedbacks that act at the microeconomic level. Thus, individual habits both reinforce and are reinforced by institutions, which provide a cognitive framework for interpreting data and provide habits/routines for transforming information in knowledge (Hodgson, 1998). This focus on habits and routines is developed by the evolutionary model suggested by Nelson and Winter (1982).

Veblenian institutional economics was conceived based on Darwinism (Hodgson, 2004). Veblen suggests that the evolution encompasses both continuity and change since habits and routines adapt slowly as the agents propose improvements. Moreover, “Darwinism provides a specific framework for understanding the evolution of all open, complex systems” and it can be applied to any social institution (HODGSON, 2004, p. 8).

Therefore, the institutional system grows and evolves based on the conventions derived from society and each of them develops its own internal logic around these conventions.

Given the general idea described above, we can affirm that the “old” institutionalism makes use of ideas from disciplines other than economics such as psychology, sociology and anthropology. This would help on developing a richer analysis of institutions and of human behavior. Also, in the “old” institutionalism, the notion of a utility-maximizing agent does not apply. Veblen (1961, p. 72) describes that notion as “the hedonistic conception of man as that of a lightning calculator of pleasures and pains.”

Veblen also affirms that individuals are affected by institutions and cultural situations. In other words, one’s behavior is governed by habits and conventions, and it varies according to the institutional scene. This institutional scene, according to Commons (1931), is necessary to define the limits within which individuals or organizations could seek their objectives.

Nonetheless, the initial attempt to build a new interpretive base to challenge the neoclassical approach did not materialize then as expected, which according to Rutherford (2001) was due to the fact that institutional economics did not offer a model that enabled empirical studies as the econometric approaches did. The institutional perspective only returned to the center of debates belatedly with revisions by some authors such as Williamson (1975) who referred to this intellectual movement as the NIE. Williamson built his work on Coase's (1937) "The nature of the firm" where Ronald Coase discussed the fact that the exchanges of a firm are structured around rules and enforcement mechanisms, contradicting the price mechanism approach. He explains that there is a cost when a firm operates in the price mechanism, which are the costs of negotiating and closing a contract for every exchange made.

Therefore, the concept of new is introduced as an attempt to somehow demonstrate that some assumptions that have marked the "old" institutionalists would be discontinued, as well as to break up with the neoclassical argumentative tradition. In other words, the NIE was not designed to break up with neoclassical economics, but to revamp some of its foundations rather than to actually undermine it. Thus, the "new" institutionalists try to explain the emergence of institutions (firm or State) by referencing to the individual rationalism.

North (1990) poses that individuals have incomplete information and limited mental capacity to process information. By doing this, the author explains that institutions are unnecessary in a world of instrumental rationality. Since it does not happen, individuals possess mental models to interpret the world, which are in part culturally derived. This means that this knowledge is transferred through generations and this varies among different societies (North, 1990).

Schotter (1981) exemplifies this knowledge transfer through generations with a traffic situation. The author uses the right-hand side convention, where it is rationale for all drivers to drive on the same hand, to explore that a convention is reinforced and institutionalized by imitation. Therefore, individuals are both a producer and product of institutions, and this limited rationality determines the cost of transacting, which underlies the formation of institutions. Also, for Crawford and Ostrom (1995), institutions can emerge from conflicts since they can generate information about inconsistent rules, hence an action is required.

North (1990) defined institutions as “the rules of the game in a society” and institutional transitions as a number of basic changes introduced to the formal or informal rules of the game that directly affect organizations. Formally, institutions are “the humanly devised constraints that structure political, economic, and social interaction” (NORTH, 1991, p. 97). According to the author, institutions are formed by both informal (sanctions, taboos, customs, traditions and codes of conduct) and formal rules (constitutions, laws and property rights). Therefore, institutions exist to create order and reduce uncertainty. Moreover, for Acemoglu, Johnson, and Robinson (2005), institutions are the ultimate determinants of economic development and growth.

In this regard, institutions give the direction and form of economic activity through their framework of customs, religious precepts and formal rules, but also the arbitrary behavior of the State over the economy is part of the institutional evolution (North, 1991). This understanding is a consequence of historic evolution, which allows us to understand the economic performance. This happens because “institutions provide the incentive structure of an economy; as that structure evolves, it shapes the direction of economic change towards growth, stagnation, or decline” (NORTH, 1991, p. 97). Therefore, the present institutional framework is built incrementally on the past institutions, which provides the opportunity for the present organizations and individuals.

In this regard, institutional dynamics are about the incremental changes that alter the structures in a given moment. Thus, institutions are submitted to path dependence. In other words, present possibilities are conditioned by past choices. Therefore, organizations owe their existence to the opportunities created by the institutional framework.

According to Boddewyn (2016), the institutional theory may help in understanding distances (economic, administrative, psychic, institutional and others), constraints (normative, cognitive and regulative) and the importance of relational over contractual relationships. Thus, institutions can accomplish two functions, reduce transaction costs and the information processing costs necessary for decision making, as we will discuss next.

2.2.2. OLI paradigm and the Uppsala school reviewed

As the understanding of institutional economics advances, the main firm internationalization models have included it in their revisions, demonstrating its importance for a deeper understanding of the subject, especially as it refers to emerging countries. In order to understand the firms' internationalization process in emerging economies, one must understand their surrounding institutional environment since in these countries' governments have played an important role in promoting and protecting the economic activity (Tavares-Lehmann et al., 2016).

In this context, the two classical theories of firm internationalization are Dunning's (1980) eclectic paradigm based on an economic perspective, and the Uppsala school model with a behavioral bias. Despite their different focus, their revisions share the inclusion of the institutional variable in their models.

2.2.2.1 Dunning's eclectic paradigm (OLI)

The OLI paradigm aims to offer a framework that can enable the identification and evaluation of the significance of the factors influencing the initial act of foreign production as well as its growth (Dunning, 1980, 1988). According to the author, having O (ownership) advantages is a necessary requirement for foreign engagement, while I (internalization) advantages suggest that firms will explore these advantages through exports or direct investments rather than using contracts (licensing, assistance and franchising agreements), where the L (location) advantages favor international production over domestic production, that is, they benefit equity investments.

Dunning (1995) highlights that, although firms are still the unit of analysis, the OLI paradigm has also been influenced by collaborative production and transnational arrangements among players. He points out that by the late 1970s, collaboration had been a symptom of market failure and that the various forms of cooperation were viewed as an alternative to hierarchies or markets rather than as part of a system of firms.

Because of this, Dunning (1992) argues that democratic governments play two major roles in terms of the effect on the competitiveness of their resources and the capabilities under their jurisdiction. First, they have much of the responsibility for the way in which economic activity is organized. The author refers to this as the "macrosystemic facilitating" role. Second, also according to Dunning (1992), governments may act in several ways to modify the functioning of the organizational system for which they are responsible. In this case, governments can easily modify the "rules of the game" through policies that may loose or constrain the activity of firms. Governments can alter the organizational functioning by acting as direct participants in a specific market or group of markets believing that the government, on behalf of other players, can better coordinate and defend that market's principles or because they wish to promote additional or different targets; seeking to influence the outcome of certain transactions, such as when they realize that the behavior of particular players is disrupting the system; although governments believe that markets are operating efficiently, they do not meet socially acceptable goals. Here, the author designates these roles as "systemic modifier" roles.

In this context, Dunning and Lundan (2008) also defend adhering to these variables when they affirm that there is no reason why this type of institutional reasoning should not be extended to analyzing the cognition, motivation and behavior of multinational firms. This would embrace the rules and standards that govern relationships within the firm and those between them and their external stakeholders, including suppliers, customers and society. According to the authors, institutions are by nature restrictive in that they may close off or discourage certain attitudes or courses of action by making them excessively costly or by reducing their value. At the same time, institutions may not only impose constraints on the actions of firms, but they may also affect the ideologies and perceptions of managers and condition the possible paths of a multinational firm. On the other hand, they believe that in some circumstances firms may have the ability to alter the formal or informal incentive structures that affect their actions and bring them to their service.

Considering the importance of institutions for the internationalization of firms, Dunning and Lundan (2008) added new pillars to the eclectic paradigm for this theory to accommodate these variables. Accordingly, a multinational firm's ability to influence the opening of new market opportunities was added to ownership advantages. Location advantages came to embody the quality of public organizations and their statutes, and internalization comprised those advantages deriving from a firm's ability to organizationally adapt to the incentives offered.

Moreover, it is worth noting that these changes to the original model were driven to a great extent by criticism toward the model's interpretive capacity in light of systemic transformations, as the case was with the behavioral model, which started revisiting its theoretical bases after its theoretical and conceptual validity was challenged in relation to the emerging phenomena.

2.2.2.2. The Uppsala school

Carlson's (1966) work built one of the foundations for what has come to be known as the Uppsala internationalization process model. The basic assumption of this model is that a lack of knowledge about a given international market is the major obstacle for a firm to operate abroad, but such knowledge can be acquired (Johanson & Vahlne, 1977, 2003). Another pillar that supports this model is that investment decisions are made on a gradual basis mainly due to uncertainties and this leads organizations to start operating via export activities and then develop more controlling methods (Johanson and Vahlne, 1977). The authors argued that knowledge is developed when firms operate in a given market and this market in turn raises the organization's level of commitment since knowledge can only be acquired through direct experience (Björkman & Forsgren, 2000).

Thus, Johanson and Vahlne (1977) adopted the term "psychic distance" to explain the search for these locations to expand business operations. The authors also mention that the aspects that create psychic distance refer to differences in language, education, business practices, culture and industrial development. Therefore, it is only through experiential learning that psychic distance may be overcome and, because learning is time-consuming, internationalization tends to be gradual with firms being likely to start their processes in nearby markets.

Although the Uppsala school was mainly based on the aforementioned constructs, it was only in a recent paper that Vahlne and Johanson (2014) stated that it is difficult to distinguish between what is exogenous and endogenous to a firm since what happens to the main entity – including learning, experience and relationship building – affects all the players that surround it. Hence, the core firm loses part of its independence in exchange for greater control over its network, thus "blurring" its environment (Johanson & Vahlne, 1990). It should be noted that institutions are part of the firms' relationship with its external and internal environment.

Vahlne and Johanson (2014) believe that multinationals evolve in the same way as institutions themselves, that is, they are path dependent. This means that experience matters and institutional theory are consistent with the Uppsala model proposed by the authors in the

1970s. In this context, the authors added another capability to their model, namely, the institutional capability relying on observations by other authors about the subject, especially North (1990), Dunning and Lundan (2008), Peng, Wang, and Jiang (2008) and Cantwell, Dunning, and Lundan (2010), although Vahlne and Johanson (2014) used related concepts such as psychic distance and corporate culture. As a consequence, they began to distinguish between building and adjusting to internal and external institutions. Therefore, these adjustments, as well as coevolving with the local environment, have become critical on account of a large number of activities located in China and other emerging markets (Peng & Zhou, 2005; Vahlne, Schweizer, & Johanson, 2012).

In this sense, Johanson and Vahlne (2009) state that a lack of institutional knowledge is related to psychic distance, and firms need time to acquire this type of information. That time, however, may be shorter depending on the firm's relationship with the members of its contact network, especially its relationships with government entities.

As far as these relationships are concerned, the firm may create new knowledge through exchanges in its network, and knowledge creation is a result of the confrontation between the producer of knowledge and the knowledge user (JOHANSON, VAHLNE, 2009). According to the authors, the process of creating knowledge is not separate from the other activities in business relationships but embedded in them. This is because knowledge is created not only from the firm's own activities, but also from the activities of the partners; and since those partners have other relationships, the firm's knowledge base expands.

Thus, the internationalization process is seen as an outcome of experiential knowledge and commitment, although neither of these refers to countries, but to existing and potential relationships (Johanson & Vahlne, 2003). Experiential knowledge is of great interest (Penrose, 1995) since firms initially accumulate knowledge and develop relationships in the domestic market (Sharma & Blomstermo, 2003). As a consequence, decisions are made as problems or opportunities arise, such as, when faced with a decision in the international market, firms use solutions that have been successfully adopted in the past (SHARMA, BLOMSTERMO, 2003). According to Johanson and Vahlne (2009), those opportunities are part of knowledge, and when adding this variable they consider them the most important element in a firm's body of knowledge, which leads to the internationalization process.

However, with a view to expanding their market, firms gain privileged access to information from their relationship network. In addition, opportunities often arise from business activities, which add to their knowledge base (Johanson and Vahlne, 2009). As some types of knowledge are not accessible to the market as a whole, being instead limited to the members of a network, the commitment to partners allows the creation of knowledge, which implies the creation/discovery of opportunities.

Therefore, internationalization of firms implies accumulating new knowledge and making sense of an unknown situation. In this sense-making process, firms first seek to extract cues from a situation that they are unfamiliar with. These cues, in turn, form the inputs from which managers develop a larger sense of institutional and business knowledge abroad (Weick, 1991).

Accordingly, Eriksson, Majkgard, and Sharma (2000) and Forsgren (2002) suggest that the internationalization processes analyzed vis-à-vis the Uppsala model are also path dependent. Thus, this model suggests that there are two mutually reinforcing internationalization aspects, namely, market knowledge and market commitment, that interact with decisions and activities abroad. The main argument is that not only do decisions about current activities result from accumulated knowledge, but they also determine the level of future knowledge and commitment (Johanson and Vahlne, 1977). In other words, there is a self-reinforcement mechanism of knowledge development that binds the future acquisition of knowledge to current operations, which in turn derive from the development of past knowledge, making firms' path dependent.

It should be noted, therefore, that both the eclectic paradigm and the Uppsala school, yet to a different extent, have given greater prominence to the institutional variable in recent years since they somehow explain the lower number of uncertainties faced by organizations, as well as their prevalence in the internationalization of firms from emerging countries.

2.3. METHODOLOGY

Many scholars are arguing that the IB theories are lacking explanation power since the rise of emerging market firms, as these firms differ from their developed countries counterparts (Child & Rodrigues, 2005; Cuervo-Cazurra, 2012; Dunning, 2006b; Guillen &

Garcia-Canal, 2009; Mathews, 2006; A. Rugman, 2010). Thus, we seek to answer two questions in this article:

(1) How are NIE contributing to the development of IB studies?

(2) How are two main internationalization theories (OLI and Uppsala) absorbing the institutional theory principles?

To answer both questions we construct a framework to facilitate the understanding of how institutions can help on developing the IB theories. This framework was built over the results of our content analysis as a few themes emerged from there. These themes materialized into propositions discussed on the next section. The construction design is

Figure 1. Content analysis design

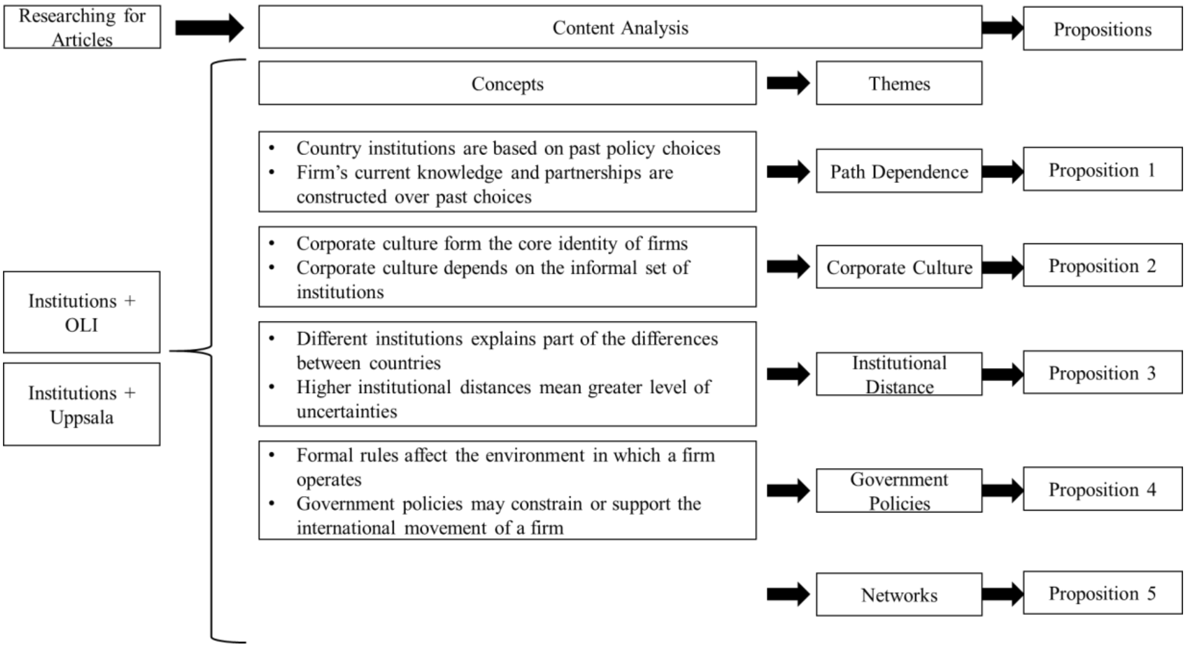


Figure 1 is derived from a systematic approach to the literature proposed by Tranfield, Denyer, and Smart (2003). This includes planning, conducting the review and reporting the findings. Since our study is based on a content analysis, we review both empirical and theoretical articles that have analyzed the institutions under both OLI paradigm and Uppsala school.

The first step in our approach was to look up for suitable papers to our proposal. For that we searched the Web of Science database for articles that would fit the merge between institutional theory and one of the two internationalization theories (OLI paradigm and Uppsala school). We used the following queries: for the OLI paradigm articles we searched for (institution*) AND (Dunning OR Eclectic OR OLI) and for the Uppsala School the query was (institution*) AND (Uppsala OR Vahlne Or Johanson OR (behavior* AND International Business)). Both were limited to articles or reviews in the economics, business or management field from the period 2000–2017, since it was during the 2000s that emerging markets started their going global policies. At this stage, we found 84 articles regarding the OLI paradigm and 85 for the Uppsala school query.

The second part responded for the filtering process, which was done in two stages. First, the initial reading list was reduced by title, keywords and abstract checking. The intention here was to reduce the reading list by keeping those articles that made use of institutions under the OLI and Uppsala perspectives. Second, the remaining studies were downloaded and read to make sure that they would fit our proposal. Therefore, we kept in our sample 68 papers concerning the OLI paradigm and 18 for the Uppsala school.

The next step was to select ten articles from each theory in order to perform a content analysis. The selected articles can be found in Table 1, and they were chosen based on number of citations. We then proceeded to read the ten articles to perform a directed content analysis. The goal of this kind of analysis was to "validate or extend conceptually a theoretical framework or theory" (HSIEH, SHANNON, 2005, p. 1281), which is what we are looking for with our objective here.

The content analysis was performed with aid from NVivo software to code and construct a table structured around the following headings: author; year; title; journal/book/conference; number of citations; main objective; methodology and main findings. The coding process consists in the attribution of a word that evokes a summative, essence-capturing or evocative attribute (Saldaña, 2009). Thus, coding is an interpretative act based on the perception of the authors about the readings.

After our coding, a few concepts emerged. These concepts are understood here as a phrase that describes some parts of our data that is explicit (Rossman & Rallis, 2003). The emergence of the concepts was during our first coding cycle, where we employed a descriptive coding. This process led us to represent the topic of inquiry and move to a tabular account. From there, we began our second coding cycle by employing a theoretical code. At this point, we were able to name our themes as they consist of all the products of analysis condensed into a few words that seem to explain what "this research is all about'" (STRAUSS, CORBIN, 1998, p. 146). Thus, the themes found are the ones that appear "to have the greatest explanatory relevance" (STRAUSS, CORBIN, 1998, p. 104) as their names were also based on the keywords and titles of the respective paper.

This procedure allowed us to best comprehend both groups and draw our proposals that will be discussed in the next section.

Table 1. Articles selected for directed content analysis

OLI PARADIGM				
Author/Year	*Times Cited*	*Objective*	*Methodology*	*Main Findings*
Xu and Shenkar, 2002	372	Propose a framework that explains FDI by firms	Literature review at firm-level	Institutional distance complements, rather than replaces, the cultural distance construct
Dunning and Lundan, 2008	192	Examine how an institutional dimension can be incorporated into the OLI paradigm	Theoretical discussion at firm-level	Formal institutions cannot be studied apart from the motivations and belief systems that underlie them; the role of both firm and location specific institutions in reducing the transaction costs is becoming more important
Sun, Peng, Ren, and Yan, 2012	107	Develop a comparative ownership advantage framework	*Method:* Comparison *Data:* 1526 cross-border M&As by Chinese and Indian MNEs (2000 to 2008)	M&As are FDI efforts made by emerging markets MNEs to internalized home country specific advantages in factor endowments with their firm specific advantages in capabilities
Buckley, Forsans, and Munjal, 2012	53	Examines the complementarity of country specific linkages with country specific advantages	*Method:* Regression *Data:* M&As from India from 2000-2007	Linkage variables are shown to be an adjunct to the OLI Paradigm
Garg and Delios, 2007	34	Test if affiliation to a business group affects a subsidiary's survival chances	*Method:* Cox regression *Data:* 110 firms and 250 foreign subsidiaries from India (1960-2004)	Business group affiliation does not have an independent influence on a subsidiary's survival rates, but it does have a contingent effect
Chen, 2008	22	Argue that the cheap and abundant highly skilled labor of the latecomer countries is an essential factor in attracting global R&D activities but that this factor is far from being a sufficient condition	*Method:* Historical analysis *Data:*Local institutions and their codevelopment with MNEs in China	Identified four major knowledge assets that explains why Beijing could attract advanced R&D activities: entrepreneurial culture; experienced Chinese returnees; lack of interfirm trust and networks; the large and dynamic Chinese market
Czinkota, Grossman, Javalgi, and Nugent, 2009	21	Develop, measure, and test a framework of key factors influencing international market entry mode choice of U.S. business schools	*Method:* Factor analysis and logistic regression *Data:*Survey with 62 U.S. business schools	If a business school chooses to expand into overseas markets it should consider certain components such as market potential, product differentiation, and contractual risk
Yaprak and Karademir, 2010	22	Suggest that business group affiliation is an important ingredient in the internationalization of emerging market MNEs	Literature review integrating the institutional, market-centered and resource-based theories of internationalization and the OLI and the LLL models	An integrated theoretical approach should lead to a better understanding of emerging market business group affiliates' internationalization.
Stoian and Filippaios, 2008	20	Test the impact of ownership and location advantages in determining the internalisation decisions by Greek investors	*Method:* Logit model *Data:* 177 manufacturing firms from Greece (1994-1999	The expansion of Greek firms occurs primarily in similar countries with small market size, and open economies
Stoian, 2013	19	Investigate the home country determinants of OFDI from post-communist economies	Random effects estimations on a panel dataset from 20 Central and Eastern European countries from 1995 to 2010	Home country institutional variables are important to explain determinants of OFDI; competition policy and overall institutional reforms play a crucial role in explaining OFDI from CEE countries

UPPSALA SCHOOL

Author/Year	*Times Cited*	*Objective*	*Methodology*	*Main Findings*
Meyer and Thaijongrak, 2013	39	Argue that the process of experiential learning of increased commitment is an important element in explaining the evolution of emerging countries MNEs over time	*Method:* Case study *Data:* 6 firms from Thailand	The internationaliation process model suggests focusing on the internal and external factors that may induce firms to accelerate their cycle of international learning and commitment, such as networks and institutional environments
Jiménez, 2010	29	Examine the effect of institutions on the strategy of international diversification and on the relationships between political risk and the scope of internationalisation	*Method:* Negative binomial regression *Data:* 166 spanish MNEs in 2005	Firms only partially follow the Uppsala model and that political capabilities play a key role in their internationalisation strategy
Demirbag, McGuinness, and Altay, 2010	29	Extend Miller′s (1992) approach through the inclusion of additional institutional variables to provide richer insights into the entry mode decision	*Method:* Factor analysis and logistic regression *Data:*104 Turkish firms operating in Central Asian Republics	Greater ethical-societal uncertainties result in a preference for joint venture over wholly owned subsidiary
Vahlne and Ivarsson, 2014	27	Show that there are indeed some global companies	*Method:* Case study *Data:* 17 largest manufacturing firms from Sweden	Globalization is a multidimensional phenomenon; Swedish firms followed a pattern that made them advanced longer towards being global
Wei, Clegg, and Ma, 2015	16	Examine the contrasting mechanisms through which the Chinese government influences the internationalization of Chinese state owned and of privately owned enterprises	*Method:* Case study *Data:* Two state owned and two private owned enterprises from China	Identified the limits of the Uppsala model with regard to the paths to internationalization; Identified four network positions that indicate how firms are embedded in foreign networks
Monaghan, Gunnigle, and Lavelle, 2014	13	Demonstrate the endogeneity of subnational institutions in shaping foreign market insidership within an advanced economy	*Method:* Multi-method research design of qualitative, semistructured interviews and quantitative social network analysis *Data:* 59 subnational actors from Ireland (2009 to 2012)	Customized coalitions of subnational institutions effectively initiate, negotiate and accelerate insidership of inward investment within the foreign market both prior to and during formal entry
Ninan and Puck, 2010	5	Extend the Uppsala Model by including a collective learning perspective	*Method:* Descriptive discussion *Data:* Interviews with 109 Austrian firms	Find three distinct internationalization process in CEE region, with two of them new to the Uppsala Model
Vahlne and Jonsson, 2017	4	Argue that organizational ambidexterity has explanatory power for profitable globalization	*Method:* Case studies *Data:* interviews with IKEA and AB Volvo	Being proactive in exploration and improving on the effectiveness in exploitation may lead to successful globalization performance
Almodóvar and Rugman, 2015	3	Reconcilie the Uppsala reviewed model with the resource base view, transaction costs and internalization theories in order to expand it	*Method:* ANOVA model *Data:* Unbalanced panel of 20 manufacturing industries from Spain (2000-2010)	Extend Uppsala's network approach by breaking business relationships down by type of partnership; Insiders perform better than outsiders in terms of firm specific advantages, cost minimization, international expansion, and return on sales
Stoian, Rialp, Rialp, and Jarvis, 2016	3	Investigate the internationalisation of small firms from Central and Eastern Europe country	*Method:* Case study *Data:* 6 Romanian small firms	The revisited Uppsala model proves to be generally valid for the small firms analyzed in this study; Networks play a crucial role for knowledge creation and exchange, and frequently represent the most reliable resource at firms' disposal

2.4. INSTITUTIONALISM IN THE OLI PARADIGM AND UPPSALA SCHOOL

The OLI paradigm offers three advantages that a firm needs to engage in FDI, while the Uppsala model is based on the firm's experience to internationalize. Despite their differences, we managed to verify that both added networks and institutions to their revisited versions. By doing this, we can infer the growing importance of both networks and institutions to better understand the internationalization process.

Institutions are a set of formal and informal rules that structure political, economic and social interaction, and thus create order and reduce uncertainty. Examples from the first comprise formal laws and property rights, and examples from the latter would be codes of conduct, norms of behavior and conventions. In this direction, institutions are thought of as a way to reduce transaction costs and risks in both OLI paradigm and Uppsala school. On the other hand, each author proposed a different point of view to explain how this would work in the context they studied.

Some authors highlighted the path dependence concept when discussing institutions. This can be seen as the idea that decisions that are faced today depend on past knowledge trajectory and decisions made. In other words, history matters for current decision making as it has a strong influence on current strategy. Concerning this concept, the Uppsala school, through the study of Meyer and Thaijongrak (2013), poses that knowledge acquisition and commitment are based on the firm's historical choices, which influence the internationalization strategy and entry mode. The OLI paradigm also discusses path dependency by examining both knowledge creation and dissemination through a network (DUNNING, LUNDAN, 2008). Thus, the authors pose that some firm capabilities are path dependent. Moreover, they say that institutional reconfiguration is a path dependent process where individuals and organizations have to be cautious. This is especially true when we take into consideration a new market with new institutions and the organization's need to fit into the new environment.

At one point, both OLI and Uppsala school discuss institutional restructuring. One of the studies used this to extend the investment development path proposed by Dunning (Stoian, 2013). Another one used these reforms to analyze the influence of domestic institutional changes, resource availability and network interplay on the liability of foreignness and smallness (STOIAN, *et al*., 2016). Thus, we can add the importance of path dependence in face of government policies and the industrial structure. Moreover, the environment of support or constraint today in a given country is a result of past choices and reforms that the country has made. Therefore:

P1. The past choices of a firm (or country) affect the way this firm will internationalize.

When it comes to formal and informal rules, the articles analyzed here gave more attention to three of them: corporate culture, institutional distance and government policies. Although these rules are not limited to the examples aforementioned, they are discussed here because they were observed in our sample.

The first one we will discuss is corporate culture. According to Kennedy and Deal (1982), corporate culture is set of values, beliefs and behavior patterns that form the core identity of organizations and help in shaping the employee behavior. Thus, it acts as a cognitive map that influences the way in which the context is defined by providing the selection mechanisms or norms and values that influence people's behavior. Here, Dunning and Lundan (2008) posit that the corporate culture affects the OLI configuration of a firm through its informal norms and values. On the other hand, Meyer and Thaijongrak (2013), by discussing the Uppsala model, question how emerging market firms adapt their corporate culture to the new internationalized workforce and also how they transfer acquired knowledge that it is embedded in other corporate cultures.

Moreover, Chen (2008) proposes to enrich the OLI paradigm discussing the "learning human capital" and its impact on the internationalization process of emerging market firms. On the other hand, Ninan and Puck (2010) expanded the Uppsala model by including the collective learning variable within and between firms. Also, Vahlne and Jonsson (2017), while discussing ambidexterity, found that the institutionalization of corporate culture helped the improvement of the capabilities necessary to have success abroad. Thus, these articles are built on the premises that:

P2. An international corporate culture affects the propensity of success abroad.

Another important discussion regarding institutions is about institutional distance. This can be described as "the difference or similarity between regulatory, cognitive, and environments of the home and the host countries of an MNE" (KOSTOVA, ZAHEER, 1999, p. 68). In what concerns the OLI paradigm, Sun, *et al*. (2012) argued that institutional distance directly affects the order of international market entry. The authors called it a simple path when the market entry starts with a country with a lower institutional distance and from there moves on to countries with a higher institutional distance. In that respect, Xu and Shenkar (2002) say that the institutional distance helps by giving a better understanding of the role of dynamic firm capabilities in dealing with changes in national differences. Thus, institutional distance complements the cultural distance construct. When we take into consideration the Uppsala model, a similar view is proposed by Jiménez (2010) when he concluded that Spanish firms have to invest in dissimilar countries to fully exploit their capabilities. Nevertheless, higher institutional distances mean a greater level of uncertainties, which translates into entry modes. For Demirbag, *et al*. (2010), the selection of a joint venture entry mode is related to higher uncertainties, while wholly owned subsidiary is related to lower uncertainties.

All these studies are in line with what was found by Berry, Guillén, and Zhou (2010); Buckley, *et al*. (2007); Gaur and Lu (2007), therefore:

P3. The degree of difference between the institutional environment of the home and host country affects the internationalization decision.

Our last example that concerns the rules that form institutions is about government policies, which falls into the formal rules category. This responds to the mechanism used by the home/host government to constrain or stimulate economic activity. Some examples on how a government can boost inward FDI is by privatizing firms, liberalizing its economy or offering incentives to firms. Concerning outward FDI, incentives are the main tool to boost internationalization, as it encompasses financing, insurance, fiscal and regulative benefits (Gorynia, Nowak, Trąpczyński, & Wolniak, 2015a).

According to Dunning and Lundan (2008), government policies affect mainly two of the OLI variables. Ownership is affected since policies influence the firm's capabilities and how the firm internalizes them. The location advantage is territory bounded, thus each location has its own policy, which influences the decision making. Sun, *et al*. (2012) used Chinese and

Indian mergers and acquisitions to explore the institutional facilitation and constraints imposed by both governments.

In the same direction, Stoian and Filippaios (2008) found that rule of law and high bureaucratic quality are essential for the firm's decision, in opposition to corruption, which acts as a deterrent. On the other hand, the same study states that in the case of Greek firms, investors perceive corruption as a cultural proximity factor, making them look for similar places to invest. On top of that, Czinkota, *et al*. (2009) discussed the advantages proposed by the OLI paradigm by highlighting contractual and investment risk, such as political, social and economic risks, currency repatriation risk, and expropriation risk. Therefore, it is important for the firm to understand the government variables and policies to internationalize.

On the other hand, while studying the Uppsala model, Jiménez (2010) highlighted the role played by political connections for resource allocation, hence the influence in policy making as this can help firms gain a competitive advantage. Meyer and Thaijongrak (2013) go further and draw attention to non-economic objectives in the internationalization process of emerging market firms, such as the alignment with government policy. Moreover, the authors posed that it is imperative for the firm to have local knowledge of government policies when investing in a specific country to overcome the liability of foreignness/outsidership. Additionally, Monaghan, *et al*. (2014) explored the role of subnational institutions they identified and the central subnational institutional actors concerned with foreign entrants during internationalization. These actors can accelerate insidership to a foreign market by channeling locational, relational and knowledge capabilities to the FDI.

The importance of government support becomes more evident when we look to the fact that the outward foreign direct investment (OFDI) flow from emerging economies started to grow during the 1990s when liberal policies were being enacted in countries such as Brazil, China and India, although the biggest rise in the OFDI volume occurred in the 2000s after the Asian and Argentinian crisis and the Chinese "go global" policy. Thus, OFDI from these economies has been increasing rapidly because of these support policies. In this context:

P4. Firms should adapt in order to gain advantages from government policies in the home or host country.

Some studies analyzed in this paper focused on understanding how the institutional environment influences the internationalization of firms (GARG, DELIOS, 2007; VAHLNE, IVARSSON, 2014). The institutional environment encompasses various aspects of the national environment, which includes cultural norms, social knowledge, rules and regulations, among others (Kostova, 1997). Therefore, it encompasses institutions (formal and informal) and an enforcement mechanism. Garg and Delios (2007) use the institutional environment to examine how it influences the firm's capabilities as emerging-economy multinational firms develop their capabilities assisted by their home country environment. Concerning the Uppsala model, Vahlne and Ivarsson (2014) affirm that for a firm to be considered global, it must have an "institutional fit" to the host environment. In other words, to overcome the liability of foreignness/outsidership in a global scale, the firm should have the globalization capability, which consists, among others, to fit locally. Thus, since the institutional environment comprises all the sets of rules, norms and values, this would be a good addition to understand how institutions influence the OLI advantages and the premises of the Uppsala school. This can be done by looking at it as a whole (GARG, DELIOS, 2007; VAHLNE, IVARSSON, 2014) or just to some aspects of the institutional environment (XU, SHENKAR, 2002; DUNNING, LUNDAN, 2008; DEMIRBAG, *et al.*, 2010; JIMÉNEZ, 2010; SUN, *et al.*, 2012; MEYER, THAIJONGRAK, 2013).

In our sample, the networks concept was often mentioned. While this is largely discussed in the Uppsala school, it still lacks more studies in how they apply to the OLI paradigm. Still, some of the studies analyzed here discussed institutions associated with networks. Networks respond to a set of two or more relationships in which each exchange relation is between firms that are seen as a collective actor forming different webs of connected relationships (Dunning, 2006a; Johanson & Vahlne, 2009)

In this way, Buckley *et al*. (2012) studied the influence of country institutional networks such as the G-20 and the Commonwealth on the FDI between countries. The authors highlighted that this kind of relationship improves the OLI paradigm by adding country-specific advantages. On the other hand, Garg and Delios (2007) focused on business relationships, more specifically business groups, and how they can assist the firm to overcome the liability of foreignness. These business groups are a network of affiliated firms that can transfer firm-specific advantages between them as it can be exploited when the firm goes abroad. Yaprak and Karademir (2010, p. 255) followed the same direction by affirming that "a business group network should give a component firm a competitive advantage over independent domestic or foreign firms in foreign expansion."

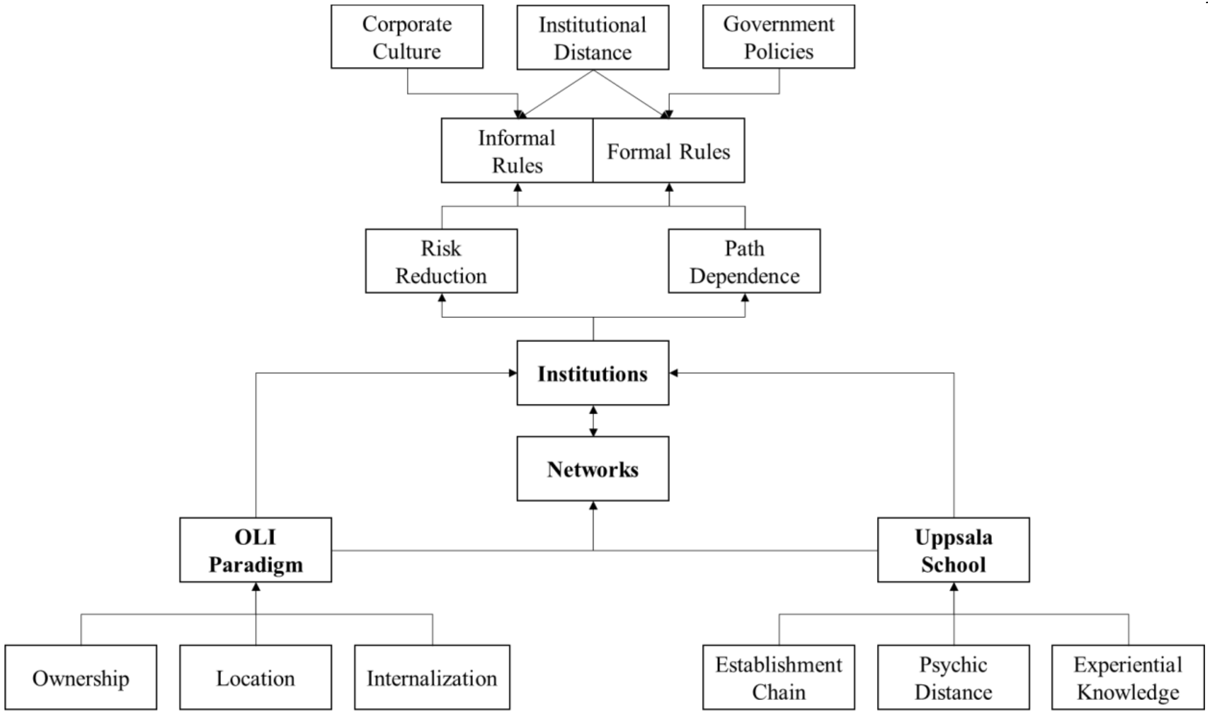
Sun, *et al*. (2012) do not mentioned networks directly, but their study implicitly discussed the relationship between firm and government, as the latter can facilitate or constrain the first. The financial market in China, monopolized by the state-owned banks, is an indicator of how being part of a network in China passes through these entities. Moreover, governmental relations and networks influence the institutional environment and the M&A movement.

When we take into consideration the Uppsala school, networks would help to reduce the uncertainties faced abroad such as institutional distance (DEMIRBAG, *et al*., 2010; VAHLNE, IVARSSON, 2014). Moreover, institutions shape networks and are responsible for the position occupied by the firm in the network. The network position also responds to the firm's influence and the resources available, hence it is a firm capability (WEI, *et al*., 2015). This is also corroborated by Almodóvar and Rugman (2015) since they confirmed that the members of a network perform better than outsiders in terms of firm-specific advantages, cost minimization and international expansion:

P5. A firm's network is influenced by the challenges posed by the institutional environment.

Since our aim here is to pinpoint how NIE is being absorbed by the OLI paradigm and the Uppsala school, our basis is on the propositions made to construct the following framework (Figure 2) by highlighting the main institutional variables involved in the internationalization process. We found that both institutions and networks are intersections between the two theories. Therefore, we highlighted the institutional characteristics used the most based on what was discussed in the sampled articles.

Figure 2. OLI Paradigm, Uppsala School and institutions framework



This framework shows how institutions and networks reduce uncertainties. They do it through government policies, similar cultures, institutional distances, norms, values, along with formal and informal rules. Therefore, the eclectic paradigm and the Uppsala school share the thought that both formal and informal institutions facilitate the internationalization of firms by reducing transaction costs.

By proposing this framework, we intend to help scholars by pointing out the main institutional variables that influence the international movements of firms. This will help understand the role played by the institutions when we take the macroenvironment into consideration and its influence on the capabilities possessed by the firms. We can also understand better the common points between the OLI paradigm and the Uppsala school, which can be fruitful to the IB studies. This would help us comprehend the relation between the emerging market firms and their governments, as well as the host country.

2.5. CONCLUSIONS

Globalization altered the form in which firms operate abroad. Moreover, it made possible the access to market, financing, technology and other assets by emerging market firms. These led to a new IB environment and to reviews in the established theories such as the OLI paradigm and the Uppsala school. Some of the reviews incorporated the same variables to both theories such as institutions and networks.

The purpose of this paper is to show the importance and the contributions that institutional theory has brought to the studies of firm internationalization. In view of this, this study sought to bring this debate into the spotlight, including the classical theoretical approaches (economic and behavioral) of the field, which have been renewed and increasingly more observant of the external environment, since the past versions could not explain the phenomenon of emerging market firms. In this context, it was concluded that the institutional theory has been, to some extent, a point of intersection between the eclectic paradigm and the Uppsala school since both approaches have used these assumptions to explain the decrease in transaction costs borne by the firms in their international learning process and in the search for less asymmetrical information.

In this study, we also showed how corporate culture, institutional distance, government policies and the institutional environment are being treated in articles that made use of the OLI paradigm or the Uppsala school in order to reduce risk and uncertainties. We discussed path dependence and how firm and government decisions are influenced by their past choices when it comes to internationalization theories. Lastly, we briefly looked into how networks are discussed in both OLI and Uppsala theories when it concerns institutions.

Thenceforth, we proposed a framework showing the impact of the institutional variables on the internationalization of firms by addressing two of the main theories (OLI paradigm and Uppsala school). There, we simplify the understanding of the application of the institutional theory on the IB field. This would allow new study possibilities since the understanding of the influence of institutional variables on the international movements of firms is still cloudy.

We conclude that, despite the fact that the two theories have different epistemological roots, they share common points when we take into consideration institutions and networks. Both the OLI paradigm and the Uppsala school incorporated institutions and networks into their models as means to reduce risk and uncertainty. While the latter theory uses both variables to overcome the “liability of outsidership” or the “liability of foreignness,” the first one incorporated them into firm or country capabilities.

2.5.1 Limitations and future research

Since we were limited to look superficially to the institutional components and networks, future studies can go deeper into each one of them, and suggestions of future research are shown in Table 2.

Table 2. Variables studied and future research suggestions

VARIABLE	DEFINITION	FUTURE RESEARCH
Networks	Networks responds for a set of two or more relationships, in which each exchange relation is between firms that are seen as a collective actor forming different webs of connected relationships (DUNNING, 2006A; JOHANSON AND VAHLNE, 2009)	How networks impact the three OLI advantages. How firms form and maintain institutional networks (i.e. governmental and supranational agencies)
Institutions	"The rules of the game in a society" (NORTH, 1990)	
Risk Reduction	Ability to reduce the perceived risk	How each of the institutional environment components affect the perceived risk
Path Dependence	The present possibilities are conditioned by the past choices	How past decisions influence the creation of new institutions inside and outside the firm
Formal Rules	Constitutions, laws, property rights	How firms influence the creation of formal rules
Informal Rules	Sanctions, taboos, customs, traditions, and codes of conduct	How informal rules from a firm influence its environment
Corporate Culture	Corporate culture is set of values, beliefs, and behavior patterns that form the core identity of organizations, and help in shaping the employees' behavior (KENNEDY AND DEAL, 1982)	How institutions from abroad influence the culture and decisions on the parent firm level
Institutional Distance	"the difference or similarity between regulatory, cognitive, and environments of the home and the host countries of an MNE" (KOSTOVA and ZAHEER, 1999, p. 68)	Longitudinal study to measure the institutional distance influence when a firm go abroad in different points in time
Government Policies	The mechanism used by the home/host government to constrain or stimulate economic activity	How a firm influences government policy How policies help firms to build ownership capabilities

Additionally, given our findings, we suggest that future researchers can explore the similarities and differences in specific contexts of each institutional variable. Moreover, more studies concerning networks and the OLI paradigm are needed as they can be a powerful capability for the firm or a location advantage.

3. ESSAY 2. INSTITUTIONAL THEORY AND ITS INFLUENCE OVER OUTWARD FOREIGN DIRECT INVESTMENT STUDIES

3.1. INTRODUCTION

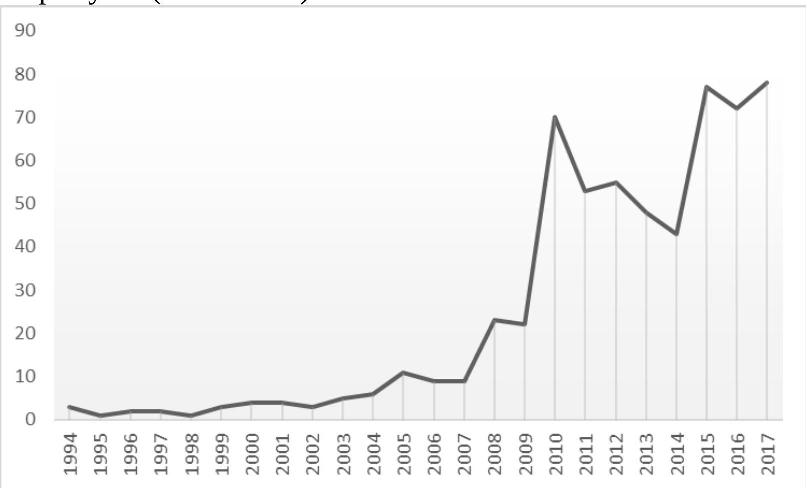
Contemporary transformations in the international system have made transnational financial and economics operations increasingly complex. These transformations are influenced by contradictory political forces, leaning to free trade or protectionism, involving litigations, trade wars, and retractions from regional agreements. According to UNCTAD (2019), while more countries engaged in FDI, the share of restrictive measures and screening mechanisms significantly increased. Moreover, we are witnessing trade issues like the WTO struggle to advance the free-trade agenda and the recent shock between the U.S. and China concerning tariffs over steel trade. In addition, economic trade blocs such as the EU and the NAFTA are passing through structural shakedowns because of the political perception about the role of the State in the economy, and the international relations dynamics.

In the last decades, these transformations in the international system have been impacting the flows of foreign direct investment (FDI). These flows had a predominantly vertical characteristic – from the North (developed countries) to the South (developing countries). Nowadays this pattern has changed, and the FDI is also flowing from the South towards the North, or even in the South-South direction. In the 1990s, the outward foreign direct investment (OFDI) flow from emerging countries was approximately US$ 411 million, as it jumped to around US$ 3.550 million in the period 2010-2017 (UNCTAD, 2018). Thus, several countries started to use these type of investment as a tool for development as well, becoming not only receivers but sources of foreign direct investment (FDI) (Y. Luo, Xue, & Han, 2010).

In search of an explanation of this phenomenon, several scholars have been recurring to the institutional theory. They have been doing so in order to improve the comprehension of the role that institutional structures can play in investment, location and entry mode decisions. In addition, the institutional theory conceptually builds reflections on exogenous environmental factors that have a direct impact on international business, such as political risk, diplomatic agreements, incentives and constraints to the internationalisation of firms, among others.

Because of that, according to Boddewyn (2016, p. 19), the institutional theory has been the “favourite one for the study of emerging markets.” Therefore, it is growing the literature on how institutions affect the international movements of firms from either developed or emerging countries (Cantwell et al., 2010; Mudambi & Navarra, 2002; Peng et al., 2008; Slangen & Beugelsdijk, 2010). Moreover, Henisz and Swaminathan (2008, p. 537) posit that institutions “influence every aspect of behaviour by multinational enterprises including their location choice; the organisation of their local subsidiary; their choice of technology, capital and labour staffing; and their sequence of investment”. This fact led to the emergence of new theories and revisions of existing ones. Thus, the number of articles studying the institutional aspect on international business is growing.

Figure 3. Articles per year (1990-2017)



Note: Query: (institution*) AND ("International business" OR IB OR "International Management") restricted to Business OR Management OR Economics field.

Because of that, this article proposes a literature review to verify how the institutional theory has been used to account for studies concerning OFDI. In particular, this research will seek to elucidate the following questions: What are the sub-fields under study within the intersection between OFDI and institutions, and what they have been researching? What are the research gaps and future research possibilities concerning this debate?

In order to answer the questions above, we employed a text mining technique to construct a nouns co-occurrence network that reveals relevant terms of interest (Van Eck & Waltman, 2014). We also used cartographic analysis to help visualise various research streams by examining keywords (Apriliyanti & Alon, 2017). Additionally, we applied content analysis to better understand and suggest future researches.

As put by Hernandez and Guillén (2018), emerging countries multinationals offer an opportunity to observe the developed countries institutional past. Thus the institutional environment of these multinationals (MNEs) are relevant to understand not only for emerging markets but developed countries as well. Therefore, we expect to contribute to the literature in two ways. First, by pointing out the impacts of each stream of study, we can understand how each of them contributes to the IB studies. Second, as we will establish bridges between the selected studies, we can observe not only the theoretical and conceptual convergences that help to interpret the emerging markets phenomenon but these convergences will also aid us to develop new studies by pointing out the main research findings and literature gaps.

3.2. INSTITUTIONAL THEORY AND INTERNATIONAL BUSINESS: A BRIEF PANORAMA

The quest to understand how institutional theory has been incorporated to IB studies is an emerging debate in the area where traditional theories are now being questioned about the analytical ability to fully explain contemporary world phenomena, such as the internationalisation of firms, especially those coming from emerging markets. This is because, the classical theory of MNEs was thought from observations – mostly from the point-of-view of intangible assets advantages – of firms from developed countries. During the 1980s, scholars noticed that emerging firms were also investing abroad in different types of environments (Wells, 1983). Still, some scholars confirmed that emerging market MNEs have the same behavior as the ones from developed countries, hence the classic theory would apply (Ang, Benischke, & Doh, 2015; Xie & Li, 2017; C. Zhou, Xie, & Wang, 2016; N. Zhou & Guillén, 2015). However, some researchers argue that some attributes from emerging markets MNEs violate the assumptions of classic theories (Cuervo-Cazurra, 2012; J.-F. Hennart, 2012; H. Li, Yi, & Cui, 2017; Xia, Ma, Lu, & Yiu, 2014).

Aharoni (2013) affirms that the classical theory is insufficient to explain the complexity of the reality since we must incorporate politics, culture and institutions to build more relevant findings. This is because the IB theory had often ignored political and behavioral factors, as it was taken from granted when discussing developed country MNEs (Aharoni, 2013; Peng et al., 2008). Hence, IB "scholars should recognize several contingent variables – the political system, business-government and NGOs' relations, industries, regimes, ownership patterns, the degree of reliance on ethical behavior, the institutional environment and social norms as well as size of the home country" (AHARONI, 2014, p. 383; BUCKLEY, DOH, BENISCHKE, 2017). Thus, institutions are important as they influence firm behavior (Acemoglu & Johnson, 2005; Cuervo-Cazurra, 2008b; Djankov, La Porta, Lopez-de-Silanes, & Shleifer, 2002; North, 1990).

The Institutional theory has been addressed with different approaches and has been used by several areas of knowledge, sometimes prioritising more historical approaches, sometimes more sociological, or more directed to the economic component. In international business, some approaches have stood out.

In the IB field, most of the discussions conclude that institutions exist to reduce transaction costs for firms or to provide legitimacy for them. On the one hand, North (1990) defines institutions as the "rules of the game", which can be incentives or constraints to the economic activity as it determines what kind of governance structures are more efficient from an economic point of view. These governance structures are also called "institutional arrangements" as they refer to the schemes of decision-making within the organisations (O. Williamson, 1975, 1985). Since the transactions occur at the governance level, they are accompanied by transaction costs, and these costs influence the level of economic activity. Hence the transaction costs determine which kind of governance structure is more efficient (O. Williamson, 1985). Thus, it explains the organisation of a firm by the way it minimises the transaction, production, and influence costs.

On the other hand, for Scott (1995, p. 33) "institutions consist of cognitive, normative, and regulative structures and activities that provide stability and meaning to social behaviour". Thus, the regulatory pillar focuses on formal rules and laws as well as on their applicability. The normative defines the legitimate means to pursue the desired ends, and the cognitive refers to the tacit understanding and the meanings present in the culture, values, norms, and beliefs of a given nation. These three pillars thus provide "related but distinguishable bases of legitimacy" (Scott, 1995, p. 47).

March (1988) posed that organisations establish behaviour patterns that are consistent with those of the past, being perceived internally as legitimate. In other words, there is a search for the homogenisation of organisational forms and practices that are best explained by isomorphism (DiMaggio & Powell, 1983). This combination of isomorphisms – coercive, mimetic, and normative – results in the construction of the institutional order, regulating the manipulation of environmental conditions over time by the organisation (J. W. Meyer & Rowan, 1977). Because of that, Peng (2006) and Scott (1995) argue that although institutions have many functions, their central role is to reduce uncertainties and provide meaning. Thus, they do so for different actors, conditioning the rules and norms that regulate behaviour and define the limits to what is legitimate. These actors, on the other hand, are guided by their interests and make their choices within an institutional framework given to the environment (S.-H. Lee, Peng, & Barney, 2007). Therefore, institutions develop in response to market failures since its role is to correct it. In other words, institutions are tools that allow market economic structures to function efficiently.

After discussing what institutions are, it is essential to understand how they can affect firm behavior. Cui (2016) theorised the effects of institutions on firms in five distinct forms: 1) as a universal direct effect on firm behaviours; 2) as contingent effects when giving strategic orientation; 3) as contextual variables that moderate the effects of other causal relationships; 4) as an interaction of multiple dimensions of institutions; 5) as a development promotion tool of context-specific firm resources and capabilities.

Moreover, Khanna and Palepu's (1997) framework implies that home country institutions are not homogeneous and because of that firms and managers must be aware of both formal and informal institutions. It is this environment that will determine the firm's ability and desire to invest abroad, which can be encouraging, with liberal policies towards OFDI, or be restraining with discretionary and frequently adjusted policies (Buckley et al., 2007). For example, the policies imposed on emerging countries during the 1980s by the World Bank and the IMF accounted for the liberalisation of their economies. This scenario led to the privatisation and the adoption of macroeconomic and incentive policies to attract FDI. It was only during the late 1990s that the emerging countries became more aware of the OFDI role in the economy and, thus, they made progress by supporting and understanding the costs, risks and benefits of OFDI (Y. Luo et al., 2010).

In this context, scholars are highlighting that the difference between multinationals from emerging and developed economies lies in the different motives for the internationalisation (Mathews, 2006; Witt & Lewin, 2007). For example, Luo and Tung (2007) posit that emerging market firms use international expansion to seek strategic resources from advanced markets, as well as reduce institutional and market constraints at their home markets. A similar result was found by Blomkvist and Drogendijk (2016) when they said that the Chinese investment in Europe are market seeking and strategic asset seeking. Therefore, different institutional environments produce different strategic mindsets and generate different strategic actions (Bruton, Lau, & Obloj, 2014).

Thus, a stream of studies focuses on those motives exploring the home country regulatory institutions (Y. Luo et al., 2010; Peng et al., 2008; Sauvant & Chen, 2014). Moreover, Dunning's Eclectic Paradigm emphasises the interplay between country-specific (CSAs) and firm-specific advantages (FSAs) in order to FDI to occur (Dunning, 1980). The same situation is seen in Rugman's framework (Rugman, 1981) and the Porter diamond model (Porter, 1990).

Therefore, institutions cannot be treated as given by the firms. The institutional environment shapes and is shaped by organisations. As a consequence, firms can internalise governmental decision-makers in order to leverage their bargaining power and, on the other side, firms have to accommodate governments concerns, such as technology advancing, economic growth and national competitiveness (Y. Luo, 2001b).

3.3. REVIEW PROCESS

In order to understand how the institutional theory have been affecting OFDI, we performed a bibliometric analysis to help us in the identification and summarisation of literature trends (Duriau, Reger, & Pfarrer, 2007; Short & Palmer, 2008).

The bibliometric method applied here follows the definition used by Ramos-Rodríguez and Ruíz-Navarro (2004), which is a method that analyses evolutions and changes in the intellectual structure of the research. We utilised both quantitative and qualitative approaches. Quantitatively, we applied a keyword co-occurrence technique based on the construction of networks between nouns. Also, we used a cartography analysis that enables us to determine the development of research streams (Volberda, Foss, & Lyles, 2010). Moreover, we reviewed the literature by reading carefully selected articles found in *ISI Web of Science* (ISI) to understand better what have been written and the opportunities for futures studies.

The selection of these articles involved two steps. The first step was to gather data concerning institutions and international business. We used the *ISI* database and applied the following query: institution* AND (international business OR IB OR international management), limited by categories (business, management, or economics) and by a period (1990-2017). From its results, we searched for OFDI. We chose these limitations because "Outward FDI may help enhance the competitiveness of firms. However, whether active promotion of outward FDI is warranted still deserves careful consideration" (UNCTAD, 2006). Moreover, OFDI involves more than just capital, but several assets such as technology and expertise (Hymer, 1960).

To find the data used in this second step, we applied the following query: institution* AND (OFDI OR outward), limited by category (business, management OR economics) and by years (1990-2017). The result was 140 articles. After cleaning and keeping all the articles concerning OFDI and institutions, we formed our final data based on 75 papers. The selection of papers was made by reading the 140 abstracts and selecting those that fit our search, eliminating editorials, reviews and articles that did not fit our requirements of institutionalism and OFDI, such as those that discussed inward FDI, but the search returned them because they had few OFDI mentions.

We then proceed to understand our data. To do this, we applied keywords co-occurrence to map the research streams. The result of this analysis represents the relevant terms in the domain of interest. In this method, the circle size corresponds to the number of articles that have the corresponding term as the keyword. Moreover, terms that co-occur more often tend to be located close to each other in the visualisation (Van Eck & Waltman, 2014). As a few research streams emerged, we looked deeply into them by analysing all the 75 articles (the summary of all articles can be found in Appendix A).

For the bibliometric analysis, we used *VosViewer* to classify the keywords co-occurrence. We selected 174 keywords with more than two occurrences. We performed this selection since there are similar keywords (entry mode, international entry mode, mergers and acquisitions, m-and-as, and others). We also eliminated keywords that do not aggregate to a better comprehension of the clusters (organisations, MNEs, OFDI, multinationals firms). Moreover, region or country keywords were also eliminated to give us a better understanding of the themes studied.

VosViewer provides distance-based nodes, as the distance indicates the relatedness between terms/keywords (Van Eck & Waltman, 2014). Thus, this software clusterises terms/keywords that represent the research streams. Also, we performed a bibliometric analysis using the *HistCite* software. This program informs about "important articles, authors, institutions, countries, and journal publishers, yielding a deeper and more reliable map" (APRILIYANTI, ALON, 2017, p. 4).

After the results, we performed a content analysis to gather a deeper understanding of the researches. For that, we relied on Weber's (1990) four steps method. This method encompasses the data collection, coding, analysis and interpretation. Our data was already collected following the procedure mentioned earlier, and our coding followed the results of the keywords co-occurrence method. Our analysis and interpretation are discussed in the next sections.

3.4. REVIEW RESULTS

3.4.1. Journal and year distribution

Table 3 reveals the number of articles and citations per each journal. It demonstrates the preponderance of top IB-focused journals. The Journal of International Business Studies and the International Business Review have the highest number of publications with 11 each, followed by the Journal of World Business with 5. Those three journals account for 36% of the publications.

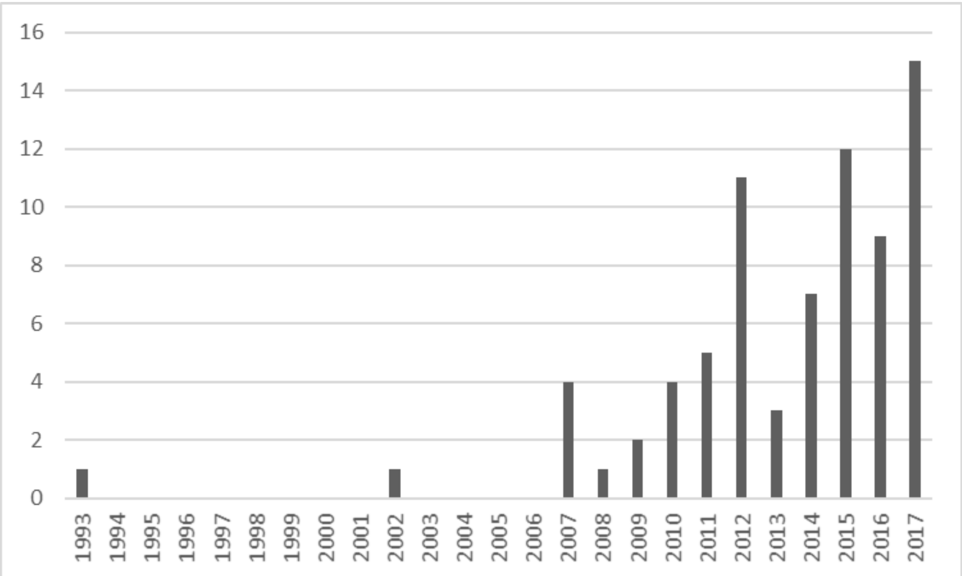
Table 3. Number of articles and citations per journal

Journal	Number of Articles	Citations
Journal of International Business Studies	11	1747
Journal of World Business	5	532
International Business Review	11	243
Global Strategy Journal	2	188
Asia Pacific Journal of Management	3	120
Management and Organization Review	4	77
Journal of International Management	1	57
Asian Business & Management	4	32
China & World Economy	2	27
Review of World Economics	2	22
China Economic Review	4	17
Service Industries Journal	1	16
World Bank Economic Review	1	13
Journal of International Trade & Economic Development	1	12
Review of Development Economics	1	12

European Management Journal	1	7
Journal for East European Management Studies	1	7
International Journal of Emerging Markets	2	6
Management	1	6
Multinational Business Review	3	6
Thunderbird International Business Review	3	4
Bulletin of Indonesian Economic Studies	1	3
Long Range Planning	1	3
Management International Review	1	2
Post-Communist Economies	1	2
Applied Economics	2	1
Asian Economic Papers	1	1
Acta Oeconomica	1	0
Canadian Journal of Administrative Sciences-Revue Canadienne Des Sciences De L Administration	1	0
Journal of The Asia Pacific Economy	1	0
Management Research Review	1	0

Moreover, when we take the citations number under consideration, the IB-focused journals (Journal of International Business Studies, Journal of World Business, International Business Review and Global Strategy Journal) constitute approximately 55% of the total citations sample. Here we highlight the works of Buckley, *et al.* (2007) (n = 715), Yiu, Lau and Bruton (2007) (n = 273), Luo, Xue and Han (2010) (n = 255), Witt and Lewin (2007) (n = 204), Cui and Jiang (2012) (n = 150), Kolstad and Wiig (2012) (n = 135) and Peng (2012) (n = 118).

Figure 4. Number of articles per year



Concerning the yearly distribution of articles in Figure 4, the publications properly started in 2007. This can be backed by the articles aforementioned as the most cited since three on that group are from 2007. Additionally, the year 2012 was the first with a higher number of publications, which was kept steadily for the upcoming years, except the year 2013. Here we can also note some of the most cited articles as being from 2012. This proves that an institutional view over OFDI studies captured the attention of IB leading journals in 2007. Apart from that, the follow-up studies only started in 2012 by building over the studies of Buckley, *et al.* (2007), Witt and Lewin (2007), Yiu, Lau and Bruton (2007), and Luo, Xue and Han (2010).

3.4.2. Methods and data

Table 4 shows the method used and the country studied. Consistent with previous findings, research using quantitative methods constitutes 76% of the total articles studied. Regression is the most used modelling technique since only two articles applied different methods, such as stochastic frontier (Armstrong, 2011) and structural equations (Drogendijk & Martín Martín, 2015). The remaining 24% of articles respond for qualitative methods, such as case studies, descriptive and theoretical analysis. Following Bettis (2012), we believe that quantitative studies may suffer from the misuse of statistical modelling. Thus, more qualitative researches are needed to back up the quantitative findings and also to bring more insights to the effect of institutions over OFDI.

Table 4. Number of articles per method used and studied country

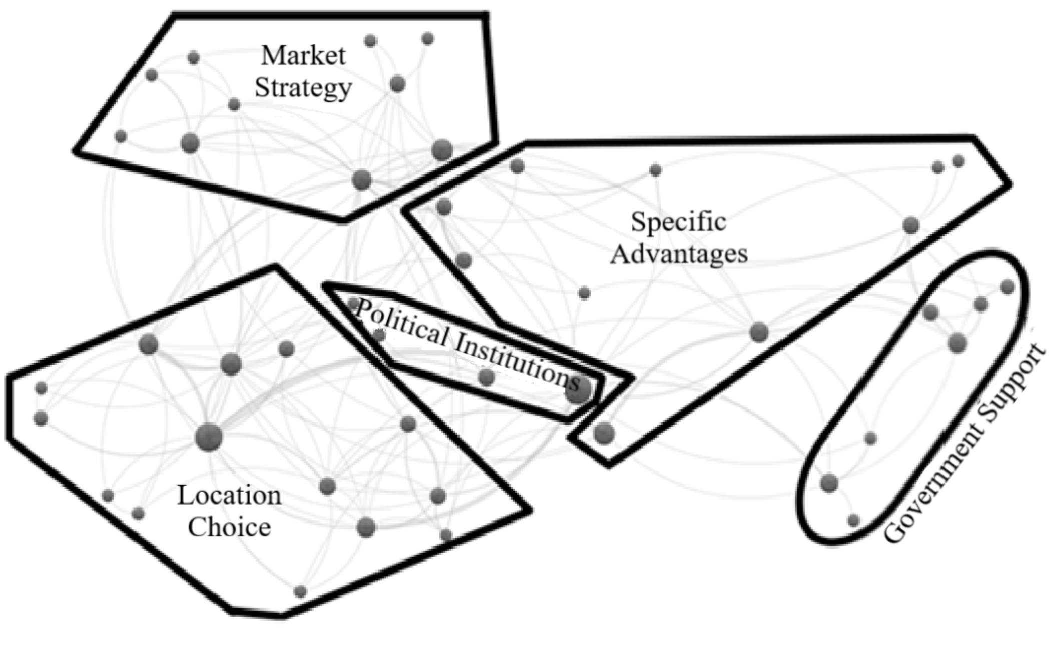
Type of Method	**Number of Articles**
Quantitative	57
Qualitative/Theoretical	18
Studied Country	
China	51
India	3
Emerging Markets	3
OECD countries	3
Brazil	1
Central and Eastern European countries	1
Czech Republic, Hungary and Slovenia	1
Greece	1
India and China	1
Indonesia	1
Poland	1
Russia	1
South Africa	1

Spain and China	1
Taiwan	1
Transition economies	1
NA	3

Additionally, 68% of the studies analyzed studied the Chinese reality, which can be explained not only by the growing OFDI by China but also by the number of China-related scholars publishing on the field (56% of the articles have at least one author with Chinese family name). It is also important to highlight that only 4% of the articles are related to developed countries. This shows that the institutional view is being used to understand emerging markets instead of being also applied to developed realities. Furthermore, 4% of the studies were not based on any country, as they focused on a general discussion/theory building. Here we understand that more studies in different realities from both emerging and developed countries are needed to make possible the fully understand of institutional effects over OFDI.

In order to map the streams, we applied the keywords co-occurrence technique, as in Figure 5. This method gives a useful overview of the entire field under study by indicating structures and relations (Peters & van Raan, 1993). Here we mapped five streams based on the 75 selected articles.

Figure 5. OFDI and institutions main research streams



The labelling process of these streams was based on their main nodes and on the content analysis that we performed when reading the articles. Nodes that are closer to each other represent similarities compared to those that are far apart. The streams found are the ones that follows: government support, location choice, market strategy, political institutions, and specific advantages. Thus, each stream consists of a distinct but interrelated cluster of articles. It is also important to highlight that there are research streams that overlap. To reduce this problem, we read the articles and categorised them according to their main questions. Table 5 shows the number of articles per stream of research.

Table 5. Number of articles and citations per stream of research

Stream	Articles	Citations
Government Support	10	325
Location Choice	17	250
Market Strategy	5	117
Political Institutions	32	1598
Specific Advantages	11	873

The government support stream accounts for incentive or constraint policies for the internationalisation of firms. Around the central node, which is international trade, we found export, trade, and institutional quality as most prominent nodes. This is an understudied stream with only ten studies. The fact that it has 325 citations is mostly because of the article from Luo, Xue and Han (2010) that has been cited 255 times. Apart from this article being published in the Journal of World Business, the rest of the articles in this stream were published in non-IB journals such as China & World Economy, China Economic Review and Asian Economic Papers.

The location choice stream focuses on institutional factors that might influence the region/country a firm chooses to go. Looking at the nearby nodes, we find terms such as cultural and institutional distance, government involvement, institutional environment, and corporate governance as the most prominent. This stream has 17 articles and 250 citations. Most of these result comes from Kang and Jiang (2012) (n = 70), Deng and Yang (2015) (n = 39) and Stoian and Filippaios (2008) (n = 20) published in the top IB journals Journal of World Business and International Business Review.

The market strategy stream discusses how the institutions affect the mode in which the firm will enter the host country. Important nodes here are entry mode choice, political risk and national culture. This is the most understudied stream with only five articles. It has 117 citations, mainly due to papers published on the Journal of International Business Studies (Meyer, *et al.*, 2014, n = 64) and the Journal of World Business (Klossek, Linke and Nippa, 2012, n = 37).

The political institutions stream aim is to investigate the institutional variables that impact the internationalisation of firms. Here, the terms found near the most prominent node (determinants) are corruption, institutional voids, and political connections. Political institutions stream is the most studied with 32 articles and 1598 citations. The published articles are more spread between top IB journals, such as Journal of International Business Studies, Journal of World Business, Global Strategy Journal and International Business Review. The most important article in this stream is from Buckley, *et al.* (2007) with 715 citations.

Lastly, the specific advantages stream deals with firm-specific advantages to internationalise. The most prominent node we have here is ownership, followed by state-owned enterprises and transaction costs. In this stream, we found 11 articles written with 873 citations. Hence, this stream has the highest proportion of citations per articles published. This can be explained by its top 4 cited articles being from the Journal of International Business Studies (Bhaumik, Driffield, & Pal, 2010; Cui & Jiang, 2012; C. Wang, Hong, Kafouros, & Wright, 2012; D. W. Yiu et al., 2007).

It is important to notice here that the most cited articles from each stream match the year in which we had changes on the publication pattern of the institutional view over OFDI, as shown on the last sub-section.

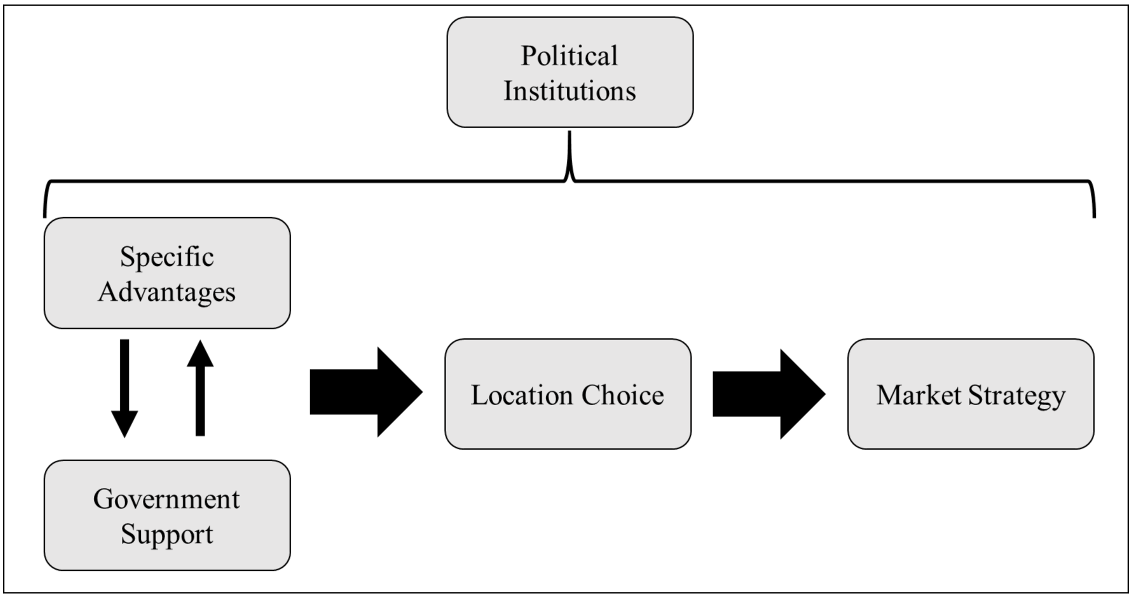
Based on the results exposed here, we understand that both government support and market strategy streams need more studies. The first one lacks understanding of how governments incentive or constraint their firms to go abroad in contexts other than China and how it impacts on the firm motivation to internationalise. The latter points to the fact that we need more publications on how institutions and incentives affect the firm entry mode and desire to share the risk with a partner, and how entry modes are affected by the information provided and the value chain of the host country.

3.5. DISCUSSION

This bibliometric study applied both quantitative and qualitative methods to investigate the growing literature about institutions and OFDI in the international business field. By looking at the *ISI* database, we selected 75 articles that were distributed among five streams, which answered our question about research streams considering OFDI and institutions.

The streams were clustered by the software VosViewer, and we read each of them carefully to understand what is being written in the five streams we found: government support, location choice, market strategy, political institutions and specific advantages. These streams interact among themselves as shown in Figure 6.

Figure 6. Interaction between streams



The political institutions stream deals with how the macro-institutional environment influences the international movements of a firm. Because of that, this stream encompasses the relationships between the other streams. The studies here tried to measure the impact of selected variables on the internationalisation of firms. The articles analysed here focused on the understanding of Chinese institutions. It is understandable that the authors took into consideration the rise of China to study its causes by looking into its OFDI. Although it is important to understand it, we cannot look at results from the Chinese reality and transfer its results to apply in other emerging countries.

Apart from that, it seems that Chinese OFDI benefited from the liberalisation measures enacted after the 2000s. This led to a resource-seeking OFDI where firms aimed for riskier markets, given their government support that reduces the perceived risk by the managers. Additionally, other political variables seemed to impact the OFDI: market openness, institutional proximity, industrial structure, government support, and the country being a member of an international organisation.

Moreover, several articles use corruption as an important variable to moderate the institutional effects over OFDI. In this case the articles focus on case studies and employ econometric models to understand the impact of the variables selected such as market imperfections, ownership advantages (Buckley et al., 2007), the firm’s needs, institutional conditions (Witt & Lewin, 2007), and trade linkages (Buckley et al., 2012).

Thus, political institutions influence all the others streams in the sense that variables such as institutional distance, market openness, corruption and country institutions directly impact the firm specific advantages, the support given by the government, the location choice of a firm and the strategy chosen.

When we look to the relationship between the specific advantages and government support streams, one can note that they influence and are influenced by each other. In other words, the specific advantages will depend on the support, and the support will depend on the advantages of a firm.

Looking at the government support stream, we notice the growing interest in understanding how investment support plays its role is noticeable in both inward and outward forms. The contribution of studies in this stream lies in showing how the change in government policies can affect the level of OFDI and the home-country multinationals from China and Asia. The example from China is striking because reforms in the economy were made to attract FDI at the end of the 1980s, and by the 2000s new reforms were made to invest abroad. This situation led to the development of Chinese multinationals, and how it was done is documented by the articles analysed. Therefore, these studies are complementary since they looked at the policies and their developments and also at how they affect SOEs. Moreover, some of the studies presented discussed the role played by the investment policies in the government development plan for the country.

Moreover, most of the studies from the specific advantages stream, be they micro- or macro-level, have to do with the State. On the one hand, this stream focus on the firm relationships with the internationalisation process when looking into the importance of the firm to absorb the advantages provided by the government. On the other hand, it is also possible to look from a macro-level perspective to understand State ownership. The ownership area has been studied extensively, but the focus here seems to be on studies about SOEs from China.

Thus, the government support can provide advantages to the firms, but for this to occur the firms have to internalize the advantages. In addition, the support may be influenced by the political capabilities of the firm, hence transforming a political advantage in firm specific advantages to go abroad.

Given the firm-specific advantages and government support, the location choice stream arises as the result of this interaction which culminates on the market strategy for the chosen market. Here a firm with its own capabilities and support from their home-country will decide the location and the particular strategy.

The location choice field tries to elucidate how firms choose their destination and how the institutions (home and host) affect this decision. Thus, it shows how institutions affect the choice of a host-country firm. From the findings, we can infer that institutional variables seem to have an impact as significant as the economic ones, although institutions affect each firm differently. Moreover, one should not look to both institutional and economic factors alone, since one influence the other.

Thus, institutions can influence location choice through the distance between the home-country firm and the host country and by the institutional environment in general. The first one is defined as "the difference or similarity between regulatory, cognitive, and environments of the home and host countries of an MNE" (KOSTOVA, ZAHEER, 1999, p. 68) and the latter as the way in which the country's institutions work, encompassing cultural norms, social knowledge, rules, regulations, enforcement mechanisms, among others (Kostova, 1997). Therefore, each institutional variable tends to have a different weight in the firm's strategy. Apart from what was proposed by the articles analysed, it is crucial to understand the relation between home-country and entry mode to select the host-country.

Examining the impact of government on the choice of location through incentives is also a possibility.

Lastly, the market strategy stream focus on how the choice of a firm entry mode (M&A, licensing, export) is affected by institutional variables. This area seems to be in its infancy since we did not find many articles addressing this matter and most of them are exploratory studies. In this context, firms have to cope with legitimacy matters, the motives for undertaking the FDI, and their liability of foreignness in order to select the entry mode that will suit their needs. With this in mind, Meyer, *et al.* (2014) suggested the use of time series to investigate the impact of institutional changes over time. The authors also indicate an exploratory study to unveil how practices of stakeholder engagement and human resource practices relate to institutional pressures on different types of MNEs.

Therefore, the market strategy of a firm in its quest to reduce the liability of foreignness and to improve legitimacy needs to deal with the host country culture and with the risk posed by this country. This can be explained by institutional variables such as laws, enforcement mechanisms, norms, and values that affect the firm’s strategy.

Thus, the five streams present in the literature take into account both micro and macro studies and encompasses the most important niches of study concerning OFDI, namely what influences the firm to go abroad, the location a firm chooses to go and the entry mode. Still, each stream is found to be in different levels of knowledge, meaning that some have more space for future researches than others.

3.6. FUTURE RESEARCH DIRECTIONS

3.6.1. Government support

In the context of government support for the internationalisation of firms, would be interesting to advance this line of inquiry by examining theoretically and empirically the antecedent, concurrent, and consequent factors of OFDI policies from both emerging and developed country governments. Additionally, we suggest looking to the relationship between private firms and the Chinese government and how they affect and are affected by the support policies enacted. Also, the relationship between private firms and SOEs could be a research path, not only in China but extended to other countries.

Moreover, since the articles analysed in this stream applied qualitative methods, it is essential to advance the field by doing quantitative research, and also by understanding different contexts. We suggest that comparative studies between emerging countries and developed countries would clarify the role of government support in different institutional environments.

By studying this stream, we can deepen our understanding on how the government support can substitute for the advantage of firms in the internationalisation process and how governments direct their firms to certain locations or from certain sectors in order to gain the desired spillovers.

3.6.2. Location Choice

Following Kang and Jiang (2012) and Deng and Yang (2015), we suggest that one should investigate if the institutional pressures are more significant than the economics when choosing a location. Here, we call for a division between market, resources, assets or cost seeking strategy, since each one would be more interested in different variables. Thus, this would allow us to understand what drives each type of strategy concerning not only economics but also institutional variables.

Moreover, would be interesting to understand the relation between home-country institutions and the desired location. In other words, which type of home institutions can be a leverage for a firm to enter the chosen location. This research would make possible to understand the effects of institutions on how a firm chose where to go, which would help policymakers to work on institutions to accomplish the desired results.

3.6.3. Market Strategy

As this stream develops its studies on the motivation to select an entry strategy in a location, they tend to focus on the mergers and acquisitions. Concerning the relationship between institutions and entry mode to develop this stream, it is important to understand some policies restrictions in some contexts. One possibility is to focus on the understanding of the relationship between home-country, host-country, and entry mode. Examples of researches would be how bilateral investment treaties and investment protection measures affect the relationship among the two countries and the entry mode, or how investment promotion agencies contribute to this scenario. In addition, the role played by constraint measures in both emerging and developed economies regarding this matter will be a useful contribution.

Thus, researches about how constraint measures such as restriction to capital outflow, foreign exchange controls, restriction to some types of FDI and heavy bureaucracy impacts on the entry mode and on the strategy chosen by the firm. This will contribute to both policymakers, in the sense of tailor better policies, and to managers when thinking about the best strategy to pursue.

3.6.4. Political institutions

Concerning the political institutions stream, Buckley, *et al.* (2007) suggested for future researches a qualitative work to investigate how Chinese investors are influenced by due diligence, risk evaluation, and ethical considerations in host countries. They also call for an explanation about how FDI patterns are affected by formal and informal political links between China and other countries. Sun, *et al.* (2015) also said that it would be important to understand how business group affiliation and SOE status deal with FDI spill-over effects and competition effects.

Thus, it would be a good path to follow the selection of more political centred variables in order to deepen the understanding of how institutions help to determine this movement both on home and host countries, such as corruption (Brada, Drabek, & Perez, 2012), country linkages (Buckley et al., 2012), institutional quality (Kolstad & Wiig, 2012), government support, industrial policies (C. Wang, Hong, Kafouros, & Boateng, 2012), access to natural resources (Buckley et al., 2007), and country openness. Moreover, understand the motives for OFDI from different institutional realities will also be a good suggestion to new research.

While looking into the patterns among the articles analysed, we found that they try to understand the emerging markets phenomenon by choosing China as their case. This is a good starting point, but the analysis should be extended to other emerging markets or to a comparison between the internationalisation process from both emerging and developed countries. Moreover, all of them seem to measure the institutional environment looking more into economic liberalisation and investment protection measures. In this case, it should be interesting to measure the degree of legitimacy of each movement based on isomorphisms (mimetic, coercive, and normative) (DiMaggio & Powell, 1983). Thus, understanding how a firm legitimacy impacts this process by “copying” competitors, by the quality of formal education, or by informal rules would be relevant to the IB area.

3.6.5. Specific Advantages

Concerning the firm specific advantages, we suggest that scholars investigate how SOEs from different countries use their political force to gain benefits or how they handle the prejudice that comes with it. The literature focused on Chinese SOES, therefore the extension of State ownership to other countries would be an opportunity for future studies.

Another issue that is permeating the debate is whether the government influences the OFDI direction through policies or political connections. Thus, political capabilities not only in emerging markets, but also in developed countries should be investigated. This would lead us to understand the different political capabilities in each reality.

Concerning all the streams and their articles, we noticed the prominence of Chinese studies. Regarding this matter, we highlight that it seems that in terms of studies, the term emerging markets accounts only for China, leaving behind big, but understudied countries such as Brazil, India, Mexico, and Russia. Thus, some issues emerge as relevant to be investigated, such as have emerging countries supported the internationalisation of their firms through specific public policies? If so, what are the similarities and differences between them? How the different political regimes affect the relationship between the multinationals and their home-country?

Therefore, apart from expanding the emerging market studies and intensifying the researches about market strategy, government support and policies, it is also important to look at how institutions interfere in developed country multinationals in both home and host countries.

Moreover, we noticed that the majority of the studies analysed here focused on formal institutions. Hence, we propose that more studies should aim on understanding the impact of informal institutions in the home-country for the internationalisation of firms. Ideally, the combination of both formal and informal institutions would provide a more complete view about how institutions impact OFDI. By doing this, one can show how informal institutions can compensate for formal institutions and other economic variables.

Lastly, studies of a theoretical nature are also recommended whose aim is to map other research flows in a more detailed way, as was done in this article with OFDI. Other bibliometric studies whose purpose is to provide a general mapping of the area, identifying trends and analytical vacuums are welcome as well.

3.7. CONCLUSIONS

The rise in emerging markets OFDI questioned the necessity of new theories or the adaptation of the current ones in the IB arena. The institutional theory has been the theory widely used to understand this phenomenon as it was understood that the business environment variables, whether in the home or host country, have a significant impact on developing countries. From this, it was sought to understand what institutional theory researches have been developing in the IB context. Thus, the purpose of this study was not only to map different streams but also to identify interpretative gaps to stimulate further research in the field.

We managed to divide the researches regarding institutions in international business into a few streams. After that, we focused on the less developed stream (OFDI) to analyse it. OFDI researches are important to help us understand the role of the home-country in the internationalisation process. Therefore, we contributed to the understanding of institutions and OFDI by systematically grouping the main articles into clusters and raising new research questions.

We found that there are five key research streams: government support, location choice, market strategy, political institutions, and specific advantages. While political institutions and location choice are the most developed streams, market strategy and government support still seem to be in its infancy stage.

Given the increasing complexity of the international arena, more studies have been required to clarify how institutions have affected international dynamics, be they domestic or international organisations. This also leads to the need for greater dialogue between different areas of knowledge such as Economics, International Relations, and Management, which in most cases remain isolated in their research agendas, losing the gains that this interdisciplinarity can bring to understanding this phenomenon.

In this perspective, we are helping the debate about the necessity of a new theory regarding the new wave of OFDI has to be engaged. The existence of divergent points of view suggests that this theme is not entirely understood and that there is a lot to be investigated, especially concerning the effects on the development of emerging countries.

The fact that emerging country multinationals are competing with traditional multinationals has caught the attention of IB scholars. The main characteristic of this phenomena accounts for less developed institutional environments, which calls for substantial government support to overcome the liability of newness. Thus, treating institutions as a crucial factor to analyse international movements is becoming a trend since firms need to go global without despising local peculiarities.

Therefore, understanding institutions and OFDI is contributing to answering the question about the need for new theories in the IB field. We can notice its development by the citation map and the content analysis we have performed. Thus, we presented several venues for future researches.

4. ESSAY 3. FOREIGN DIRECT INVESTMENT POLICIES: A REVIEW

4.1. INTRODUCTION

We analyze the literature on foreign direct investment (FDI) policies. FDI has experienced a substantial and surprising increase in recent times. While this movement was dominated by FDI from and to advanced countries until the 1990s, by the 2000s emerging countries became not only large recipients but also significant sources of FDI (UNCTAD, 2011). Governments expected a variety of benefits from FDI since it can bring to both home- and host-country not only capital but also advanced managerial, organizational and technological capabilities. Therefore, while, host national and regional governments increasingly compete to attract foreign investment, providing subsidies and tax breaks (Tavares-Lehmann, 2016), home-countries have taken an active role in supporting outward FDI by employing several industrial policy-related tools (Y. Luo et al., 2010).

While one can have the impression that incentive policies for FDI are overstudied, this is not true. Much of the work on incentives have been done on prescriptions by the World Bank and UNCTAD (UNCTAD, 1999a, 2000, 2003, 2006, 2008, 2018; United Nations, 2018; World Bank, 2015, 2018) and less on the academic literature. Moreover, a lot has been done on exports incentives (J. Chen et al., 2016; Coudounaris, 2018; Freixanet, 2012; Navarro-García, 2016; Rabino, 1980; Seringhaus, 1993; Walters, 1990; T. Wilkinson & Brouthers, 2006; T. J. Wilkinson et al., 2005, 2011). Therefore, we observed the necessity of more studies to understand investment policies.

Hence, given the significant flow of FDI in the past decades and the gap in the academic literature on incentives for FDI, we review the literature on FDI policies. To achieve this, we performed a content analysis of articles that have analyzed inward and outward FDI policies in international business, economics, and management studies. We identified 180 such articles, which we summarized and grouped based on the main topics addressed in order to clarify the diversity of ideas and identify missing areas. By doing this, we intend to point out new research venues and show how countries and firms are dealing with FDI incentives. As far as we know, this review is among the first ones to address this topic in the international business field, since we review both inward and outward FDI policies.

As a result, the ideas built in this paper contribute in four ways to the topic of FDI policies. First, we offer a review that fills the void in the calls for studies on policies on FDI (Buckley et al., 2010; Götz, 2016; Y. Luo et al., 2010; World Bank, 2015). Second, this study can help to deepen our understanding of the role of policies and incentives on FDI, since we uncover the main findings and conclusions about the topic in the academic literature and propose future venues of research. Third, our findings can also be helpful to understand the role of cross-border spillovers and the agglomeration processes, as we found in our review several articles whose aim was to measure the impact on firm growth and the macro consequences concerning incentive policies. Fourth, governments can benefit from our conclusions to draw more accurate FDI policies.

4.2. INWARD AND OUTWARD FOREIGN DIRECT INVESTMENT POLICIES

First, it is essential to clarify that we will be using the UNCTAD (2017, p. 3) definition of FDI. According to it, FDI is

> "an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)".

Recent decades have witnessed a substantial increase in FDI as a result of technological advances and economic liberalization. Globalization has been felt all over the globe since technology has facilitated the movement of goods, services, ideas, and capital across international borders (World Bank, 1999, 2016), at the same time that economic liberalization has reduced the institutional barriers to such flows (World Bank, 2002, 2005). All this has helped many countries achieve fast and sustained economic growth, and in some cases have led to a sharp reduction in poverty (World Bank, 2001). Some scholars pointed to the fact that FDI played a vital role in this process since it facilitates the transfer of production, techniques, and knowledge across countries (Saggi, 2002). According to the UNCTAD (1999), FDI flows increased as a consequence of the improvement in the investment climate across countries through deregulation, demonopolization, privatization and reforms of trade and investment regimes. Both IFDI and OFDI increased in the past decades, especially those involving emerging economies as shown in Table 6.

Table 6. **Inward FDI and Outward FDI flow from developed, developing and transition economies (in US$ million)**

	Inward FDI				
	1970s	1980s	1990s	2000s	2010-2017
Developing Economies: Africa	11242	22016	71030	356815	400243
Developing Economies: America	26542	63646	384778	982199	1365467
Developing Economies: Asia	19021	117790	718627	2645370	3578524
Developing Economies: Oceania	-	74	40309	427297	495196
Transition Economies	739	1510	2920	10384	18279
Total	*57546*	*205039*	*1217665*	*4422067*	*5857711*
Developed Economies: America	63536	374627	1071937.99	2384055.44	2574626
Developed Economies: Asia	1916	2979	38248.75	158334.31	122922
Developed Economies: Europe	102587	305096	1756954.82	4967626.26	3555759
Total	*168039*	*682703*	*2867141.56*	*7510016.01*	*6253308*
	Outward FDI				
	1970s	1980s	1990s	2000s	2010-2017
Developing Economies: Africa	1122	5279	19441	47077	91899
Developing Economies: America	940	4591	43608	179657	276418
Developing Economies: Asia	840	43897	336212	1224640	2787279
Developing Economies: Oceania	8	28	157	2472	5272
Transition Economies	-	-	11132	229952	384690
Total	*2911*	*53796*	*410551*	*1683801*	*3545561*
Developed Economies: America	137653	219830	998460	2488189	2954956
Developed Economies: Asia	16053	145151	256741	581841	1049247
Developed Economies: Europe	123173	488643	2441503	6104835	3897079
Total	*276879*	*853625*	*3696705*	*9174866*	*7901283*

Source: Data from UNCTAD (2019).
Note: The countries in each category and region follow the Unctadstat parameters.

Historically, FDI flowed from developed to developed countries. While for inward FDI this pattern was broken in the late 1980s, for outward FDI it was only during the 2000s that this scenario changed. Inward FDI between developed and developing countries began when the latter started to liberalize their economies following the OECD code and the Washington Consensus (J. Williamson, 2008). These measures accounted for liberal policy prescriptions that had to be adopted by developing countries during the 1980s post-crisis, as they were a counterpart of the loan deals taken through the World Bank and the IMF. Therefore, developing countries began several privatization processes. Therefore, they attracted FDI from developed countries by incorporating a mix of initiatives that comprised both macroeconomic and incentive policies.

Regarding outward FDI, the investments from developing countries started during the 1970s, but it was only during the 2000s that they were adequately promoted by the governments. Rasiah, Gammeltoft, and Jiang (2010) posit that developing countries had three waves of outward FDI. In the first moment, countries only seek to establish trade supporting networks and access to protected markets. By the late 1990s, the reasons behind these investments changed, and governments started to enact policies to support it. Policies examples were the Chinese *Go Global* policy in 1999, and the Brazilian creation of its promotion agency, *APEX-Brasil*, in 2003.

Therefore, governments can influence the strategy of a firm through a variety of mechanisms. Murtha and Lenway (2007) posit that it is through its industrial policies that governments can affect firms by making them change their strategies and structures, to increase or constrain its international movements. In the same direction, Lodge (1990) and North (1990) explained how the political environment of a country could influence the firm's strategy and performance. Bergara, Henisz, and Spiller (1998), for example, talk about the formal rules necessary to reduce uncertainty in a business operation, while Dawson (1998) discussed how the excess of market intervention could affect the economic performance negatively.

In contrast to these studies that discuss the general role that the government plays in establishing the institutional framework, we focus on a much narrower role that governments play in influencing FDI through FDI-specific policies. These have been traditionally separated into inward, and outward FDI policies as not only the underlying logic but also the mechanisms and outcomes have varied. Table 7 summarizes some of the mechanisms discussed.

Table 7. FDI incentives and constraints

Inward FDI		Outward FDI	
Incentives	**Constrains**	**Incentives**	**Constrains**
Loans and grants	Review agency	Loans and grants	Restrict capital outflow
Tax incentives	Limit share ownership	Tax incentives	Foreign exchange controls
Information provision	Restrict foreign employees	Insurance	Restrict FDI kinds
Regulatory incentives	Heavy bureaucracy	Information provision	Restrict locations
		Regulatory incentives	Heavy bureaucracy

Source: Built by the authors based on Globerman and Shapiro (1999); Golub (2003); Gorynia, et al. (2015); Kuźmińska-Haberla (2012); Schneiderman (2000); Stiglitz (2000); Tavares-Lehmann (2016); UNCTAD (2006)

Policy-makers spend considerable efforts to regulate investment, by giving tax holidays, loans at lower interests, issuing regulatory exemptions and building infrastructures. By doing this, they expect to bring new technologies, capital, and know-how to improve national productivity. Thus, policy-makers expect spillovers, which consists on the spread of knowledge to local or host country firms without a contractual relationship (K. E. Meyer, 2004), as it is usual that the multinationals do not control these effects (McCann & Mudambi, 2005).

Inward FDI can increase the flow of skills, since it increases the demand for skilled workers (Driffield & Taylor, 2000) and also the flow of information and technology, as foreign firms possess different technologies or superior ownership advantages (Dunning, 1980). At the same time, outward FDI is expected to help home countries by increasing their firm's competitiveness by providing access to foreign markets and resources. Additionally, it could allow new export opportunities, as investments will open new markets, and yield returns for the country in the form of technology and tax revenue from profits, as it impacts the balance of payments (UNCTAD, 1999a). Therefore, making use of tools to enhance both inward and outward FDI will raise the chances of achieving growth and development goals.

4.3. GOVERNMENT POLICIES AND FDI: INWARD AND OUTWARD FDI POLICY

Both inward and outward incentive policies use similar tools to pursue their development goals. On the one hand, the government applies a variety of mechanisms to attract FDI: a) loans and grants to finance the operation; b) tax incentives to attract investments and to avoid re-locations by reducing costs; c) information provision to reduce institutional distance and to help the firm deal with local bureaucracy d) regulatory incentives, meaning the creation of free trade zones, provision of monopoly rights, lowering of environmental/labor regulations or the participation on investment or trade agreements (Tavares-Lehmann, 2016). On the other hand, the government applies similar tools to encourage their firms to go abroad. Gorynia, Nowak, Trąpczyński, and Wolniak (2015) divided the incentives into two types, financial and non-financial. The first one encompasses loans, grants and equity participation; investment insurances and guarantees; and fiscal incentives. As for non-financial incentives, the authors referenced to information provision and support through investment agreements. Thus, we will take a closer look into each of these tools: tax, loan/grant, information provision, and regulatory mechanisms.

Tax. International tax rules impact over MNEs activities such as location, income relocation and profit repatriation (Hasegawa & Kiyota, 2017). In terms of inward FDI, several scholars agree that lower taxes attract – or higher taxes discourage – investments, which impacts on the firm location decision (Abdioglu et al., 2016; Barrios, Huizinga, Laeven, &

Nicodeme, 2012; S. O. Becker, Egger, & Merlo, 2012; Bellak & Leibrecht, 2009; Benassy-Quere, Fontagne, & Lahreche-Revil, 2005; Buettner & Ruf, 2007; M P Devereux & Griffith, 1998; Hines Jr., 1996). However, there are findings that point to the direction that tax incentives may not work for developing countries or countries with weak institutions (Goodspeed, Martinez-Vazquez, & Zhang, 2011; Kinda, 2018; Klemm & Van Parys, 2012; Van Parys & James, 2010) or that agglomeration exerts a more significant role in attracting FDI than the tax incentive itself (Guadalupe Lugo-Sanchez, 2018; Hansson & Olofsdotter, 2013).

Concerning the outward FDI impact of taxation, scholars found that the tax system adopted by the home-country affects the decision of when and how MNEs repatriate their profits. Investments are attracted to low-tax countries when it concerns to taxable profits (Azemar, 2010; Clausing, 2005; Egger, Loretz, Pfaffermayr, & Winner, 2009; Hasegawa & Kiyota, 2017; Hines Jr., 1994; Ruf & Weichenrieder, 2012). However, Altshuler and Grubert (2001) found no evidence that location decisions would be affected by dividends exemption in the U.S., and Azemar, Desbordes, and Mucchielli (2007) and Azemar and Delios (2008) found the same results for Japanese firms when a tax sparring provision is signed. Thus, taxes might not have the effect that it is frequently suggested by the literature (Herger, Kotsogiannis, & McCorriston, 2016), since other variables also affect FDI in different levels as legal guarantees (Van Parys & James, 2010), labor deregulation (Azemar & Desbordes, 2010) and trade restrictions (Grubert & Mutti, 2000) for example.

Loan/Grant. MNEs need money in order to expand and invest abroad. In this respect, direct financial support is a valuable resource to help firms to overcome financial constraints (Y. Luo et al., 2010). Apart from providing capital, governments can also tailor the payback terms, such as payback time and interests, according to the firm´s needs in order to encourage investment (Cohen & Yagil, 2007). This situation can offer better financial flexibility to the firm, which enables it to conceive an integrate its strategy to invest abroad (Han, Liu, Xia, & Gao, 2018). Concerning inward FDI, Wren (2005) and Burger, Jaklic, and Rojec (2012) found a more significant impact on firms that received grants in the U.K. and Slovenia respectively, as regions with grant are more attractive to investments (Wren & Jones, 2011). However, O' Sullivan (1993) concluded that the wage rate, instead of government grants, is the variable that explains the locational choice of foreign firms in Ireland. As for outward

FDI, Gallagher and Irwin (2014) and Shapiro, Vecino, and Li (2018), while studying China, noticed that due to a greater amount of reserves, the Chinese government could offer more loans to its firms, mainly to SOEs, to secure natural resources.

*Information provision***.** The lack of information and knowledge is commonly cited as one of the significant barriers to internationalization (Love, Roper, & Zhou, 2016; Raymond, St-Pierre, Uwizeyemungu, & Le Dinh, 2014). In this regard, the role of an investment promotion agency (IPA) is to “communicate to foreign investors the nature of the country’s investment climate and to persuade and assist these investors to invest or reinvest in the country” (WINT, 1992, p. 27). Moreover, Lu, Liu, and Wang (2011) posit that the home-country IPA helps firms to overcome their lack of experience by enhancing their knowledge base.

Concerning the attraction of investments, several studies found that government promotion plays an essential role raising the FDI flows (Adams, Neumann, & Tabrizy, 2018; Anderson & Sutherland, 2015; Charlton & Davis, 2007; Emudainohwo, Boateng, Brahma, & Ngwu, 2018; Lim, 2008; Ni, 2016). Additionally, Harding and Javorcik (2013) and Lim (2018) concluded that the level of FDI attracted can be higher given the experience and quality of the IPA personnel. In opposition, Hoshi (2018) and Ni, Todo, and Inui (2017) did not found any evidence that IPA increases FDI in Japan and China, respectively. As for outward FDI, IPA also raises the level of FDI (Hayakawa, Lee, & Park, 2014; Moons & van Bergeijk, 2017), mainly when it concerns a high-risk environment in the host-country (Dominguez, 2018; Hayakawa et al., 2014).

Regulatory mechanisms. Home-governments not only regulate internal affairs, but they also manage intergovernmental relations, which affect cross-border activities (O’Brien & Williams, 2013). Hence, the support on MNEs performance will vary depending on the level of the intergovernmental relationship (Lattemann, Alon, Spigarelli, & Marinova, 2017). Thus, the State is an essential ally to MNEs by offering not only financial incentives but also indirect ones, such as treaties and agreements, to boost development and firm competitiveness.

According to Sauvant and Sachs (2009), the two most used treaties are bilateral investment treaties (BITs) and double taxation treaties (DTTs). While BITs are signed to protect bilateral investments (Ginsburg, 2005), DTTs are negotiated to harmonize taxes and reduce fiscal system uncertainty, thus increasing the net-of-tax return of investors (Barthel, Busse, & Neumayer, 2009; Hong, 2018). Concerning tax treaties, while for inward FDI there is a positive impact on investment (Marques & Pinho, 2014; Murthy & Bhasin, 2015), Daniels, O'Brien, and von der Ruhr (2015) and Egger, Larch, Pfaffermayr, and Winner (2006) concluded that these treaties have a negative impact on outward FDI. For BITs, the studies found that BITs raise the FDI level for both inward (Busse, Koeniger, & Nunnenkamp, 2010; Crotti, Cavoli, & Wilson, 2010; Yu & Zhang, 2016) and outward (Cardamone & Scoppola, 2015b, 2015a; Egger & Merlo, 2012) FDI.

Another regulatory mechanism is the special economic zones (SEZs). These zones offer a variety of preferential treatments in terms of tax, regulations, infrastructure among others (Dorozynski, Swierkocki, & Urbaniak, 2017). The intent here is to absorb foreign technology and build up domestic capacities, to develop workforce skills and construct modern infrastructures, for example (Damborsky, Wokoun, & Krejcova, 2013; Masiero, Ogasavara, & Risso, 2017). Nevertheless, the attraction does not depend only on the fiscal incentives, but it also depends on the infrastructure and accessibility of the land (Dorozynski et al., 2017).

Thus, the increasing role played by the governments in promoting both inward and outward FDI motivated us to look into what we know and what we do not know about FDI-specific policies.

4.4. METHODOLOGY

In order to understand what is missing and to look into what we already know, we performed a content analysis. This method is used to identify and summarize literature trends (Duriau et al., 2007; Short & Palmer, 2008). To conduct the review, some scholars present a four steps method to perform it in a more systematic form: data collection, coding, analysis, and interpretation of coded content (Duriau et al., 2007; R. Weber, 1990).

Our data collection method consisted of two steps. The first one was to search for papers that would suit our theme. For that, we used the ISI Web of Knowledge database, where the following query was applied: (OFDI OR outward OR IFDI OR inward OR FDI OR "foreign direct investment") AND (promotion OR incentive OR constrain OR disincentive

OR tax OR grant OR loan OR subside). Moreover, we limited our search to only articles from the business, economics or management fields. This search has resulted in 1450 studies.

The subsequent step consisted in the filtering process, which was conducted in two stages. First, and still, at the Web of Knowledge database, the initial reading list was reduced by checking titles, keywords, and abstracts for relevance and deselecting those that were out of scope. This selection was done by selecting those that would suit our proposal. In other words, we choose the studies that focused on understanding the government role in supporting or restraining FDI. Thus, the selection here was guided by policy description studies or those that studied the relation or impact of FDI and government incentives on either firm or government levels. This step left us with 237 papers.

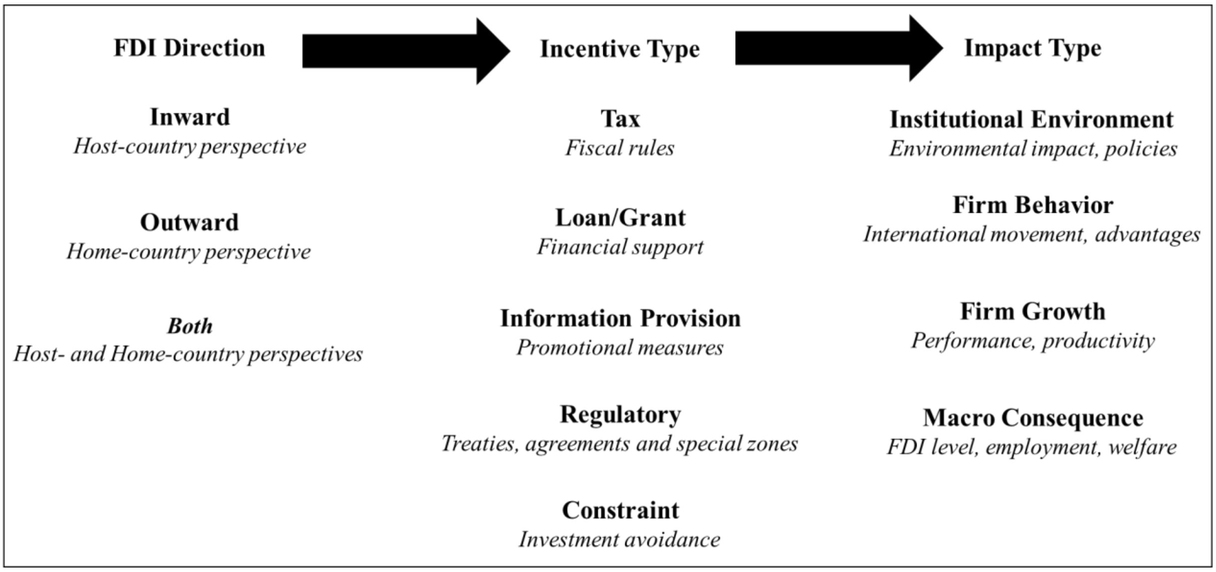
After that, the remaining 237 articles were downloaded. We then proceed to read them to make sure that they fit our review proposal. By taking that into account, we eliminated 48 studies after reading, since they did not have as their primary objective the discussion about incentive policies and FDI. Thus, we kept in our sample only those articles that discussed policies regarding FDI, leaving behind those that only mentioned the searched words, but did not address the FDI-policy discussion. In order to reduce the bias on this step, we separately evaluated the fit of the articles to the proposed review. After that, we discussed the results and decided to limit the articles from 1995 onwards due to the WTO establishment, as this organization is responsible for oversee the international trade and investments, and for settling legal incentives. then reached the final set of papers. The data collection step resulted in a list of 180 papers. The complete list of papers is presented in the appendix.

4.4.1. Coding and Analysis

In order to generate a clearer picture of how the field is structured in terms of FDI policies, we began our coding by dividing the 180 articles considering their FDI direction. Thus, three categories emerged: inward FDI with 122, outward FDI with 49 and both with 9 articles. From there, we used NVivo software to code and construct a table structured around the following headings: author; year; title; journal; analysis level; main objective; sample selected; period; method; dependent variable; independent variables and main findings.

The reliability of a code is one issue that we tackled by adopting Weber (1990) coding protocol. This protocol comprises the definition of units and categories, their testing on a sample, assessing the accuracy of the coding, revising the coding rules and coding all the text. Moreover, we based ourselves on the type of incentive (tax, loan, information, regulatory) and constraints described in the literature to build the categories. Hence, to improve the validity of categories, we employed a coding scheme already used elsewhere (A. Gaur & Kumar, 2018). Therefore, we labeled the emerged categories by the type of incentive or if it is a constraint. Here we understand category as a "word or phrase describing some segment of your data that is explicit" (ROSSMAN, RALLIS 2003, p. 282). Figure 7 presents our categories and their explanations.

Figure 7. Categories and explanation



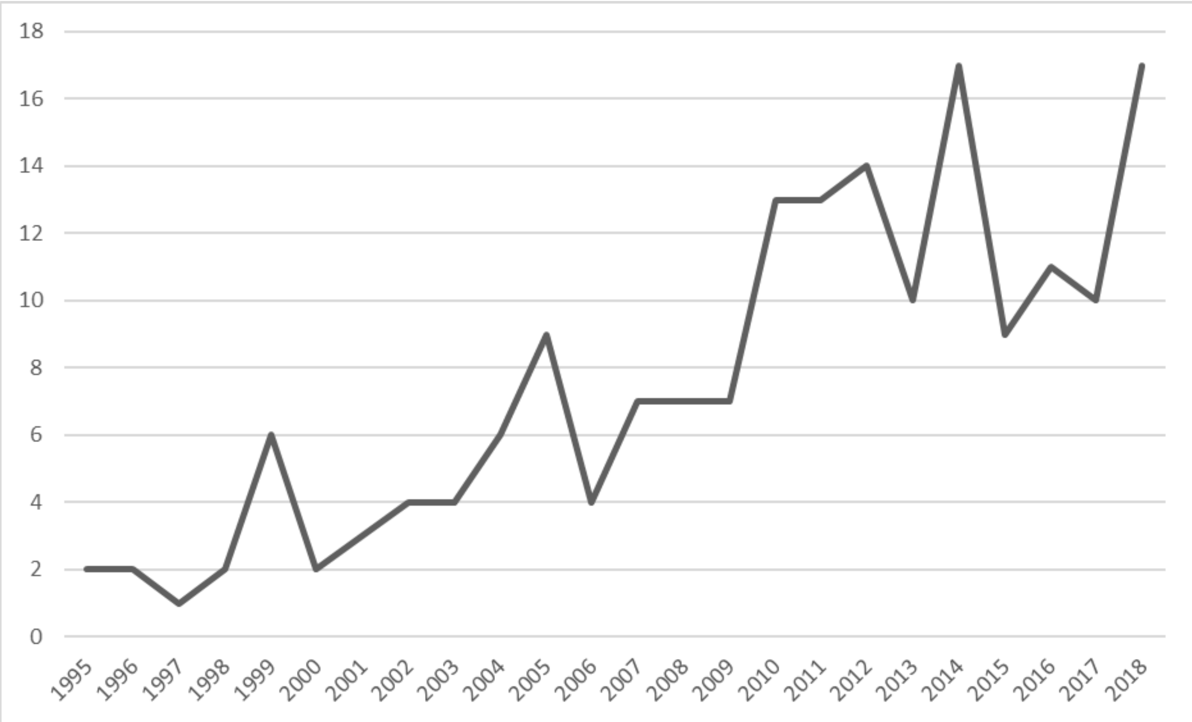
The final group of categories was attributed based on general patterns perceived as common on each article objective. These emerged after the ground theory's coding cannon (Saldaña, 2009), where we employed the descriptive coding technique. This type of coding is applied when a segment of the data represents the topic of inquiry, and it leads to a tabular account as we have done with the main objectives and findings. It is also important to highlight that the act of coding consists in the attribution of a word that evokes a summative, essence-capturing or evocative attribute (Saldaña, 2009). Therefore, coding is an interpretative act based on the perception of the authors about the giving theme. Thus, the categories found are the ones that appear "to have the greatest explanatory relevance" (STRAUSS, CORBIN, 1998, p. 104).

4.5. RESULTS

4.5.1. Journal and year distribution

Figure 8 shows the yearly distribution of the articles analyzed. We notice that it was after 2009 that studies concerning FDI policies grew. This could be explained by the post-crisis scenario, as governments wanted to improve the economic environment. It was also from this year onwards that scholars diversified the types of incentive studied. Until 2008, tax incentives accounted for 30 studies, while 29 were about other types of incentives. From 2009, 37 were about taxes and 84 about the rest of them. This shows that governments started to diversify their tools to encourage investments in the post-crisis period. Moreover, in this period 76 articles accounted for inward FDI, 39 for outward FDI, and 6 for both directions.

Figure 8. Articles yearly distribution



When we investigate the journals where the articles were published, we notice that the majority is from the economics field, mainly public finance as the International Tax and Public Finance (18) and the Journal of Public Economics (11). In the IB field, the leading journals are the Journal of International Business Studies (5), International Business Review (5) and the Journal of World Business (2). Still, in the IB field, we found 5 concerning inward FDI (2 general incentives; 3 investment promotion), 6 outward FDI (5 general incentives; 1

regulatory) and 1 that studied the regulatory incentives in both FDI directions. This points to the fact that only recently studies in the IB field are investigating the environment in which the firms are embedded, and mostly using incentives as one variable, instead of exploring each of them separately. A list of journals and the number of publications in each of them is provided in Table 8.

Table 8. Journals and number of articles per source

Journal	Articles	Journal	Articles	Journal	Articles
International Tax and Public Finance	18	National Tax Journal	4	Journal of World Business	2
Journal of Public Economics	11	European Economic Review	4	Journal of International Trade & Economic Development	2
World Economy	5	Post-Communist Economies	3	International Review of Economics & Finance	2
Journal of International Business Studies	5	Journal of Policy Modeling	3	Fiscal Studies	2
International Business Review	5	Journal of International Economics	3	Emerging Markets Finance and Trade	2
FinanzArchiv: Public Finance Analysis	5	Economic Modelling	3	Economist - Netherlands	2
Canadian Journal of Economics	5	China & World Economy	3	Economics of Transition	2
Applied Economics	5	Scandinavian Journal of Economics	2	Contemporary Economic Policy	2
World Development	4	Regional Science and Urban Economics	2	74 Other Journals	1

4.5.2. Methods

Table 9 shows the type of study (case, quantitative or theory) and the methodology employed in the studies. Consistent with previous studies, quantitative methods are the most used, as they accounted for 66% of the total, followed by theory (26%) and case (8%) methods. In accordance with these findings, 57% of the articles employed regressions in their researches, while 17% proposed their models through theoretical economics discussions.

Table 9. Methods applied by direction and type of incentive

Type of Method	All	Inward FDI							Outward FDI							Both						
	Total	Constrain	Grant/Loan	Incentives	Promotion	Regulatory	Tax	Total	Constrain	Grant/Loan	Incentives	Promotion	Regulatory	Tax	Total	Constrain	Grant/Loan	Incentives	Promotion	Regulatory	Tax	Total
Case	15	0	0	3	2	3	1	9	0	1	2	2	0	1	6	0	0	0	0	0	0	0
Quantitative	119	2	2	9	13	16	34	76	2	0	13	1	9	11	36	0	0	0	1	5	1	7
Theory	46	5	1	4	1	8	18	37	2	1	3	0	0	1	7	0	0	1	0	1	0	2
Descriptive	19	0	1	3	3	4	1	12	1	2	2	1	0	0	6	0	0	1	0	0	0	1
Literature Review	8	1	0	1	0	0	3	5	0	0	2	0	0	1	3	0	0	0	0	0	0	0
Model Proposition	31	4	0	2	0	7	15	28	1	0	0	0	0	1	2	0	0	0	0	1	0	1
Other Methods	19	0	1	1	4	2	4	12	0	0	4	1	1	0	6	0	0	0	1	0	0	1
Regression	103	2	1	9	9	14	30	65	2	0	10	1	8	11	32	0	0	0	0	5	1	6

Moreover, tax studies relied more in regression models and on theoretical model propositions, while other types of incentives proportionally applied other methods more. Nevertheless, our opinion is that we still lack qualitative discussions concerning incentives. Hence, agreeing with Bettis (2012), we believe that quantitative studies may suffer from the misuse of statistical modeling. Thus, more qualitative researches are needed to back up the quantitative findings and also to look into more specific situations and incentives in a comparative manner across countries, sectors, and firms.

4.5.3. Data

Most of the data used in the studies are country-level (94), followed by firm-level (61), regional-level (16) and industrial-level (9). In terms of direction, while firm-level studies are more balanced – 31 inward against 29 outward FDI –, country-level studies tend to focus on the attraction of FDI (70) leaving room for more studies concerning outward FDI (16).

The distribution of articles by countries or region is found in Table 10.

Table 10. Number of articles per country/region by direction and type of incentive

	China			Developed Countries			Emerging Countries		
	Inward	Outward	Both	Inward	Outward	Both	Inward	Outward	Both
Constrain	0	0	0	0	2	0	2	0	0
Grant/Loan	0	1	0	2	0	0	1	0	0
Incentives	2	12	0	2	3	0	5	2	0
Promotion	3	0	0	1	1	0	5	0	0
Regulatory	4	3	0	3	0	1	5	0	0
Tax	4	0	0	4	3	0	9	1	0
Total	13	16	0	12	9	1	27	3	0
Total per Country/Region	29			22			30		

	NAs			OECD			Others		
	Inward	Outward	Both	Inward	Outward	Both	Inward	Outward	Both
Constrain	4	1	0	0	0	0	0	0	0
Grant/Loan	0	0	0	0	0	0	0	1	0
Incentives	4	0	0	0	0	0	1	1	0
Promotion	0	0	1	1	0	0	1	1	0
Regulatory	7	0	1	0	2	0	3	0	0
Tax	16	1	0	2	1	0	0	0	0
Total	31	2	2	3	3	0	5	3	0
Total per Country/Region	35			6			8		

	EU			Germany			U.S.		
	Inward	Outward	Both	Inward	Outward	Both	Inward	Outward	Both
Constrain	0	0	0	0	0	0	0	1	0
Grant/Loan	0	0	0	0	0	0	0	0	0
Incentives	0	0	1	0	0	0	2	0	0
Promotion	0	1	0	0	0	0	4	0	0
Regulatory	1	2	0	0	0	1	2	1	1
Tax	3	1	0	6	0	2	7	4	1
Total	4	4	1	6	0	3	15	6	2
Total per Country/Region	9			9			23		

	Various Countries		
	Inward	Outward	Both
Constrain	1	0	0
Grant/Loan	0	0	0
Incentives	0	0	0
Promotion	1	0	0
Regulatory	2	0	3
Tax	2	0	0
Total	6	0	3
Total per Country/Region	9		

Note: “China” category encompasses studies in which China is the only country studied. However, the “emerging countries” involves groups of countries (which may include China) or countries other than China.

Looking at Table 10, we can notice that China (29) and the U.S. (23) are the most studied countries. This is explained by the fact that they are chosen as a representative of emerging and developed countries. Thus, the number of studies using them as the object is expected.

The Developed countries group accounts for single or multiple developed countries studies other than UE, Germany, OECD, and the U.S. When we take into consideration these 5 countries/groups, we notice that the production of articles is more evenly distributed across the period 1995-2018. Moreover, quantitative articles respond to about 90% of the studies, while when we look at the group ‘emerging countries plus China’, this percentage falls to 73%. This indicates that studies concerning the latter group tend to rely on different methods.

When it comes to publications in IB journals, we can observe the preponderance of emerging countries studies, mainly China. From a universe of 18 studies, only 3 are not from emerging countries – 2 from the U.S. and 1 from Canada – and all are from the Journal of International Business Studies. Additionally, the publication period of these 3 studies is 1995, 1999 and 2000. From 2005, the IB studies focused solely on emerging countries: Nigeria (1 - Thunderbird International Business Review); Korea (2 – International Business Review); and China (11 – China & World Economy (2); International Business Review (3); Journal of International Business Studies (2); Journal of World Business (2); Management International Review (1); Review of International Business and Strategy (1)). The remaining article is a study involving China, Japan, and Korea from 2014 in the China & World Economy.

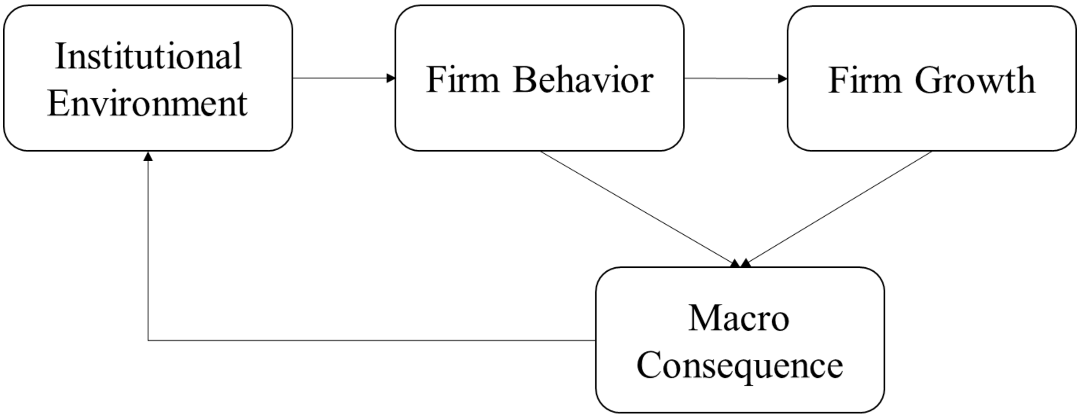
Lastly, we clarify the “NAs”, “others”, and “various countries” groups. The first one was applied to studies that proposed their model based on an imaginary country. As the “others” group, it encompasses two or more countries that combined one or more developed countries with one or more emerging countries. Finally, the “various countries” group includes articles that studied lots of countries combining both emerging and developed countries.

4.6. ORGANIZING THE LITERATURE

We organize the literature based on the results of our systematic literature review, which pointed us four main themes. These themes are a consequence of the relationship between the objectives and findings of the studies analyzed here. The first theme relates to how policies and incentives may change the institutional environment of a country in order to encourage the internationalization of a firm. The second theme is about how incentives and policies impact on firm behavior, meaning the firm international movement and their specific advantages. The remaining two themes respond for the impact of policies and incentives in the firm-level (performance, productivity) and on the macro-level (investment and employment level, for example).

The relationships between the themes are illustrated in Figure 9. There we can notice that the institutional environment (government incentives) modifies the firm behavior and its propensity to internationalize (entry mode, location choice). Hence, this international movement made by the firm translates into firm growth that influences both the home- and host-country macro-environment by changing the level of FDI and employment, for example. Lastly, these macro-consequences affect the institutional environment of the home or host country.

Figure 9. Relationships between objectives and findings



Institutional environment. The institutional environment in which a firm is embedded affects the strategic choices made by the firm. Dunning and Lundan (2008) discussed how home- and host-country institutions can be translated into location advantages for a given firm. Thus, the formulation of incentive policies to encourage FDI in any direction is one of the possibilities to build more country-specific advantages that impact the investment level. Additionally, the incentives given by the government may change the market equilibrium in favor of the country (Barros, 1994), as they alter the institutional environment in which the firm is embedded.

Furthermore, Wentzel and Steyn (2014), while studying Malaysia, Singapore and South Africa, observed that incentives are to be used only as a short-term intervention to compensate for other investment obstacles and to encourage specific types of FDI. Moreover, these incentives should be proportional to the MNEs performance (Lim, 2005), and in order to be effective they depend on political and social stability to minimize investors' risks; policy coherence and consistency; successful policy implementation (Yue, 2006).

Nevertheless, several scholars concluded that the attraction of investment is more impacted by market size and infrastructure than by incentives (Dorozynski et al., 2017; Hansson & Olofsdotter, 2013; Haufler & Wooton, 1999; Loree & Guisinger, 1995; Sanjo, 2012). Apart from that, Motta and Norman (1996) built a theoretical model that showed that countries with large territories suffer from FDI dispersion.

When it comes to discouraging investments, countries may opt for a series of tools to format the institutional environment. In the case of sub-Sahara Africa, Ayentimi, Burgess, and Brown (2016), for example, suggested that the region could benefit more of the local content policy through the concept of linkage development. However, what seems to impact more on the effectiveness of incentives and discourage firms is bureaucracy. This is mainly the case of emerging and developing countries that impose a vast array of control and regulations over the operations of firms. Thus, the construction of an efficient legal system, consistent and simple tax laws help improve the possibility of investment (K. Edmiston, Mudd, & Valev, 2003; Ng & Tuan, 2001; Van Parys & James, 2010; Zee, Stotsky, & Ley, 2002). Given this situation, Goodspeed, *et al*. (2011) found that taxation only matters to firms operating in developed countries, and Neumayer (2007) concluded that DTTs from the U.S. are not effective with less developing countries.

Moreover, Rugraff (2008) compared the incentives program from Thailand, Korea, and China with Ireland, and concluded that the intervention in the industrial structure is more efficient than the "no intervention" policy. This situation would spare the government encouragement to the "wrong" firms, which could reduce FDI (K. D. Edmiston, Mudd, & Valev, 2004).

Thus, governments are responsible for building an effective institutional environment to attract firms. In order to compensate for flaws, governments can offer some incentives for the firms to compete internationally and also to shape the environment to best suit the investments that they intend to encourage. The problem here is that when the environment reaches its equilibrium policy-makers have to discontinue the incentive programs. In addition, policy-makers also have to select best the investments that would suit better the development program intend by the government and the desired spillovers in order to draw the policies accordingly.

*Firm behavior***.** Governments make use of incentives to influence firm behavior. This behavior can be translated into the internationalization of the firm, location choice, entry mode or even to act as a firm advantage over competitors. Thus, governments draw policies to encourage the international movements of firms and to encourage them to go to a specific location.

Governments can lure firms to a given region by providing incentives with the intent to create a specialized cluster or to provide sparks of development in the region. Regions that are designed for incentives are more attractive to FDI than the others within the same country (Wren & Jones, 2011; Zhang, 2001). In this case, grants have a significant impact on the location of large FDI projects (Wren, 2005).

Additionally, the encouragement of FDI to the country can lead to a series of benefits to either the home- or the host country. Aiming to achieve these benefits, Governments use incentives to induce the firm to locate its subsidiary in their territory. Several scholars highlighted the role played by taxes in that movement, mainly that low taxes increase the odds for a firm to enter the country (Bellak & Leibrecht, 2009; Buettner & Ruf, 2007; Grubert & Mutti, 2000; Guadalupe Lugo-Sanchez, 2018; Marques & Pinho, 2014; Merz, Overesch, & Wamser, 2017). Although, these studies also concluded that apart from the significant effects of taxes, other factors contributed to the international movements, such as production costs, agglomeration economies and market size. Moreover, Grubert and Mutti (2000), while studying the U.S. affiliates abroad, posit that the power of low taxes are weakened by trade restriction, and Azemar (2010) added that this power is also influenced by an enforced transfer pricing regulation.

Scholars also highlighted the role of home-government support. These incentives reduce prior experience abroad when institutions are in place (Lu, Liu, Wright, & Filatotchev, 2014). In what concerns to emerging markets MNEs, incentives can compensate for competitive disadvantages and management deficiencies (Y. Luo et al., 2010). When investing abroad, firms have also to deal with where to report the taxable profit and where to reinvest or repatriate the earnings (Azemar, 2010). In this regard, Swenson (1994) found that the home-country tax provisions shape the investor's movements in the U.S., and Barrios, *et al*. (2012) found the same result while studying 33 European countries. Moreover, Wijeweera, Dollery, and Clark (2007) said that taxes have more influence over investors from countries that rely on exemption methods than those that apply credit methods.

As taxes influence firm behavior, Governments also seek to model its behavior by signing tax treaties. These treaties affect the level of FDI positively, as they impacted the number of subsidiaries in Europe (Marques & Pinho, 2014) and also the international movement of Japanese firms in developing countries (Azemar et al., 2007). In opposition, Davies, Norback, and Tekin-Koru (2009) found that tax treaties have no significant impact on the level of FDI, but they increased the possibility of investments in Sweden. This is because tax treaties help the tax-related environment to be perceived as more stable and transparent, enabling the international movements of firms. The same reasoning can be applied to investment treaties (Egger & Merlo, 2012). Concerning trade agreements, the difference is that even firms from non-member countries have an incentive to invest in the region (Yildiz, 2013), given both the transparency and stability provided by institutional environment and the market-size created by the agreement.

The differences among institutional environments are one of the major issues for the foreign firm. To tackle these problems, countries create IPAs to change the firm behavior towards the risks of different institutional environments. Scholars found that IPAs attract and encourage FDI abroad mainly due to the sense of security given to the firm, which is boosted when the IPA has a presence in both countries involved (Dominguez, 2018; Hayakawa et al., 2014; Ni, 2016). Although Dominguez (2018) while studying the French IPA found that risk-averse firms seek informational and operational support, while risk-seeking firms look up for operational and financial support. Nevertheless, the application costs and expected benefits from the relation with the IPA affect the outcome of the support (Bannò & Sgobbi, 2010).

Therefore, the literature on the relationship between incentives and firm behavior focused on how the types of incentives affect the location choice of firms and their risk perception. Moreover, scholars also highlight the importance of other factors on the international movement of firms at the same time that incentives help the governments to direct the investments and improve the agglomeration process.

Firm growth. After firms decide on the internationalization of its activities and the location and entry mode of this movement, incentives also impact on how these firms perform. Grants and loans reduce the initial capital needed to start the project, while tax benefits reduce the costs of operation. Moreover, the presence of IPAs and regulations help with the day-to-day operation and reduce transaction costs.

Few studies contemplated this perspective. Burger, *et al*. (2012) found an above-average performance from grant receivers that invested in Slovenia, and Banno, Piscitello, and Varum (2011) found that the financial incentives given by the Italian government to national firms influenced firm growth in comparison with non-incentivized firms. The same authors in a subsequent study concluded that Italian incentives for the internationalization of national firms impacted the productivity growth and that these results were more significant in smaller firms (Bannò, Piscitello, & Varum, 2014).

Tax policies also impact on firm growth. Taxes reduce the cost of operation, and a simplified and transparent code of laws minimize transaction costs. The Chinese ascension to WTO, for example, increased firms productivity and draw FDI into strategic industries augmenting the vertical spillovers due to tariff reductions associated with this movement (L. Du, Harrison, & Jefferson, 2014). Additionally, Becker, *et al*. (2012) concluded that high taxes impact the number of MNEs jobs and fixed assets in Germany negatively.

The existence of non-financial incentives affects some measures of firm growth as they impact on the operation of firms and in the perceived risk of the operation. Treaties and agreements are some examples of regulatory measures that enable the firms to internationalize. These measures affect the institutional environment of a country which impacts on the firm growth. While studying Germany, Egger and Merlo (2011) concluded that DTTs had a positive effect on the extensive margin of investments, for example. Moreover, Han, *et al*. (2018) found that the performance of Chinese subsidiaries is more related to non-financial policy support. Thus, instead of focusing solely on financial incentives, firms have to build capacities to deal with non-financial incentives from the government, especially on how to gain the necessary support, being informational or operative.

Macro consequences. The construction of a good institutional environment by the government foment the desired behavior of a firm, be they to attract the firm or to encourage it to go abroad. This internationalization movement provokes consequences to the country, and some of those are related to the incentives given. In this regard, policy-makers should not resort only to incentive policies, since they are not sufficient to generate growth. Reduced bureaucracy, ownership limit removal, IPA creation and deregulation of the labor market, for example, exert a positive effect over FDI (Alguacil, Cuadros, & Orts, 2011; Azemar & Desbordes, 2010; Emudainohwo et al., 2018). Nevertheless, the level of outward FDI will be higher given a home country support. This is especially true when considering China (A. S. Gaur, Ma, & Ding, 2018; Park & Xiao, 2017; C. Wang, Hong, Kafouros, & Boateng, 2012). In consequence, the level of domestic investments will also be higher (You & Solomon, 2015).

BITs have a preponderant role in augmenting the level of outward FDI (Cardamone & Scoppola, 2015a, 2015b) since it protects investments and gives a sense of security to investors. The same understanding is applied to free trade agreements, as it raises FDI (Busse et al., 2010; Cook & Wilson, 2013; Crotti et al., 2010; Murthy & Bhasin, 2015; Raff, 2004; C. Sun & Shao, 2017), which is related to the “age of treaty effect” (Murthy & Bhasin, 2015). Some scholars posit that FTAs can also counterbalance poor institutions (Busse et al., 2010). In opposition, Reed, Lira, Lee, and Lee (2016) when studying OECD countries said that FDI is negative or not affected by FTAs, as they promote domestic production and trade.

Macro consequences are also observed when looking at special economic zones (SEZs). Apart from raising the level of inward FDI, there is evidence that they raise the level of employment and infrastructure, and are an important source of agglomeration and technological spillover in China (Wu & Burge, 2018), Czech Republic (Damborsky et al., 2013) and Poland (Pastusiak, Bolek, Jasiniak, & Keller, 2018).

Moreover, the level of FDI is influenced by the tax policy of a country. Although this policy is a significant factor to attract FDI (Abdioglu et al., 2016; Benassy-Quere et al., 2005; Desai, Foley, & Hines, 2004; Ginevicius & Simelyte, 2011), it also affects corporate borrowing, transfer pricing, dividend and royalty payments, and R&D performance (Hines Jr., 1999) and tax revenue (J. Becker & Fuest, 2010). In the case of outward FDI, “foreign governments capture some of the pre-tax economic rent associated with the home country’s outbound foreign direct investment, and so outbound investment provides a smaller benefit to the home country" (DEVEREUX, HUBBARD, 2003, p. 484). In the case of taxes, it is important to highlight that policy competition do not change the attractiveness of a country or the regional welfare (Zhai, 2014). However, tax harmonization may lower welfare in comparison to tax competition (Davies, Egger, & Egger, 2010). Thus competition might be preferable than tax subsidies as a policy tool to FDI attraction (Amerighi & De Feo, 2014). In this regard, Adams, Regibeau, and Rockett (2014) built a theoretical model in which they show that, in the one hand, when policies are decentralized to regions, higher tariffs would increase the subsidies offered in order to compete for investments. On the other hand, in the case of Government centralization, by setting a low tariff the State would avoid undesirable subsidies. Thus, when discussing tax governments should take into consideration not only the level of FDI in the country, but they should have in mind the competition among regions.

In order to get the best results from the incentives program, the governments have to be with the institutions in place and pursue the best practices among incentives, observing their results and inducing the desired FDI projects. One big problem noticed by the literature is the dispersion and overlapping responsibilities among policies and agencies. Thus, development policies should be aligned with the structures at the disposal of policy-makers. In this regard, the results intended by the government will modify the institutional environment in which the firm is embedded given rise to a new policy cycle.

4.7. INCENTIVE POLICIES: FUTURE STUDIES

We believe that the division of the literature in incentive categories and that by pointing incentives main impacts, we have a good picture of how this theme is evolving. Based on that, here we will make a few suggestions on how to improve our knowledge about it.

First and foremost, the policies theme need more qualitative studies. Apart from the statistical misuses (Bettis, 2012), scholars should understand the peculiarities of countries or group of countries to propose a more comprehensive model. Moreover, numbers may mask some crucial characteristics of policies, incentives or countries, which should appear in qualitative studies. The results can lead to important factors that could be an object of comparison between groups of counties in order to understand the impact in different realities.

Second, the number of studies per type of incentives is another problem to tackle. Studies concerning taxes are predominant in the literature. Therefore, we call for more studies to understand the role of grants and loans, which is the most understudied incentive. It is imperative to understand how grants and loans work to direct the right type of FDI to the desired region and also to learn how these types of incentives work together with the others. Additionally, one should focus on reexamining the role of IPAs after the pioneer work about them written by Morisset and Andrews-Johnson (2003). This is important because many IPAs started to accumulate the function of promoting outward FDI or the country created an agency to deal only with this modality. About regulations, scholars should take a look into how a country-member in political or economic crisis interfere on the level of FDI in the other signatory countries. Lastly, given this protectionist wave of the post-2009 crisis, it is imperative to observe how constraint measures impact not only the level of FDI, by also agglomeration effects and the level of employment.

Third, the country selected also demand our attention. Studies concerning China or the U.S, are still the majority. The first one has been an object of study mostly in the past decade, while the latter was more studied at the end of the 1990s, beginning of the 2000s. Apart from that, several other countries remain with no specific publication about them, especially when it comes to understanding outward FDI policies. This type of policy is still understudied; the few that we manage to find are exclusive to the Chinese environment. Therefore, we should look into different realities before making statements generalizing incentive policies.

After looking at these general issues in the policies literature, we will present some insights on how to improve our understanding about the main incentive impacts: institutional environment, firm behavior, firm growth, and macro consequences. Concerning the institutional environment, we need to understand how they work in different realities, as factors of interest work different across countries. Also, it is essential to draw studies on how policies are constructed in different countries as this might also impact the final result. Looking into how firms help build the institutional environment would also be good since powerful sectors have a considerable influence over policy-makers in order to get the desired benefits.

Regarding firm behavior, we noticed that we still lack the understanding of how firms behave in the presence of incentives. Studies concerning strategy changing and how firms build capacity to improve their position in the face of incentives are also welcome. Understand this would help policy-makers tailor best incentives and direct to a given region the desired type of FDI. Still concerning firms, it is imperative to look into what makes a firm with incentives more efficient than a no-incentivized firm. About that, firm growth should be understood as a direct impact of the institutional environment provided by the governments and how this works should be investigated from the incentive policies point of view.

We have a vast literature on the macro consequences of FDI for the host country and a bit less for the home country. Still, we need to deepen our knowledge on how incentives impact what we already have on it. Processes like spillovers and agglomeration effects are a good starting-point, mainly because employment and technological gains are the most common goals of incentives. Therefore, the field of internationalization policies has a lot to grow, be exploring new countries and new policies or be reexamining old ones.

4.8. CONCLUSIONS

The literature on FDI policies is still generic, as the majority of studies does not tackle relevant themes profoundly. Most of the works have been prescriptions of the World Bank or UNCTAD, leaving space for the academic literature. Because of that we intent on showing how this field is structured. For that, we divided the academic literature between inward and outward and based on types of incentive (grant/loan, information provision, regulatory and tax). Moving further, we divided the literature into five main groups built on the objective of the article, as they tend to explore either the institutional environment of a country, the impact on firm behavior and firm growth or the macro consequences of the incentive for the referred country.

Our literature review showed to us that we have a lot to investigate in the incentive policies field. Studies considering different countries, the relationship between government and firms, reexamination of the impact of incentives in both counties and firms, and the adoption of new methodologies are examples of suggested future studies. Moreover, by looking into the literature, we made possible different understandings about the impact of incentives either in the institutional environment or in the firms. We also highlighted the consequences responsible for the growth of the country, as this step closes the “incentive study cycle” since it affects how the country constructs the institutional environment.

Unfortunately, our study is limited by the articles found using our queries in the Web of Science and also by our selection. Nevertheless, as all literature reviews, there is a subjective element related to our judgement about which articles will or will not comprise our sample. However, the methodology employed here sought to minimize this bias.

5. ESSAY 4. THE IMPACT OF INCENTIVES ON FOREIGN DIRECT INVESTMENTS

5.1. INTRODUCTION

The surge in antiglobalism rhetoric around the globe is being followed by a rise in the introduction of protectionist measures by the countries. A joint report by the OECD, WTO and UNCTAD (2019) stated that, from mid-October 2018 to mid-May 2019, import-restrictive measures during the period was estimated at USD 335.9 billion, which is the second highest on record, only behind the previous period. This is the translation of new restrictive measures on trade and investment enacted by the governments. Nevertheless, the report calls for an ease on tensions to improve the investment and trade environment.

In order to attract FDI and the associated benefits, many countries have been implementing incentive policies to target foreign multinationals (MNEs). Several scholars have addressed these incentives as determinants of inward FDI location. Concerning grants, Wren (2005) and Wren and Jones (2011) found that grants impact positively on the attraction of FDI in the U.K. About taxes, Barthel, Busse, and Neumayer (2009) concluded that taxation treaties are positively related to inward FDI and Buettner and Ruf (2007); Azemar and Desbordes (2010) and Guadalupe Lugo-Sanchez (2018) found positive impacts of tax incentives in the U.S., Germany, and Mexico respectively.

However, the literature is not clear about the effectiveness of incentives when it comes to choosing the investment location. Morisset and Pirnia (2000), when doing a literature review, found that tax incentives are not significant to attract investments. Moreover, the Global Investment Competitiveness Survey (World Bank, 2018) found that investors do not find incentives relevant when they look for a location to invest, as incentives were ranked fourth out of six investment climate characteristics. Consequently, several scholars are asking for more studies concerning FDI policies (Buckley et al., 2010; Golub, 2009; Götz, 2016; World Bank, 2015), since unlike international trade, policies towards FDI does not have many studies aiming to quantify them.

Hence, we study the influence of FDI incentives in attracting FDI. We propose that the effectiveness of incentives in attracting foreign investment depends on the institutional conditions of the host country. Both financial and fiscal incentives seem to attract foreign investment, but their significance is related to the quality of institutions in each country. Thus, the objective of this study is to understand the influence of incentives concerning different institutions. For that, we borrowed from Meyer, *et al*. (2009) the nomenclature of strong and weak institutions. The first one encompasses the institutions that support an effective market mechanism, while the latter, weak institutions, fail to support market mechanisms.

We test these ideas with a study of incentives in 106 countries in 2010-2017. The results support the notion that strong institutions pay off as countries with strong institutions need fewer incentives to attract greenfield projects. The explanation here is that countries with strong institutions make use of incentives to compete among countries with similar institutional environments. Moreover, the results point to the fact that each type of incentive is more effective in the presence of appropriate institutions. In other words, countries that possess strong institutions can spend less money on incentives when focusing on the financing type, while countries with weak institutions gave up future earnings as they rely mostly on tax incentives.

This study contributes to the literature in two ways. First, by using announced data on incentives and greenfield investments, we will be able to provide a better understanding of the impacts caused by these incentives on the level of greenfield investments. This means that by looking into solely greenfield investments instead of all types of FDI, our data better translates the reality since governments commonly use incentives to attract greenfield. Moreover, we rely on the incentives announced by a panel of countries, which will allow us to generalize our result, unlike most previous studies that studied single or few cases. Thus, we contribute by giving a more fine-tuned indicative of how incentives work on the attraction of FDI.

Secondly, as firms usually prefer strong pro-market institutions rather than weak ones, we look to the institution-based view by the side of the country to discuss the argument that incentives may compensate for weak institutions. We add to the literature the thought that institutions matter when choosing incentives, but they do not substitute for strong institutions, which deepens the importance of institutions to FDI studies. Hence, strong institutions and good investment climate matter for the firms independently of the incentives offered. This is because incentives only matter when countries with similar institutions are competing for FDI, or in regions within the same country.

5.2. THEORETICAL REVIEW

The growing importance of multinational firms (MNEs) in world production and technology diffusion and the changes in the institutional environment across countries have heightened the interest on the impact of FDI on both home and host countries. The last decades saw a significant increase in the global inward FDI stock, which accounted for around US$ 7 trillion in 2000 to more than US$ 30 trillion in 2017 (UNCTAD, 2019). This was a consequence of liberalization measures adopted by developing countries following the OECD code and the Washington Consensus during the late 1980s (J. Williamson, 2008). These measures accounted for liberal policy prescriptions that had to be adopted by those countries during the 1980s post-crisis, as they were a counterpart of the loan deals taken through the World Bank and the IMF. The Washington Consensus recommended structural reforms that increased the role of market forces, such as free-floating exchange rates and free trade, that raised the FDI level. For example, developing countries from Latin America and Eastern Europe began several privatization processes, which attracted FDI from developed countries.

The attraction of FDI can encompass many benefits to the country, such as productivity gains, technology transfers, new processes, improved managerial skills, employee training, better inputs, and access to international production networks (Alfaro, 2017). Moreover, governments reduced barriers to inward FDI at the same time as they offered incentives to attract MNEs so that they could absorb the advantages brought by foreign firms. However, some scholars proposed that inward FDI could be bad for the country. Pinto and Zhu (2016), for example, found that, especially in less developed countries inward FDI can increase market concentration, resulting in higher rents, thus raising corruption since officials can demand something in return. Bannerman (2007) found evidence that inward FDI in natural resources increases income inequality and poverty.

Governments can influence the strategy of a firm through a variety of mechanisms. Murtha and Lenway (2007) posit that through their industrial policies, governments can affect firms by making them change their strategies and structures, in order to increase or constrain its international movements. In the same direction, Lodge (1990) and North (1990) explained how the political environment of a country could influence the firm’s strategy and performance. Bergara, Henisz, and Spiller (1998), for example, talked about the formal rules necessary to reduce uncertainty in a business operation, while Dawson (1998) discussed how the excess of market intervention could affect the economic performance negatively.

In contrast to these studies that discuss the general role that the government plays in establishing the institutional framework, we focus on a much narrower role that governments play in influencing inward FDI through FDI-specific policies. In this regard, governments apply a variety of mechanisms to attract FDI: a) loans and grants to finance the operation; b) fiscal incentives to attract investments and to avoid re-locations by reducing costs; c) information provision to reduce institutional distance and to help the firm deal with local bureaucracy d) regulatory incentives, meaning the creation of free trade zones, provision of monopoly rights, lowering of environmental/labor regulations or the participation on investment or trade agreements (Tavares-Lehmann, 2016).

The OECD (2001) posit that both financial and fiscal incentives can be used for many reasons, but mainly to encourage economic activity or to allocate firms in a given region. Moreover, these incentives can be done to a) offer products/services that the market otherwise does not provide; b) offset market fluctuations; c) correct market failures, and d) enhance employment. Apart from that, developing countries rely more on fiscal incentives and technology transfer, while developed countries focus on providing financing incentives (de Mello, 1997; Moran, 1998). This is because developing countries cannot afford the cost of financing incentives. In this case, MNEs prefer financial incentives because it would reduce the amount of capital needed to start the operation, while fiscal incentives only would matter if the operation is successful (Blomström, 2002). In this study, we will only be taking into consideration financing and fiscal incentives for reasons that will be discussed in the methodology section.

Fiscal incentives. Fiscal incentives respond for tax holidays, tax allowance, exemptions from customs duties, or local indirect taxes, for example (Morisset & Pirnia, 2000). International tax rules impact MNEs activities such as location, income relocation, and profit repatriation (Hasegawa & Kiyota, 2017). Thus, fiscal incentives can influence inward FDI since high tax rates reduce after-tax returns. Hines Jr. (1999) affirms that the difference in tax rates can lead to more significant profits as higher taxes influence the profit sent to the matrix. On the other hand, Wells, Allen, Morisset, and Pirnia (2001), while studying Indonesia, found that the suspension of tax incentives had no impact on the attraction of FDI.

Moreover, several scholars agree that lower taxes attract – or higher taxes discourage – investments, which impacts on the firm location decision (Abdioglu et al., 2016; Barrios et al., 2012; S. O. Becker et al., 2012; Bellak & Leibrecht, 2009; Benassy-Quere et al., 2005; Buettner & Ruf, 2007; M P Devereux & Griffith, 1998; Hines Jr., 1996). However, there are findings that point to the direction that tax incentives may not work for developing countries or countries with weak institutions (Goodspeed et al., 2011; Kinda, 2018; Klemm & Van Parys, 2012; Van Parys & James, 2010) or that agglomeration exerts a more significant role in attracting FDI than the tax incentive itself (Guadalupe Lugo-Sanchez, 2018; Hansson & Olofsdotter, 2013). Thus, as there is not a homogeneous opinion about the impact of tax incentives, we propose our first hypothesis:

Hypothesis 1: Tax incentives have a positive impact on greenfield investments.

Financing incentives. MNEs need money in order to expand and invest abroad. Thus, financial incentives can take many forms, including the provision of grants, subsidies, loans, wage subsidies, and job training subsidies, the creation of new, targeted infrastructure, and support for expatriation costs (Tavares-Lehmann, 2016). The direct financing incentives (loans, grants) are preferred by the firms since financing the initial investment is not easy to obtain. They could be reimbursable or non-reimbursable, with market interests or below market interests.

In this respect, direct financial support is a valuable resource to help firms to overcome financial constraints (Y. Luo et al., 2010). Apart from providing capital, governments can also tailor the payback terms, such as payback time and interests, according to the firm's needs in order to encourage investment (Cohen & Yagil, 2007). This situation can offer better financial flexibility to the firm, which enables it to conceive an integrate its strategy to invest abroad (Han et al., 2018). Wren (2005) and Burger, *et al*. (2012) found a more significant impact on firms that received grants in the U.K. and Slovenia, respectively, as regions with grants are more attractive to investments (Wren & Jones, 2011). However, Crozet, Mayer, and Mucchielli (2004), and Devereux, Griffith, and Simpson (2007) found that the effect of grant incentives on the location choice is weak, and O' Sullivan (1993) concluded that the wage rate, instead of government grants, is the variable that explains the locational choice of foreign firms in Ireland. Based on these dissonant studies, we draw our second hypothesis:

Hypothesis 2: Financing incentives have a positive impact on greenfield investments.

Incentives are an integral part of the institutional environment of a country. Since scholars concluded that the location decision of MNEs depends on the interaction between the capability of the firm and the institutional environment of both home and host country (Alcácer, Dezső, & Zhao, 2013; Dunning, 1998; J.-F. Hennart, 2012; Y. Luo & Tung, 2007; Ramamurti, 2012), the quality of institutions is seen as a significant aspect since it facilitates transactions and reduces risk. According to North (1990), institutions are the rules of the game in a society, and it includes both formal (e.g., policies, property rights, contracts, laws) and informal aspects (e.g., conventions, norms, values, codes of conduct). Thus, these rules are humanly devised constraints that structure political, social, and economic relationships.

Nevertheless, institutions differ between countries. In this case, institutions vary because they are developed based on path-dependent processes in a country. Because of that, by the late 1990s and the 2000s, several scholars began to focus on understanding the institutional and relation assets for international business to occur (Peng et al., 2008), mainly because MNEs face different institutional factors and managing them is a crucial component of the performance of the firm (Hoffman, 1999; Xu & Shenkar, 2002). Thus, concerning institutional risk, firms would have problems in countries with less advanced regulatory, economic, political and social institutions (Arregle, Miller, Hitt, & Beamish, 2013; K. E. Meyer et al., 2009; Schwens, Eiche, & Kabst, 2011). Thus, the institutions of both home and host countries influence the MNE activity. The combination of all types of institutions in both countries affect the existing, and to be existent, ownership advantages of firms in different forms. Therefore, the incentive and constraint structures of countries are a critical factor in explaining the growth rates of FDI (Dunning & Lundan, 2008a).

In this scenario, governments must choose how they will design and combine incentives in order to get the best result when taking into consideration their institutional environment. Thus, the inward FDI incentives framework determines the business conditions for investors that plan to move to the country, as MNEs choose their location based on their advantage necessities. These necessities can be linked to resources, market, efficiency, and strategic assets (Dunning & Lundan, 2008b), which are called market-oriented variables (Dumludag, Saridogan, & Kurt, 2007). Apart from these market-oriented motives, Dumludag, *et al.* (2007) highlight the institutional variables as the other variables affecting inward FDI, for example, the protection of civil and property rights, corruption levels, enforcement mechanisms, macroeconomic and political stability when entering a new location. Moreover, they affirm that if these variables do not exist in the location, the investors will face a higher cost when doing business. Thus, weak institutions and unfavorable policies increase the costs for investors, while strong institutions reduce risks (K. E. Meyer et al., 2009). This is because the majority of MNEs prefer to enter more socially, politically, and economically stable institutional markets using wholly-owned firms (Brouthers, 2002).

In this direction, different countries, and thus, institutional environments, need different types of incentives. Moran (1998) affirms that locational incentives proposed by developed countries have little impact on investment decisions, while for developing countries, the impact is more significant. This is because developing countries fail to provide a range of institutions that could facilitate the functioning of markets (Khanna & Palepu, 2010). Hence, since developing countries lack strong institutions, incentives may present a kind of substitution effect. Thus, it would reduce the perceived risk by MNEs and attract more FDI. From here, our third hypothesis is drawn:

Hypothesis 3: Countries with strong institutions require fewer incentives to attract greenfield investments.

This article intends to test these hypotheses in order to understand the role played by inward FDI incentives on greenfield attraction. The answers will help the understanding of the impact of incentives in compensating for market failures and distortions on the host country's investment climate.

5.3. METHODOLOGY

5.3.1. The model

To verify our three hypotheses, we modeled the issue in Equation 1. This model was designed to account for the incentives given by the countries for inward FDI, and it was also based on the discussed motives for a firm to internationalize (natural resources, assets, market, and efficiency). Additionally, we combined the model with factors to control for economic conditions in each country.

$$Greenfield\ projects_{i,t} = \alpha_0 + \alpha_1\ tax\ deals_{i,t} + \alpha_2\ financing\ deals_{i,t} + \alpha_3\ institutions_{i,t} + \alpha_4\ GDP\ growth_{,t} + \alpha_5\ GDP\ per\ capita_{,t} + \alpha_6\ GCF/GDP_{i,t} + \alpha_7\ natural\ resources_{,t} + \alpha_8\ high\ technology_{,t} + \alpha_9\ trade\ openness_{,t} + \alpha_{10}\ inflation_{,t} + \alpha_{11}\ exchange\ rate_{i,t} + \varepsilon_{i,t} \quad (1)$$

$$\varepsilon_{i,t} = \eta_{i,t} + \nu_{i,t} \quad (2)$$

Concerning the Equation 1, greenfield projects represent the dependent variable with countries and time being denoted by i = country name and t = year (2010 to 2017) respectively. α denotes a column vector of i cross sections. Moreover, $\varepsilon_{i,t}$ responds for the disturbance term that consists of unobserved individual specific effects ($\eta_{i,t}$) and the remaining disturbances $\nu_{i,t}$, as shown in Eq. (2).

Given that the data comprises a panel of 106 countries through 8 years (2010-2017), the most indicated estimator is the generalized method of moments (GMM). This is because the GMM estimator is generally used to study samples with a short-time period and a relatively large cross-section. This approach was proposed by Arellano and Bover (1995) and Blundell and Bond (1998), and it enables us to consider the presence of unobserved country-specific effects as well as to deal with the problem of reverse causality or simultaneity. Thus, the GMM best suits our proposal because the unobserved industry-specific effects may be correlated with the regressors.

In order to deal with endogeneity problems and with the fixed country-specific effects, Arellano and Bond (1991) developed an estimator where the lagged dependent variable and the endogenous regressors can also be instrumented using its lagged levels. This is done by taking the first differences of Eq. (1), which eliminates the individual specific effects, as shown in Eq. (3)

$$Greenfield\ projects_{i,t} - greenfield\ projects_{i,t-1} = \alpha_0 + \alpha_1\ (tax\ deals_{i,t} - tax\ deals_{i,t-1}) + \alpha_2\ (financing\ deals_{i,t} - financing\ deals_{i,t-1}) + \alpha_3\ (institutions_{i,t} - institutions_{i,t-1}) + \alpha_4\ (GDP\ growth_{i,t} – GDP\ growth_{i,t-1}) + \alpha_5\ (GDP\ per\ capita_{i,t} - GDP\ per\ capita_{i,t-1}) + \alpha_6\ (GCF/GDP_{i,t} - GCF/GDP_{i,t-1}) + \alpha_7\ (natural\ resources_{i,t} - natural\ resources_{i,t-1}) + \alpha_8\ (high\ technology_{i,t} - high$$

$technology_{i,t-1}) + \alpha_9$ $(trade\ openness_{i,t} - trade\ openness_{i,t-1}) + \alpha_{10}$ $(inflation_{i,t} - inflation_{i,t-1}) + \alpha_{11}$ $(exchange\ rate_{i,t} - exchange\ rate_{i,t-1}) + \varepsilon_{i,t}$ *(3)*

A limitation of this method is that it does not eliminate first-order serial correlation in the residuals due to the weak exogenous control of endogeneity. Therefore, in this model, we applied a two-step GMM-Sys estimator to control for this weak instrument by using a system of two equations derived from the level equation. This means that the first equation included instruments in first differences, as the second used instruments in levels. Thus, this inclusion would allow the variables in first differences to be instruments to the ones in levels, increasing its efficiency, as the two-step GMM-Sys makes a covariance matrix robust to panel-specific autocorrelation and heteroskedasticity.

All the models also made use of the Sargan over-identification test. This is used to assess the validity of instruments as its null hypothesis is that the instruments are exogenous. Moreover, the models tested for second-order correlation (AR (2)), where the null hypothesis is that there is no serial correlation.

Following the same model, we also applied a static panel model. Most of linear and nonlinear least squares regression assume that the standard deviation of the error term is consistent across values of the predictor or explanatory variables. As this assumption does not hold, we applied a weighted least squares (WLS) regression. Moreover, this method is efficient for small databases (Carroll & Ruppert, 1988).

This method considers the behavior of the random errors in the model. In our case, the weights were given based on the error variances in each variable. Thus, WLS works by incorporating extra weights for each data points, giving more precision to the information associated to each observation (NIST/SEMATECH, 2012).

5.3.2. Sample and variables

We tested these hypotheses on a dataset of 106 countries in 2010-2017. Given that the data comprises incentives announced by the countries from 2010 onward, our analysis comprehends the period from 2010 to 2017. Moreover, due to missing data or lousy reporting of incentives by host countries, the analysis will be limited to 106 countries.

Our dependent variable greenfield projects were taken from the UNCTAD World Investment Report annex tables, and it consists of the number of greenfield projects announced by the host country. We chose greenfield projects because the database concerning incentives does not comprise any incentive related to M&As. Additionally, governments prefer to attract greenfield investments since they are expected to increase capital formation and productivity, while M&A does not (Kim, 2009). Moreover, governments rarely support M&As, such as the acquisition of Sabó in Germany to maintain jobs.

Our two independent variables are tax deals and financing deals, which were taken from the Incentives Monitor – WAVTEQ database that compiles announced incentives used by MNEs per destination country. Tax deals comprise the number of projects that received a tax incentive, and the financing deals are the number of projects that received those types of incentives. Moreover, we tested in our model the total deals variable, which is the sum of both tax and financing deals. We did that due to the high correlation between the two variables, still we split them given the contribution to our understanding about the impact of them. As in our dependent variable, we also used the number of projects. In this case, this was due to confidentiality reasons and given the difficulty to account for the amount of fiscal incentives in dollars.

All of our controlling variables were downloaded from the World Bank database. The variable institutions reflects the worldwide governance indicators. They are used to capture the institutional environment of a country, as it encompasses several institutional dimensions (Cantwell et al., 2010; Lu et al., 2014). In this case, we used the average rank between the seven indicators proposed by the bank (voice and accountability; political stability; government effectiveness; regulatory quality; rule of law; control of corruption). We did that because the rank has an equal length (0-100) among all the countries, as 100 being strong and 0 pointing into weak governance performance. Moreover, we needed to standardize the average institutional variable in order to reduce collinearity problems in the proposed model. By doing this, we split our data in countries with strong institutions (>0,00) and the ones with weak institutions (<0,00). Therefore, countries with strong institutions translate countries with higher governance indicators, and the ones with weak institutions correspond to countries with low governance indicators (Kaufmann, Kraay, & Mastruzzi, 2010).

In order to account for market seeking reasons, we used both GDP growth and GDP per capita as variables. The first one accounts for the growth perspective of a given country. This variable have been studied and it plays a significant role in shaping FDI attraction (Belloumi, 2014; Bilgili, Tülüce, & Doğan, 2012; Chan, Hou, Li, & Mountain, 2014). The GDP growth rates tends to be higher in developing countries due to the movement from low to medium income countries (Saini & Singhania, 2018). The latter was used to account for country development level (Azemar, 2010; Lu et al., 2014).

GFCF/GDP is gross fixed capital formation as percentage of GDP. This variable is higher in developing countries because of their low GDP compared to developed countries. Moreover, developing countries are investing more in infrastructure to attract FDI and to stimulate growth in the country. This variable, as it reflects the infrastructure investment, is a proxy for the efficiency seeking determinant (Kok & Acikgoz Ersoy, 2009; Pradhan & Kelkar, 2014; Saini & Singhania, 2018).

Considering the asset seeking determinants, we selected a proxy to natural resources and technology. The first one is the natural resources which is the total natural resources rents as a percentage of GDP to control for natural resource-seeking reasons (Anderson & Sutherland, 2015; C. Sun & Shao, 2017). In order to control for technology-seeking reasons, we applied the high Technology exports as percentage of manufactured exports index from the World Bank.

Trade openness was picked as a variable to account for a proxy of trade policy framework (Alam & Zulfiqar Ali Shah, 2013; Saini & Singhania, 2018; Singhania & Gupta, 2011). This variable consists in the sum of exports and imports as a percentage of GDP. Thus, it is expected that the more trade a country does, the more is the investment attracted (Singhania & Gupta, 2011).

As for inflation, we picked the consumer price index. It is used to capture the lack of monetary discipline of a given country, and it is usually negatively correlated with inward FDI (Bengoa & Sanchez-Robles, 2003; Wisniewski & Pathan, 2014). Lastly, the exchange rate, following Azemar (2010) and Azemar, Delios (2008), has two reasons to be included in the analysis. The first one is that currency depreciation could be in place to attract FDI as would be cheaper to invest. The second reason is that a weak currency could be a sign of instability in a developing country.

Table 11 summarizes the variables' descriptions and sources.

Table 11. Data description

Variable Name	Description	Source
Greenfield projects	Number of greenfield projects in the host country	UNCTAD World Investment Report: Annex Tables
Tax deals	Number of projects with tax incentives	Incentives Monitor WAVTEQ
Financing deals	Number of projects with loan and grant incentives	Incentives Monitor WAVTEQ
Total Deals	Sum of Tax Deals and Financing Deals	Incentives Monitor WAVTEQ
Institutions	Standardized average of the rank of the seven Worldwide governance indicators (voice and accountability; political stability; government effectiveness; regulatory quality; rule of law; control of corruption) per country	World Bank
GDP Growth		World Bank
GDP Per Capita	GDP per capita in US Dollars	World Bank
GFCF/GDP	Gross Fixed Capital Formation as percentage of GDP	World Bank
Natural Resources	Natural Resources rent as percentage of GDP	World Bank
High Technology	High Technology exports as percentage of manufactured exports	World Bank
Trade Openness	Total of trade as percentage of GDP	World Bank
Inflation	Consumer price index, 2010 = 100 end of period	World Bank
Exchange Rate	Exchange rate in average	World Bank

5.3.3 Limitations

Our study has X limitations. First, our dependent variable Greenfield Projects does not reflect the amount of money invested in the country. Nevertheless, we tried the same model using different measures that would translate our limitation: greenfield FDI and FDI/GDP. Both variables did not fit the model. Thus, we opted to use the number of projects, since the result would still give us a fairly notion about the incentive impacts.

Second, the small period of 8 years, due to the incentives data, limits the potential of this research, as the data is restrained to a post-crisis scenario, and also it does not allow for many economic cycles.

Moreover, there are incentives that we did not discussed in this study. Concerning regulatory incentives, we did not take bilateral treaties (BITs) and treaties with investment provisions (TIPs) into consideration because the timespan is small, and most countries already have signed most BITs and TIPs. Thus, the number of treaties would not change in the period we study. Additionally, it is a variable that makes more sense to account when looking at bilateral investments, which is not the case here. The second incentive that we do not account for is the information provision since almost all countries have already settled their investment promotion agency (IPA), and look at the IPA impact itself would demand an entire study.

Lastly, all the data we collected are announced by the governments, which may contain several transparency issues. Nevertheless, we selected it from known sources, as it is the ones that may be closer to reality.

5.4. RESULTS

Table 12 presents the means, standard deviations, and correlations of all variables employed in the empirical analysis. Although some coefficients are high, we controlled them by applying a two equations system in the GMM models, as mentioned before.

Table 12. Correlation matrix, mean and standard deviations

	Greenfield Projects	*Total Deals*	*Tax Deals*	*Financing Deals*	*Institutions*	*GDP Growth*	*GDP Per Capita*	*GCF/GDP*	*Natural Resources*	*High Technology*	*Trade Openness*	*Inflation*	*Exchange Rate*
Greenfield Projects	1	0.6427	0.5599	0.6789	0.2649	-0.0261	0.2748	0.0107	-0.1345	0.3109	-0.1314	-0.1113	-0.045
Total Deals		1	-	-	0.1492	-0.0687	0.1743	-0.0832	-0.0931	0.1318	-0.0897	-0.0467	-0.0326
Tax Deals			1	0.8572	0.0986	-0.0514	0.1204	-0.0571	-0.0828	0.1281	-0.054	-0.031	-0.0196
Financing Deals				1	0.1891	-0.081	0.2156	-0.1032	-0.0966	0.126	-0.119	-0.059	-0.0432
Institutions					1	-0.3282	0.7881	-0.2769	-0.3744	0.3612	0.2216	-0.3436	-0.2329
GDP Growth						1	-0.287	0.3202	0.1862	-0.0099	-0.0465	-0.0138	0.1401
GDP Per Capita							1	-0.2036	-0.1777	0.2963	0.0614	-0.2451	-0.1617
GFCF/GDP								1	0.1774	-0.0562	-0.0386	0.1277	0.173
Natural Resources									1	-0.1801	-0.0626	0.075	0.1211
High Technology										1	0.1074	-0.1574	0.0384
Trade Openness											1	-0.1398	0.0383
Inflation												1	0.2314
Exchange Rate													1
Mean	137.9	9.47	5.09	4.39	0	3.61	17,030	24.5	5.95	9.51	67.4	119.2	847.4
S.D.	264.2	48.5	25.2	25.1	1	3.06	20,336.00	7.25	8.55	9.62	35.4	32.87	3333

We employed GMM-Sys estimation for six models and WLS for six more. The pairs of models were divided between all countries, strong institutions and weak institutions. By doing this, we intend to understand the behavior changes among variables in different realities. Moreover, the dependent variable in odds' models is the total deals variable, while in the evens' models, we split between tax and financing deals. This would allow us to understand the impacts of each type of incentive.

Although the F-test for weak institutions models felt considerably, the coefficients and significance levels remained similar to the GMM-Sys models. Thus, our models kept stable for all the specifications in both GMM and WLS tests, as shown in Table 13.

Table 13. Regression estimation results

	GMM						**WLS**					
	All Countries		Strong Institutions		Weak Institutions		All Countries		Strong Institutions		Weak Institutions	
Countries	106		47		59		106		47		59	
Observations	742		329		413		742		329		413	
	Model 1	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**	**Model 7**	**Model 8**	**Model 9**	**Model 10**	**Model 11**	**Model 12**
Greenfield Projects	0.8506*** (0.0049)	0.8333*** (0.0049)	0.8736*** (0.0049)	0.8480*** (0.0040)	0.8343*** (0.0031)	0.8326*** (0.0029)	-	-	-	-	-	-
Constant	13.3485 (8.1819)	13.7163* (7.4759)	96.2829*** (14.9117)	64.9597*** (16.7033)	3.4423 (4.2451)	−0.1560 (4.2411)	51.2222*** (8.6854)	32.7992*** (8.5290)	233.057*** (34.7589)	172.8950*** (40.2147)	−1.3852*** (10.7600)	−13.4782*** (10.1241)
Total Deals	0.4333*** (0.0199)	-	0.3832*** (0.0099)	-	0.0473*** (0.0136)	-	3.2425*** -0.1345	-	3.1812*** -0.1478	-	1.6737*** -0.2896	-
Tax Deals	-	-0.1118 (0.0890)	-	-1.1022*** (0.0931)	-	0.0317*** (0.0119)	-	0.6943*** -0.1771	-	−0.5496 -0.7778	-	1.0646*** -0.2654
Financing Deals	-	1.2160*** (0.0836)	-	1.9494*** (0.0804)	-	0.3007** (0.1190)	-	5.5125*** -0.2891	-	6.8138*** -0.7314	-	4.7398*** -0.9625
Institutions	7.1904** (2.9409)	5.7618** (2.8185)	6.8309* (4.1361)	9.1998** (4.6418)	9.7575*** (1.8975)	6.1728*** (1.8846)	19.5307*** (2.6084)	15.6404*** (2.8272)	13.9620 (9.9070)	9.8656 (10.0343)	14.4355*** (4.7746)	12.1191*** (4.5029)
GDP Growth	1.1716*** (0.3365)	1.1212*** (0.3156)	1.2853*** (0.3921)	0.9813*** (0.3459)	1.8422*** -0.217	1.8568*** (0.2484)	1.6358*** -0.4588	1.1992** -0.4917	−0.9132 0.8871	−0.7819 -0.85	4.8412*** -0.7906	5.1818*** -0.7706
GDP Per Capita	0.0001 (0.0002)	0.0001 (0.0002)	-	-	-	-	0.0012*** -0.0001	0.0009*** -0.0002	0.0006** -0.0003	0.0006** -0.0002	0.0060*** -0.0006	0.0062*** -0.0006
GCF/GDP	-0.0329 (0.1352)	-0.1356 (0.1505)	-0.6176* (0.3583)	-0.5609 (0.3606)	0.3725*** (0.1418)	0.3331** (0.1432)	0.8389*** -0.2513	1.1901*** -0.258	−1.8092*** -0.497	−0.4679 -0.5584	1.7302*** -0.3087	1.9650*** -0.2982
Natural Resources	-0.0968 (0.1388)	-0.1013 (0.1452)	0.2286 (0.2448)	0.5570** (0.2406)	−0.2189* (0.1119)	−0.2556** (0.1166)	-0.1730 -0.1652	−0.2212 -0.1715	1.0477** -0.4685	0.5716 -0.4573	−1.3274*** -0.262	−1.3689*** -0.2583

High Technology	0.2622 (0.1976)	0.3358 (0.2157)	0.8051*** (0.2189)	1.0472*** (0.1816)	0.6450*** (0.0842)	0.7704*** (0.1198)	3.1161*** -0.295	3.5639*** -0.3194	4.1938*** -0.4984	4.6083*** -0.4585	2.004*** -0.4709	2.5444*** -0.4622
Trade Openness	-0.1153*** (0.0403)	-0.1011** (0.0399)	-0.2092*** (0.0344)	-0.1247*** (0.0482)	−0.0984*** (0.0270)	−0.1102*** (0.0246)	-0.6082*** -0.0476	−0.4145*** -0.049	−0.7261*** -0.0769	−0.2554*** -0.094	−0.6163*** -0.0781	−0.6131*** -0.0767
Inflation	-0.0145 (0.0441)	-0.0016 (0.0393)	-0.6087*** (0.0730)	-0.4272*** (0.0898)	−0.0012 (0.0187)	−0.0018 (0.0161)	-0.0896** -0.0349	−0.0667* -0.0368	−0.9500*** -0.2541	−1.0999*** -0.3556	−0.0473 -0.0525	−0.0482 -0.0544
Exchange Rate	0 -0.0003	0 -0.0003	-0.0217*** (0.0066)	-0.0144 (0.0096)	0.0001 (0.0001)	0.0001 (0.0001)	0.0018*** -0.0006	0.0016** -0.0006	−0.0692*** -0.0179	−0.0387* -0.0209	0.0035*** -0.0006	0.0035*** -0.0006
AR 1 (p-value)	0.0021	0.0024	0.0169	0.0126	0.054	0.0529	-	-	-	-	-	-
AR 2 (p-value)	0.5080	0.3789	0.5726	0.3005	0.6644	0.6604	-	-	-	-	-	-
Sargan Test	0.2023	0.3778	0.1372	0.0888	0.1574	0.2087	-	-	-	-	-	-
F-Test	-	-	-	-	-	-	155.6701	135.8506	111.2719	98.0512	47.6186	52.897
P-Value (F)	-	-	-	-	-	-	2.5e-183	1.3e-177	2.30e-104	1.20e-101	7.90e-65	1.37e-74
R-Squared	-	-	-	-	-	-	0.6503	0.6413	0.7530	0.7477	0.5081	0.5585
R-Squared Adjusted	-	-	-	-	-	-	0.6462	0.6365	0.7462	0.7400	0.4974	0.5479

Note: Standard errors in parentheses. * if $p < 0.1$, ** if $p < 0.05$, *** if $p < 0.01$.
GDP per capita was removed from models 3, 4, 5, and 6 dues to collinearity problems.

5.5 DISCUSSION

Our discussion is centered on our dependent and institutions variables, as it is the object of this study.

The total deals variables remain positive and significant across the six models. This shows us that incentives indeed influences the attraction of FDI. However, we can note that institutions have a greater impact over greenfield projects. This result is in line with several studies that found that the institutional environment of a country exerts higher influence over the intention of investment than a government specific policy (Banno et al., 2015; Emudainohwo et al., 2018; Kinda, 2018). Here, we can add to the literature the thought that strong institutions may give a sense of security concerning the continuation of a given fiscal incentive or the payment of a financing one.

When we split the total deals into tax and financing deals, we aimed to understand the specific effects of both. The results showed that tax incentives have a small and negative impact on greenfield FDI, although it is not significant. This could be explained because most countries relying on tax incentives are developing ones. These countries attract less FDI due to other reasons. Hence, they have fewer greenfield projects than developed countries, which do not rely on tax incentives. The exception here is the U.S., who makes extensive use of both types of incentives.

When looking at countries with strong or weak institutions, the effect of tax and financing incentives become clearer. In Model 4, comprising strong institutions, the tax deals coefficient (-1.1022) and the p-value become smaller. In other words, these deals have a significant negative impact on greenfield FDI for countries with strong institutions, but when we look at Model 10, apart from still being negative (-0.5496) it is not significant. Here is does not mean that tax incentives repel FDI, but that it is not important as institutions or financing incentives. This conclusion is draw from the fact that countries from the UE do not make extensive use of this tool, although they attract a considerable amount of FDI. This is because the use of tax incentives may cause a race to the bottom or a tax war between countries, thus this matter is regulated by the Commission.

Concerning Model 6 and 12, which comprises countries with weak institutions, the tax deals variable became positive (0.0317 and 1.0646) and remained significant. This shows that countries with weak institutions rely more on tax incentives, as they do not have enough money to spend on direct financing policies. This is noted by looking the financing deals variable. This variable is positive and significant across all the models, with a slightly coefficient decline when we compare strong and weak institutions countries. This conclusion aggregates to the fact that developing countries relies on tax instead of direct financing due to budgetary issues, while developed countries opt to use grants or loans instead of giving up on future earnings with tax incentives. Moreover, the direct financing incentives are the preferred by firms. Additionally, developed countries usually have lower corporate taxes or special taxes for R&D, which attract FDI with no need of tax incentives.

The remaining variables stayed stable across the models and they presented the expected behavior. The exception here is the trade openness variable. Although it is expected a positive relationship between FDI and trade openness, this is not the case here as it is negative across all the models. The literature tells us that this variable may moderate FDI as investments are impacted by trade. Nevertheless, some countries may depend on exports of primaries and the import of manufactures and technologies, which over small GDPs may be the cause of the negative signal. The recommendation here is to take a closer look at this variable in future studies.

Therefore, our results show that incentives are highly dependent on the institutional environment of the country. Tax incentives have a significant positive impact on inward FDI from countries with weak institutions, and financing incentives have a significant impact on FDI in counties with both strong and weak institutions. Thus, countries with weak institutions need to rely more on incentives to compete among themselves, while strong institutions play an important role that could surpass the effect of incentives. Still, countries with strong institutions need financing incentives to compete among themselves as well.

We then partly accept our Hypothesis 1 that tax incentives have a positive impact on greenfield projects. Hypothesis 1 only holds when taking into consideration countries with weak institutions, as tax incentives become positive and significant. This happens because countries with weak institutions usually do not have enough budget to rely solely on loan/grant incentives. Thus, they compete among themselves by relying on tax incentives.

Concerning Hypothesis 2, we accept that financing incentives produce a positive impact on greenfield FDI. In all models, this type of incentive has a significant positive impact on inward FDI. The variation among them can be explained by the institutional differences among countries, as the ones with strong institutions compete using financing incentives. Additionally, countries with weak institutions rely less on loan/grant deals for lack of budget. Hence, their impact is smaller in comparison with countries with strong institutions.

Our Hypothesis 3 that strong institutions require fewer incentives is partly accepted. On the one hand, when countries with strong institutions are taken into consideration, the effect of tax incentives became negative. Thus, strong institutions require fewer tax incentives. On the other hand, financing incentives have a greater impact when strong institutions are taken into consideration, as these types of incentives are used by countries to compete against other countries with strong institutions. As for weak institutions, the effect of tax deals grew, and the financing ones become smaller, mainly due to the countries' budget issues. In this case, financing incentives can slightly compensate for weak institutions and attract more FDI than tax incentives.

Thus, our models showed us that the impact of tax and financing incentives are different among dissimilar institutional environments, as countries with stronger institutions require fewer tax incentives. Still, their governments rely on financing incentives for the attraction of the desired type of FDI.

Our empirical model showed that tax incentives have a significant impact on greenfield projects when considering only countries with a weak institutional environment. Relevant here is that tax does not compensate for weak institutions, but they act as a competitive advantage of the country against other countries with equally weak institutions. Nevertheless, financing incentives have a more significant impact when the competition is among countries with strong institutions.

Considering these results, governments must combine the incentives discussed here with their institutional environments to get the best response from MNEs. Therefore, in order to improve their chances of enjoying the benefits brought by the firms, governments must deal with both market-oriented and institutional variables at the same time.

5.6. CONCLUSIONS

This paper analyzed the impact of incentives on greenfield FDI. Since the mainstream literature on incentives for FDI usually investigated this phenomenon based on the aggregate number of FDI stock of a country, we opted to fine tune our study by selecting solely greenfield FDI. This was done because this type of investment is the most wanted by host countries because greenfield FDI brings over capital formation and increase productivity. Moreover, most of studies have been focusing on developed countries, which possess strong institutions. In this context, we selected 106 countries and also split them based on their institutional quality. Then, we proposed three hypotheses. The first two regarded the positive impact of tax and financing incentives respectively, and the third hypothesis is that the amount of incentives differ among different institutional environments.

The findings pointed to the fact that tax and financing incentives have a positive and significant impact on greenfield FDI depending on the institutional environment of the country. Thus, we partially accepted the first hypothesis and accepted the second one. The third finding is that tax incentives has a smaller impact in countries with strong institutions, thus even for countries with weak institutions, this type of incentive cannot compensate for institutional quality, as institutions do matter.

Given these findings, this paper sheds light on how tax and financing incentives behave in different environments. This can contribute to the literature in two ways. First, it helps to understand the role of incentives as a determinant of the location choice of an MNE, as we measured the impact of different types of incentives in the number of greenfield projects. Second, it shows how institutions matter when competing for FDI and that incentives do not compensate for weak institutions. As we divided our sample according to the institutional environment, we were able to see the impact of incentives in countries with either strong or weak institutions, and this impact changed alongside the type of incentive due to institutional differences.

Concerning policymakers, the results will help them tailor better policies to attract FDI and thus avoiding unnecessary expenses. Thus, policymakers should spend political capital improving institutions instead of the country´s budget by giving tax incentives, which we showed that do not impact much in the general level of inward FDI.

For managers, this paper will allow them to understand the relationship between institutions and incentives, as they can take that into account when deciding their investment location. Thus, by showing how incentives differ among institutional environments, this paper can help them in bargaining with governments. This means that MNEs could look for countries that offer larger quantities or different types of incentives depending on the institutional environment of the host country.

For future studies concerning the use of incentives, we suggest the use of a larger timespan to account for economic crises and periods of economic growth will be welcome. Moreover, due to the lack of bilateral data, we accounted for aggregate incentives and projects. As for this limitation, we suggest that bilateral models could show a more realistic impact on incentives. Additionally, we suggest that a similar study should be done to account for outward FDI incentives.

6. ESSAY 5. INVESTMENT PROMOTION AGENCY: THE CASE OF APEX-BRASIL

6.1. INTRODUCTION

The literature on trade liberalization concluded that the greater the integration into the world markets, the greater the volumes of trade and capital flow (Krueguer, 1997; Rodrik, 1997). Hence, the recent opening of emerging markets leads to an unprecedented investment flow. The examples of Brazil, China, India, Russia, and South Africa illustrate this new tendency (Hawksworth, Audino, & Clarry, 2017; Ju, Murray, Gao, & Kotabe, 2019). In Latin America, privatization emerged as one of the most significant explanatory variables concerning foreign direct investment (FDI) attraction, as it points out that the governing will allow the private sector to play a larger role in the economy (Trevino, Thomas, & Cullen, 2008).

Indeed, governments of emerging markets seek to attract FDI driven by the expectation of beneficial spillover that might occur (A. M. Rugman & Verbeke, 1998; Wint & Williams, 2002), such as jobs and technology (Saggi, 2002; Tavares-Lehmann, 2016; World Bank, 1999, 2016). Moreover, FDI might speed up the process of structural transformation by moving labor from lower to higher productivity sectors (Stiglitz, 2017). Giving this scenario, governments are pursuing an active role in promoting FDI within their borders through a series of specific policies (Holtbrügge & Berning, 2018; Lu et al., 2014; Murtha & Lenway, 2007).

The factors driving FDI to emerging countries have been extensively explored (Barbopoulos, Marshall, MacInnes, & McColgan, 2014; K. E. Meyer & Nguyen, 2005). Some of these studies addressed the role of institutional reforms (Aziz, 2018; Cuervo-Cazurra, 2008a; Cuervo-Cazurra & Dau, 2009; Dau, 2012; Godinez & Liu, 2015), and others analyzed the effects of host-country institutions (Lin, 2015; Malhotra, Zhu, & Locander, 2010; Oguji & Owusu, 2017; Taussig, 2017). Moreover, scholars have been using the institutional theory to understand location choices (Globerman & Shapiro, 1999; Habib & Zurawicki, 2002), mode selection (Estrin, Baghdasaryan, & Meyer, 2009; K. E. Meyer et al., 2009; Rodriguez, Uhlenbruck, & Eden, 2005; D. Yiu & Makino, 2002). While these studies have advanced our knowledge concerning institutions, mostly left aside the impact of specific policies in attracting FDI.

The specificity of operating in emerging countries requires more complex actions as the result of the higher level of uncertainty. In order to help firms deal with this uncertainty, governments around the world have been relying on investment promotion agencies (IPAs) as a one-stop-and-shop for information. Concerning promotion, a lot have been discussed about export promotion (J. Chen et al., 2016; Coudounaris, 2018; Freixanet, 2012; Navarro-García, 2016; Rabino, 1980; Seringhaus, 1993; Walters, 1990; T. Wilkinson & Brouthers, 2006; T. J. Wilkinson et al., 2005, 2011). At the same time, most of the studies concerning investment promotion tend to be prescriptions made by the OECD, UNCTAD and the World Bank (OECD, 2003, 2005, 2015, 2018, 2019; UNCTAD, 2001b, 2008, 2018; World Bank, 2018, 2009, 2015). Nevertheless, few studies have looked into IPAs (Anderson & Sutherland, 2015; Harding & Javorcik, 2011; Lim, 2008, 2018; Morisset & Andrews-Johnson, 2003; Wells & Wint, 2000; Wint, 1992, 1993). However, some of these studies about IPAs are from the early 2000s or before, meaning that they did not investigate IPAs from emerging countries that began to operate after this period. The more recent articles measured the quality or performance of these agencies. Martincus and Sztajerowska (2019, p. xiii) points out that “little is known about the exact channels through which these effects [FDI attraction] can take place, in general, and the role of IPAs’ characteristics and activities in shaping these effects, in particular”.

Some of these studies suggest that governments can motivate FDI through promotion efforts by using IPAs (Loewendahl, 2001; Wells & Wint, 2000). This is translated by the fact that many countries have set up IPAs at a national or subnational level, reaching over 10,000 established IPAs worldwide (WAIPA, 2019). Hence, the absence of such an agency could reduce the likelihood of being targeted by an investor (Harding & Javorcik, 2012). Although it is indispensable for most countries' development strategy, the idea of an IPA is not old, the majority (84%) has been established after the 1990s (WAIPA, 2019). Therefore, by understanding the why and how a government use promotion to attract and guide FDI is important to assess their impact and the benefits to the society (Tavares-Lehmann et al., 2016).

Thus, this article will discuss the role performed by IPAs from emerging markets, highlighting their main functions and organizational structure. Hence, the objective of this study is to understand how emerging market IPAs deal with investment attraction by analyzing the relationship with their governments and discussing the main functions of an IPA as proposed in the literature. For that, we will be taking the Brazilian IPA from 2007-2019 as a one case study to discuss its particularities. We will analyze them under the institutional view, as IPAs are thought to reduce transaction costs to investors. By doing this, we intend to contribute to two streams of research: the topic of FDI policies and the development of emerging countries. First, to the topic of FDI policies, we offer a study that fills the void in the calls for studies on policies on FDI (Buckley et al., 2010; Götz, 2016; Y. Luo et al., 2010; World Bank, 2015) in order to deepen the understanding about the role of policies and incentives on FDI in emerging markets. Second, we discuss the development of countries when attracting multinationals to emerging countries. Here we present the role of IPAs as meaning to achieve faster development. Thus, by driving the internationalization of firms to the host country, IPAs may help the government to induce the desired type of investment, hence improving growth and development. Our conclusion points to the fact that emerging countries should have a clearer investment strategy and invest more resources in improving their IPAs to achieve the desired result.

6.2. EMERGING MARKETS, INSTITUTIONS AND TRANSACTION COSTS

The last decades have witnessed the benefits of global economic integration and the rise in FDI levels. Since the 1990s, the growth of FDI has been extraordinary (Villaverde & Maza, 2015). This growth is also noticeable in emerging markets (Xiao & Park, 2018), as they have "revolutionized the global business landscape, generating massive opportunities along with a myriad of challenges" for MNEs (LUO, ZHANG, BU, 2019, p. 633).

Therefore, MNEs are now actively seeking new opportunities in new markets that may impose high levels of uncertainty due to their business environment (Dai, Maksimov, Gilbert, & Fernhaber, 2014). According to Cavusgil, Riesenberger, and Knight (2016), MNEs face uncertainty and risks in emerging markets due to the timing of entry, operational problems, competitive intensity, and weak partner selection. Thus, the ability to mitigate these risks is critical for their operations, leading firms to analyze their transaction costs.

Transaction cost premises discuss if a transaction is more efficient if performed within the firm or outside it by the market. In this regard, firms should manage both the production and transaction costs (O. Williamson, 1975, 1985). The first one comprises mainly the internalization of business partners' functions, while the latter is about the establishment of contracts, the monitoring of performance, and the fulfillment of contractual clauses against the partner. The transaction cost theory identified two factors that would determine whether the transaction costs are higher than production costs, or the other way: asset specificity and uncertainty (Joshi & Stump, 2009).

Asset specificity consists of specific assets that are build-up for a particular transaction and which it is not merely re-deployable to another transaction (GEYSKENS, *et al*., 2006; JOSHI, STUMP, 2009). In this case, a safeguarding problem arises as market competition will look up for opportunistic exploitation (Geyskens et al., 2006). Hence, the solution to this problem is to internalize through vertical integration.

The second factor, uncertainty, can arise in two moments: when the relevant probabilities are not predictable before the contract or when the performance is not verifiable after it (Geyskens et al., 2006). Additionally, Walker and Weber (1984) highlighted the volume uncertainty, which addresses the uncertainty regarding the requirements of a relationship, and the technological uncertainty which relates to technical requirements prediction. Thus, uncertainty is the degree in which future conditions cannot be predicted, as it is unmeasurable and random. As transaction costs encompass negotiating, monitoring, and enforcement costs, risk management is closely related to the institutional environment of a country. Williamson (1985) concluded that institutions emerge in order to reduce the costs associated with market failures. Hence, institutions allow firms to “engage in transactions without incurring undue costs or risks” (MEYER, *et al*., 2009, p. 63).

Regarding the international business (IB) arena, the internationalization process of a firm will suffer from transaction costs like lack of information, enforcement, and bargaining costs. Buckley and Casson (1976) say that firms internalize their operations in order to surpass the imperfections of foreign markets. Nevertheless, this process can lead to the ‘liability of foreignness’ (Zaheer, 1995), which means the costs of doing business abroad. For Luo (2001), the firm internalizes when the uncertainty of demand, market attractiveness, cultural distance, and asset specificity are high. These uncertainties arise mainly from the lack of information, which makes knowledge gathering the antidote for it (LIESCH, *et al*., 2011).

IB scholars agree that institutions exist to reduce transaction costs for firms or to provide legitimacy for them. Besides, institutions influence economic activity by determining what kind of governance structures are more efficient from an economic point of view. These governance structures are also called “institutional arrangements” as they refer to the schemes of decision-making within the organizations (O. Williamson, 1975, 1985). Since the transactions occur at the governance level, they are accompanied by transaction costs, and these costs influence the level of economic activity. Hence the transaction costs determine which kind of governance structure is more efficient (O. Williamson, 1985). Thus, it explains the organization of a firm by the way it minimizes the transaction, production, and influence costs.

In this respect, North (1990) states that individuals have incomplete information and limited mental capability to process information. Hence, institutions are unnecessary in a world of instrumental rationality. As this is not true, individuals possess mental models to interpret the world, which are, in part, culturally derived. North (1990) defined institutions as “the rules of the game in a society” and institutional transitions as several basic changes introduced to the formal or informal rules of the game that directly affect organizations. Formally, institutions are “the humanly devised constraints that structure political, economic, and social interaction” (NORTH, 1991, p. 97). According to the author, institutions are formed by both informal (sanctions, taboos, customs, traditions, and codes of conduct) and formal rules (constitutions, laws, property rights). Moreover, institutions give the direction and form of economic activity through their framework of customs, religious precepts, and formal rules, but also the arbitrary behavior of the State over the economy is part of the institutional evolution (North, 1991).

Khanna and Palepu's (1997) proposed a framework that shows that home country institutions are not homogeneous, and because of that, firms and managers must be aware of both formal and informal institutions. It is this environment that will determine the firm’s ability and desire to invest abroad, which can be encouraging, with liberal policies towards FDI, or be restraining with discretionary and frequently adjusted policies (Buckley et al., 2007). The asymmetry of information tends to affect the bargaining power between the supplier and the demander, and the side which possesses less information will be at a disadvantage. Thus, policies should aim at reducing transaction costs to firms. In this regard, the availability of information becomes indispensable to transform uncertainty into risk or to reduce risks, since when a firm decides to enter a given location, it is assumed that the decision-maker knows the characteristics of that market (Buckley & Casson, 2019). Institutions that facilitate information gathering, relationship building, and contract protection, for example, reduce costs for risk managers, mainly due to resources and pervasiveness costs that risks bring to the firm. Therefore, institutions exist to create order and reduce uncertainty. Moreover, for Acemoglu, Johnson, and Robinson (2005), institutions are the ultimate determinants of economic development and growth.

Emerging markets possess different institutional environments from developed markets. Khanna and Palepu (2005) highlighted the limitation of institutional elements in emerging markets. Thus, MNEs should be careful when investing in these markets as the underdeveloped institutional environment creates more risks and uncertainties (Rottig, 2016). Bailey (2018) points out that institutional factors are more influential in attracting FDI in emerging markets than in developed ones. Thus, in emerging markets the development of institutions may have a greater impact on FDI attraction.

Regarding the cost of information for investors, Mariotti and Piscitello (1995) point out that foreign investors are more impacted than home investors when it comes to information accessibility. According to the authors, this can lead to a spatial distribution heavily influenced by information costs rather than by production and infrastructure costs. They also divided the information costs into low or high, being the first those related to labor, raw material, and transport, for example, and the latter encapsulates the quality of available location factors, consumer behavior, and institutional framework. Thus, these costs, when not addressed by public policies, may lead to underinvestment. Hence, to correct these market failures, governments have relied on several policies to attract FDI, such as financial incentives and the creation of IPAs, which is the object of this study.

6.3. INVESTMENT PROMOTION AGENCIES: REDUCING TRANSACTION COSTS

Since market failures arise from the investor's unfamiliarity with the host location, the information asymmetries are a significant obstacle to capital flow. In this regard, Daude and Fratzscher (2008, p. 112) point out that FDI "is substantially more sensitive to information frictions than portfolio investment." Moreover, most firms consider only a small range of locations to invest, leaving other countries unconsidered (International Finance Corporation, 1997). In order to counterattack this problem, governments engage in investment promotion activities to reduce transaction costs, since the lack of market-specific knowledge and strategic capabilities is one of the main barriers to engage in exports and FDI (Love et al., 2016; Raymond et al., 2014). Hereof, IPAs can act as a coordinator influencing decisions as it can compensate for lack of information on opportunities or about the investment climate (Lim, 2008).

Investment promotion is defined as the efforts to give investors information about the investment climate, to create an image of the investment site, and to persuade and assist on investment and reinvestments (WINT, 1992; MORISSET, ANDREWS-JOHNSON, 2003). The IPA is the institution responsible for promoting and facilitating investment. While the first activity consists in promoting the location as an investment destination by providing and disseminating information, the latter is about supporting the investors to establish or expand their operations (MORISSET, ANDREWS-JOHNSON, 2003; OECD, 2015). Thus, the IPA reduces costs to MNEs concerning information about the institutional environment of a country, and suppliers and consumers, as the agency may help the firm by being a network channel.

The IPA could be a part of the government structure or an independent agency. Moreover, it is crucial to provide a lean and efficient structure, as well as have its board with both public and private sector representatives in order to address issues from either the government, society, or firm sides (OECD, 2015). In general, the IPA has four distinct functions: policy advocacy, image building, investor services, and investment generation (WINT, 1992; WELLS, WINT, 2000; MORISSET, ANDREWS-JOHNSON, 2003; UNCTAD, 2008; INTERNATIONAL TRADE CENTRE, 2014).

Policy advocacy consists of efforts to improve the country's investment climate by proposing changes in regulations, laws, and policies. Thus, this function is about the relationship between the government and the private sector, taking the form of claims, proposals, and lobbying (MORISSET, ANDREWS-JOHNSON, 2003; UNCTAD, 2008). The UNCTAD (2008, p. 6) suggests a four-step process of policy advocacy encompassing “a) problem-identification and agenda-setting; (b) developing the best policy remedy; (c) consensus-building, and (d) monitoring and evaluation.” By doing this, the IPA would help the government build the desired investment environment, as well as facilitate the entrance of investments by removing barriers.

The image building function objective is to improve the public image of the country towards possible investors. These function leads to higher FDI since visibility favors investments (WILSON, BAACK, 2012; ADAMS, *et al*., 2018). Therefore, image building intends to create the perception of an attractive site for the investors by advertising, producing promotional materials, promoting events, and generating favorable news about the location (WINT, 1992; WELLS, WINT, 2000; MORISSET, ANDREWS-JOHNSON, 2003).

Investment services consist of a series of techniques to support investors while they are analyzing investment decisions. Those services encompass information provision, advice, guidance about approval processes, licenses, and assistance concerning locations and utilities (WINT, 1992; MORISSET, ANDREWS-JOHNSON, 2003; INTERNATIONAL TRADE CENTRE, 2014). Wells and Wint (2000) agglomerate those services in three broad categories: the provision of investment counseling services; information about the processing of applications and permits; provision of post-investment services. Here it is vital for the IPAs to facilitate the matchmaking between investors and possible local suppliers or stakeholders.

Lastly, the investment generation function is based on the country's industrial policy goals. In this sense, this service objective is to target specific sectors and firms to generate investment leads (MORISSET, ANDREWS-JOHNSON, 2003; INTERNATIONAL TRADE CENTRE, 2014). The set of activities here includes direct mail campaigns; specific sector missions and information seminars; firm/sector-specific researches (WINT, 1992; WELLS, WINT, 2000). Wint (1992) adds that these types of activities are an attempt to contact the investors directly, which explains the importance of permanent overseas personnel to engage in studies and relationship building. The presence of overseas offices has positive effects on both inward and outward FDI (HAYAKAWA *et al*., 2014; ANDERSON, SUTHERLAND, 2015).

Concerning IPAs in emerging markets, an OECD (2019) report finds that the major challenges faced by agencies from the South Mediterranean are inadequate resources and the inadequacy or instability of their mandates. The same result is found in Latin America IPAs (Martincus & Sztajerowska, 2019). Nevertheless, promotion activities are “less expensive and more aligned with the goal of correcting market failures that other investment attraction policies" (MARTINCUS, SZTAJEROWSKA, 2019, p. xxii).

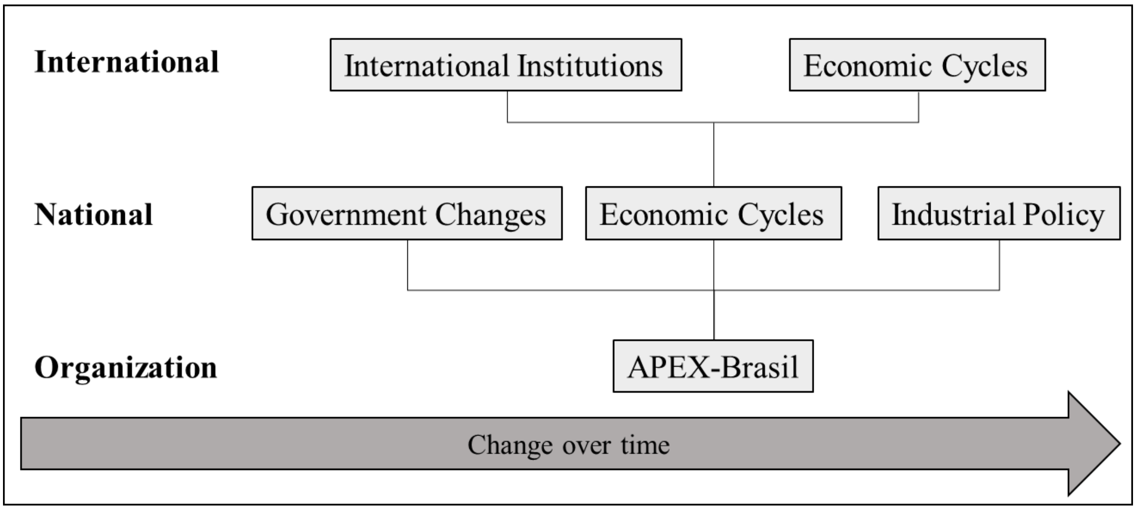
Thus, promotional activities are designed to persuade investors. In this sense, the image-building intention is to develop a favorable image of the country for the investors, so they can be persuaded to consider investing and then finally get the assistant to invest. Therefore, the main goal of an IPA is to attract FDI through facilitation and provision of assistance.

6.4. METHODOLOGY

The case study method has been one of the most popular research strategies for qualitative management scholars (Welch, Plakoyiannaki, Piekkari, & Paavilainen-Mäntymäki, 2013) and it has been frequently adopted by IB researchers (Piekkari et al., 2009) as it takes into consideration the environment, resources and cultural traits (Thomas, 1996). Hereof, critical realists argue that since reality is stratified and emergent, there is an urge to study organizations in a depth and layered context (Bhaskar, 2014; O'Mahoney & Vincent, 2014). Thus, an insight from the critical realists is that reality is far more complex than what is observed. Because of that, explanations have to take the context into account in order to deepen the role of theorizing (Piekkari et al., 2009).

The context expected to influence our object is composed of three layers, international, national, and the own organization. At the international level, we expect that international institutions such as the WTO, World Bank and World Association of Investment Promotion Agencies (WAIPA), and world economic cycles influence the strategy and behavior of APEX-Brasil. At the same time, the agency is subjected to national influence. This means that APEX-Brasil is propense to influences from changes in the central government and its ministries, internal economic cycles, and the industrial policy adopted. Hence, the context of this research is summarized in Figure 10.

Figure 10. Case study context



Source: Adapted from Bartlett and Vavrus (2017)

In this research, we chose a one case approach. We chose the Brazilian IPA, APEX-Brasil, as Latin America is an understudied region in IB (Carney, Estrin, Liang, & Shapiro, 2019; Cuervo-Cazurra & Liberman, 2010; Fainshmidt, Judge, Aguilera, & Smith, 2018) and Brazil is the country with most FDI attracted in the region since the 2000s (UNCTAD, 2019). Moreover, APEX-Brasil is listed at the World Association of Investment Promotion Agencies (WAIPA) as the Brazilian government IPA. The option for a one case study lies in the richness of understanding that can be provided by its uniqueness (Dyer & Wilkins, 1991). Moreover, the depth of the single case study design can provide a particularized understanding of the case itself (Piekkari & Welch, 2018).

Concerning the data sources, we collected data on the official websites of APEX-Brasil and other Brazilian ministries (Ministry of Development, Industry and Foreign Trade, Ministry of Foreign Affairs). Moreover, annual reports were downloaded and read alongside laws and decrees concerning the creation and the changes in the FDI attraction structure. In addition to official data, an interview was conducted with the Coordinator - Infrastructure FDI Attraction from APEX and former Investment Promotion General Manager and Investment Facilitation Coordinator. The interview had a duration of approximately one hour. Also, data were collected by reading scientific articles, as well as news articles from the main Brazilian news websites. Our data sources are displayed in Table 14.

Table 14. Data Sources

Document Type	Sources
Ministries and Agencies Websites	MDIC, MRE, APEX, CAMEX, Casa Civil, Ministry of Economy, MAPA
Other Official Websites	RENAI, Invest & Export Brasil
Laws and Decrees	Decrees 4584/2003 and 8788/2016, Decree of August 30th 2004; Law 10668/2003
Annual Reports	APEX-Brasil 2007-2019
Interview	APEX-Brasil Coordinator of FDI Attraction
Scientific Articles	Gregory and Oliveira, 2005; Gusso, Salerno, Moreira, Moreira, and Gehre, 2004; Zanatta, Strachman, Carvalho, Varrichio, and Camillo, 2008
Brazilian Media	Estadão, O Globo, Valor, Folha de São Paulo

We inputted all data into the 'coding analysis toolkit'(CAT) to help us in our triangulation and categorization. Inside the program, our data were then divided into categories concerning the longitudinal aspect and the functions of an IPA. The first one was split into the three management contracts signed by APEX-Brasil, which establish objectives, goals, and responsibilities for its performance. This led us to study three periods: 2007-2011, 2012-2015, and 2016-2019. We started the study in 2007 because it was the year in which the investment unit started its operation. The latter was based on the works of several authors, defined as policy advocacy, image building, investor services, and investment generation (WINT, 1992; WELLS, WINT, 2000; MORISSET. ANDREWS-JOHNSON, 2003; UNCTAD, 2008; INTERNATIONAL TRADE CENTRE, 2014).

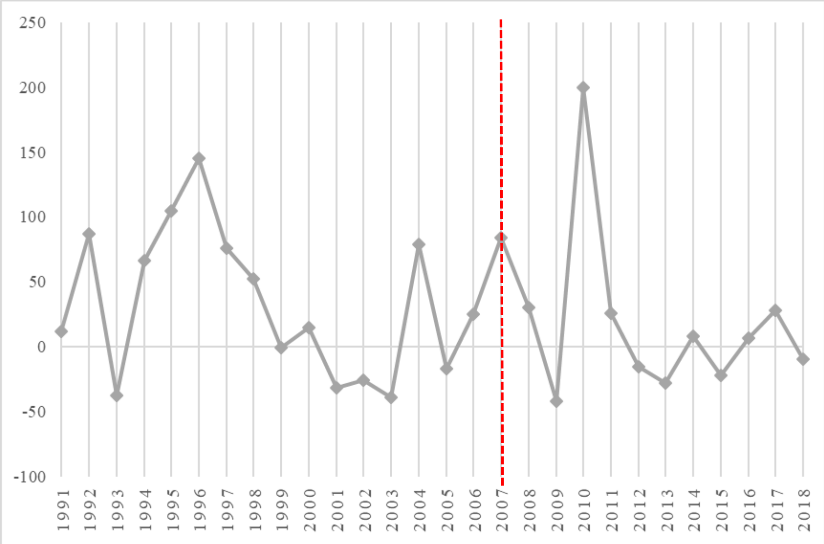
6.5. BRAZILIAN FDI ATTRACTION STRUCTURE

The FDI regime in Brazil operates under liberal laws since the 1960s, specifically after the law 4.131/1962, which forbidden the differentiation between national and international capitals. During the 1990s, liberal reforms went through, for example, the abolishment of mechanisms that restricted capital outflows, and the end of the government monopoly over the oil & gas and telecom sectors. Moreover, the article 171 from the Constitution of 1988 was eliminated, as it distinguished between national and international capitals.

From an open market economy point of view, after the mid-1990s, the Brazilian economy began to show signs of stabilization following the new economic policy (Pinheiro, Giambiagi, & Gostkorzewicz, 1999). This situation is illustrated by the intensification of the internationalization process of production and the greater trade flows, as well as in the high growth rates of the accumulated stock of FDI (Pinheiro et al., 1999; UNCTAD, 2019).

The year 2007 is an important year for our analysis. This was the year in which APEX-Brasil started the operation of the investment attraction unit. Thus, in order to facilitate our understanding, we will be dividing our discussion into two periods: Pre-2007 and Post-2007. Figure 11 shows the Brazilian growth rate of inward FDI.

Figure 11. Growth of inward FDI, 1991-2018 (%)



Source: adapted from UNCTAD (2019)

a) FDI Attraction Pre-2007

As said before, the attraction of FDI in the mid-1990s was a result of the recently opened economy, and the privatization processes occurred following liberal premises. It only in 1999 that the first attempt to organize the FDI attraction to Brazil occurred. The Brazilian Investment Promotion Network (INVESTE BRASIL) was set up as a private, non-profit civil entity. Zanatta, Strachman, Carvalho, Varrichio, and Camillo (2008) state that INVESTE BRASIL represented the official Brazilian agency for attracting and promoting investments. Its purpose was to propose measures to facilitate the attraction of FDI, to offer the necessary support for the implementation of foreign investors' projects, and to promote the country's image abroad as intended by the World Bank propositions (Gregory & Oliveira, 2005). However, in 2004, the agency had its activities discontinued due to the lack of support and resources from the federal government (Gregory & Oliveira, 2005; Zanatta et al., 2008).

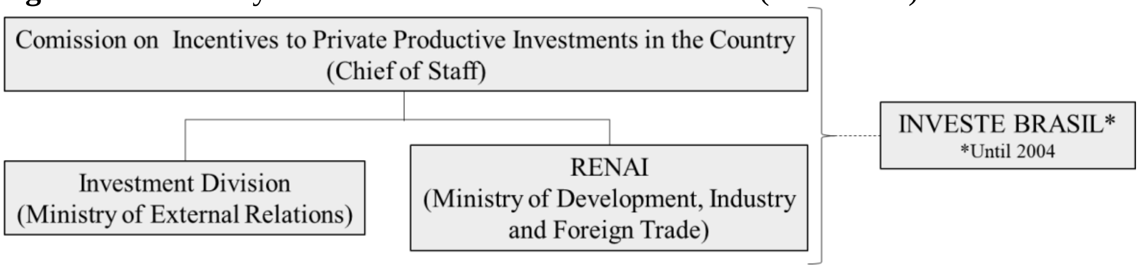
In 2004, the Commission on Incentives to Private Productive Investments in the Country was created. This commission responded to the Chief of Staff, and its purpose was to encourage the development of investments in Brazil, through actions that attract, facilitate and inform private national and foreign investors to make productive investments. Its activities involved actions such as providing a system for resolving obstacles to improve FDI in the country, articulate and coordinate actions between Government agencies related to difficulties in FDI and promoting investment opportunities together with other Government agencies. Therefore, the Chief of Staff was responsible for overseeing the procedures carried out by the Presidency of the Republic, based on the coordination and integration of the actions that were performed by other federal agencies, analyzing the merits and compatibility of the proposals provided as government guidelines for the FDI arena. Nevertheless, this commission is no longer active, as its competencies were changed with a focus on public-private partnerships. This commission became the current Investment Partnership Program.

Moreover, it was during the mid-1990s that the government promoted the National Investment Information Network (RENAI). This network is within the scope of the Ministry of Development, Industry, and Foreign Trade (MDIC). It aims to provide information to assist in the implementation of productive investments in the country, recognizing the role of economic information as a fundamental element to overcome barriers. The network is responsible for building the Investment Guide to Brazil and the Brazilian Guide on Investment Opportunities, for example.

Lastly, the Ministry of Foreign Affairs (MRE) is responsible for the negotiation of investment agreements and the participation in international investment meetings within the scope of WTO and the U.N. In addition to these activities, the Ministry is in charge of the Brazilian image promotion abroad and of the investment missions and fairs concerning Brazilian firms abroad and foreign firms in Brazil.

A summary of the Brazilian structure for the period is presented in Figure 12.

Figure 12. Summary of Brazilian FDI Attraction Structure (1999-2006)



After the rise in FDI attraction during the mid-1990s due to the privatization processes in Brazil, the recently created official structure for investment promotion was not capable of raising the FDI levels. In the early 2000s, the country presented a small growth or negative inward FDI rates, reflecting events in the world, such as the fall in the United States stock markets, the slowdown in the global economy due to terrorist attacks and wars, in addition to the frauds discovered in the accounting of large American firms, and multinationals. As expected, from 2001 onwards, and with greater intensity in 2002 and 2003, flows to the Brazilian economy decreased. Such behavior, as mentioned, accompanied an even more visible decline at the global level.

During this period, APEX-Brasil already existed; however, under the name of APEX. In 1997, after economic stabilization and with the need to increase exports to increase the country's international reserves, APEX was established by the President Fernando Henrique Cardoso, through Presidential Decree 2,398/1997. The agency was private and under the special management of the Brazilian Micro and Small Business Support Service (SEBRAE), intending to promote Brazilian exports. During this government, APEX encountered some operational limitations insofar as it was subject to SEBRAE rules.

In 2003, the agency was renamed as APEX-Brasil, assuming a more public than private nature and independent from SEBRAE (Gusso et al., 2004). The agency is defined as an autonomous social service under private law and linked to the federal government that acts to promote Brazilian products and services abroad and to attract foreign investments to strategic sectors of the Brazilian economy. Being a private activity in the public interest means that the State's participation in the act of creation occurred to encourage private initiative, through a guaranteed grant obtained by the mandatory institution of parafiscal contributions specifically designed for this purpose.

The APEX-Brasil was founded in a post-crisis context, in which the government intended to improve exports and start to encourage FDI. Most of the FDI that entered Brazil in the past decades was mainly due to the privatization processes in the 1990s. In 2003, President Lula restructured the service, creating the APEX-Brasil, through the Presidential Decree 4,584/2003, which expanded its size, budget, responsibility, and scope of action as of 2007 (for FDI and contractual relations, inclusive). Therefore, APEX-Brasil became an agency of the Brazilian government, as an autonomous social service linked to the MDIC.

The APEX-Brasil missions are to promote exports of products and services, contributing to the internationalization of Brazilian companies, strengthening the country's image, and enhancing the attraction of investments. Its technical staff is constituted through a public selection process, and its direction is appointed directly by the President of the Republic. It is a non-profit entity, of collective interest and of public benefit, whose primary competence is the execution of export promotion policies in cooperation with the government and following national development policies, particularly those related to industrial, commercial, services and technological sectors.

For Vigevani and Cepaluni (2007), many of the initiatives of President Lula government are in the area of trade negotiations and the search for political coordination with developing countries, with special attention to the diversification of commercial partnerships. Also, APEX-Brasil was created in a globalization context, where according to the transformist thesis from the International Relations field, there is a reformulation of the power, functions, and authority of national governments, demonstrating a change in the relations between government and firms, which are increasingly influential in the government (Frischtak, 2003; Stopford, Strange, & Henley, 1991).

Therefore, the early 2000s were a key period for the Brazilian investment attraction policy since it was the period in which the first steps were taken towards FDI attraction. The creation of several agencies responsible for FDI attraction was the building block for the current structure.

b) FDI Attraction Post-2007: 2007-2015

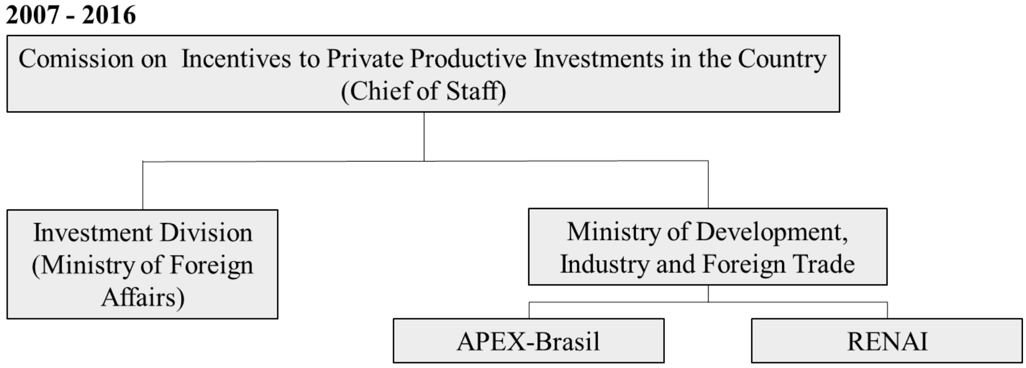
The law that authorized the Executive Branch to establish APEX-Brasil defined in its article 15th management contracts as the main tool for assessing the Agency's operational and administrative performance. The first management contract was signed in 2007 and established objectives, goals, and responsibilities for the performance of APEX-Brasil from 2007 to 2010. It also set up the evaluation criteria and their respective procedures for supervising the management of APEX-Brasil by the Union, through the MDIC. It was during this contract that the investment attraction unit was created.

Right at the beginning of this period, governments of all over the world faced one of the most severe economic crises. This debt-deflation crisis practically paralyzed world economic activity (Guillén, 2011). Thus, international investments dropped because of this crisis between 2007-2009. Nevertheless, it was during the first management contract that Brazil was chosen as the 2014 World Cup host. This brought to the country an unusual level of FDI boosted by special governmental incentives to the World Cup and Olympic Games infrastructure. The situation reflected in the investment attraction unit by the institutionalization of attraction programs related to the World Cup and Olympics events.

Moreover, the government also had to face an economic crisis internally. According to Gonçalves (2010), the Lula mandate had the 9th worst GDP rate in Brazilian history, which can be related to the low levels of FDI growth in the period. The situation got worse during the mandate of President Dilma (2011-2014), which had one of the worst GDP rates, with an average of 0.3% growth. In this context, the role played by APEX-Brasil to attract investment was harder, since firms give more importance to economic factors.

In 2010, the first amendment to the first contract was signed, which updated the corporate name of APEX-Brasil and changed the clauses of obligations and how it operates. With the expiration of the first contract in 2012, a new draft for the second management contract (2012-2015) was drawn up as a result of the merger into a single instrument of the first management contract, and the changes brought about by its First Amendment. As a result, the Brazilian attraction structure is summarized in Figure 13.

Figure 13. Summary of Brazilian FDI Attraction Structure (2007-2016)



The changes in the FDI attraction structure made it possible to the MDIC to manage the policies related to investment promotion in a way that was not possible before, as INVESTE BRASIL was an agency apart from the governmental structure. However, the Ministry of Foreign Affairs still played important roles in what concerned the FDI policies. The MRE developed the site 'BrazilTradeNet' to give out information about the country, investments, and sectorial particularities. Moreover, the Ministry counted with a network of Commercial Promotion Sectors (SECOMs) at the Brazilian embassies and consulates to help in the promotion. Thus, at that time, there were two distinct structures related to FDI attraction, resulting in double efforts and confusion to investors.

Another important aspect is that, according to the agency's mission, its focus is on exports, meaning that it is a Trade Promotion Organization (TPO) that encapsulates an IPA. This is reflected by the performance indicators. During the Management Contract 2007-11 and 2012-15, there was not an indicator to measure the FDI attraction. The same focus can be perceived when looking at the Advisory Board. It is composed of four government ministries, the government bank, and four business associations, which mostly focus on exports, such as the Brazilian Foreign Trade Association, as shown in Table 15.

Table 15. Board, indicators and priority sectors for management contracts 2007-2011 / 2012-2015

Period	Advisory Board	Performance Indicators	Priority Sectors
Management Contract 2007-2011	• Ministry of Development, Industry and Foreign Trade - MDIC • Brazilian Micro and Small Business Support Service - SEBRAE • National Bank for Economic and Social Development - BNDES • National Confederation of Industry - CNI • Ministry of Foreign Affairs - MRE • Foreign Trade Chamber - CAMEX • Brazilian Foreign Trade Association - AEB Micro and Small Business Secretariat - SMPE	• Participation in Brazilian exports • Economics of APEX-Brasil • Leverage of third-party resources • Effectiveness of APEX-Brasil • Export value • Sectors/segments served • Events held • Average time for analysis and approval of projects • Internal customer satisfaction Budget execution	• Oil and Gas; • Semiconductors and displays; • Real estate investments and tourism; • Venture capital and private equity; • Technologic innovation; • World Cup and Olympics; • Infrastructure; Agribusiness
Management Contract 2012-2015	• Ministry of Development, Industry and Foreign Trade - MDIC • Brazilian Micro and Small Business Support Service - SEBRAE • National Bank for Economic and Social Development - BNDES • National Confederation of Industry - CNI • Ministry of Foreign Affairs - MRE • Foreign Trade Chamber - CAMEX • Brazilian Foreign Trade Association - AEB Micro and Small Business Secretariat - SMPE	• Net variation index of exports supported by APEX-Brasil • Exported value in 12 months • Index of variation in the number of supported companies • Participation in the number of Brazilian exporting companies • Number of events held by available revenue • Increase in exports in relation to the amount invested in trade promotion • Satisfaction of the companies served • Financial execution Administrative cost rate	• Automotive and auto parts; • Oil & gas; • Semiconductors; • Renewable energy; • Real estate and tourism; • Health

Source: The authors based on Annual Reports (APEX-Brasil, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016)

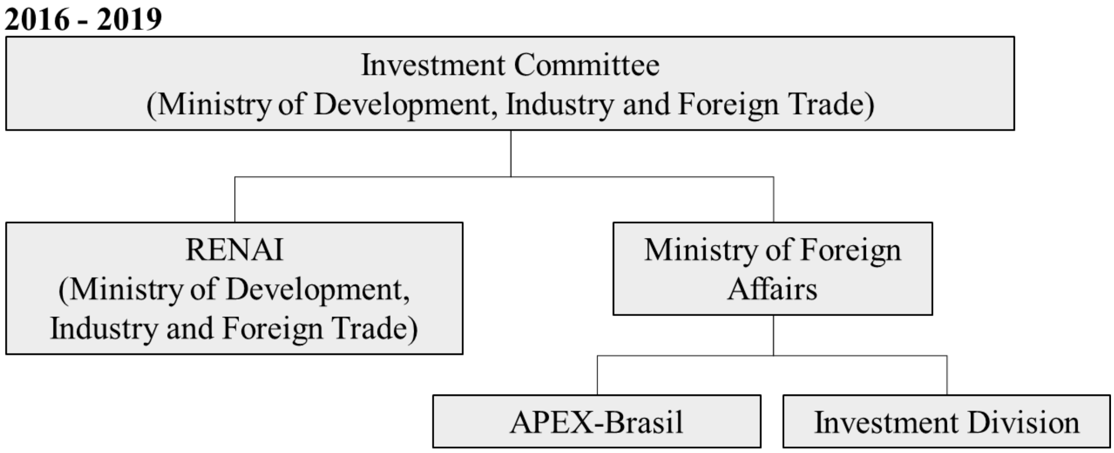
Thus, not only the FDI attraction but also the internal APEX-Brasil structure mirrored the lack of importance of FDI attraction to the government despite the public discourse. A more structured and proactive policy towards investments could have made a better impact on the Brazilian GDP in the period and could have been responsible for other spillovers.

c) FDI Attraction Post-2007: 2016-2019

In the middle of 2014, the Brazilian government was immersed in a political and economic crisis that lasted until 2016. The political crisis was a consequence of the corruption scandals brought up to justice that put into prison members of the Congress and Directors of Public and Private firms. At the same time, the economic side of the government was still presenting low levels of GDP with a growth rate of around 0.1% between 2015 and the first semester of 2016, when President Dilma was impeached, which affected the levels of FDI during the period.

The President in place, Michel Temer, was responsible for signing the 2016-2019 management contract that was signed in 2016 with the MDIC. On June 21, 2016, the Decree 8,788/2016 was edited, changing the supervision of Apex-Brasil from MDIC to the MRE. The structure summary is found in Figure 14.

Figure 14. Summary of Brazilian FDI Attraction Structure (2016-2019)



The new management contract brought new players to the scene. In order to succeed the Commission on Incentives to Private Productive Investment in the Country, the government created the Investment Committee in 2016 under the supervision of the Chamber of International Trade (CAMEX), which is presided by the MDIC. The idea behind the creation of CONINV is to coordinate and bring together all investment initiatives in one place. Its main responsibilities include the development of proposals for public policies related to FDI in the country and abroad; the preparation of proposals for harmonizing the performance of bodies that have competences in the FDI arena; the identification and dissemination of information and good practices related to the promotion and facilitation of FDI; monitor the activities of the Foreign Investment Ombudsman and supervise the work of the National Contact Point. It is important to note that the National Contact Point is an institutional representation responsible for ensuring the implementation of the Guidelines for Multinational Companies, built within the scope of the OECD Investment Committee.

Concerning the MRE, this Ministry oversees the trade promotion policies. The Department of Trade and Investment Promotion (DPR) is responsible for promoting trade and tourism, attracting foreign investment, and contributing to the internationalization of Brazilian companies. In order to meet these objectives, the DPR is organized into five sectors: Sectors of Commercial Promotion (SECOMs); Investment Division (DINV); Commercial Intelligence Division (DIC); Trade Promotion Programs Division (DPG) and Trade Promotion Operations Division (DOC).

The DINV consists in the unity in which the specific sector for the attraction of FDI is located. The strategies take place through the promotion of bilateral dialogues on trade and investments, the preparation and contracting of studies on investments in Brazil and abroad, and the organization and coordination of corporate legal journeys in Brazil and abroad. Through a portal, currently ‘Invest & Export Brasil’, the DINV discloses the business opportunities existing in the country to attract FDI.

The DPG is one of the divisions of DPR that also develops strategies to attract FDI. The division assumes the following functions: to elaborate the strategic planning of commercial promotion activities; guide and monitor the performance of the activities developed by the SECOM network at the stations installed in 102 countries; operate, monitor, maintain and develop, in partnership with the Information and Communication Technology Center the systems of the ‘Investment & Export Brasil’ portal; develop and coordinate the training of its users, in addition to developing training programs capable of improving the technicians who work in the commercial promotion sectors.

Internally, the agency had also been changed. The new board composition and indicators are found in Table 16.

Table 16. Board, indicators and priority sectors for management contracts 2016-2019

Period	Advisory Board	Performance Indicators	Priority Sectors
Management Contract 2016-2019	• Ministry of Foreign Affairs - MRE • Ministry of Industry, Foreign Trade, and Services - MDIC; • Ministry of Agriculture, Cattle and Supplying - MAPA; • Executive Secretariat of the Investment Partnerships Program - PPI; • National Bank for Economic and Social Development - BNDES; • National Confederation of Industry - CNI; • National Confederation of Agriculture and Cattle of Brazil - CNA; • Brazilian Micro and Small Business Support Service - SEBRAE; • Brazilian Foreign Trade Association - AEB	• Export acceleration index • Number of companies supported by APEX-Brasil • Participation in the number of Brazilian exporting companies • Number of qualified companies • Number of supported companies - services • Number of investment projects facilitated by APEX-Brasil • Number of assistances to qualified foreign investors • Customer satisfaction index • Investment rate in finalistic projects • Administrative costing rate Personnel costing rate	• Agribusiness; • Automotive; • Renewable • Energy; • Life sciences; • Oil and gas; Infrastructure

Source: The authors based on Annual Reports (APEX-Brasil, 2017, 2018, 2019)

It was only in the Management Contract 2016-19 that indicators to measure FDI were incorporated. Therefore, FDI attraction was only measured in the last few years. The APEX-Brasil numbers concerning the attraction of FDI through the agency and the total FDI flow to Brazil are 8.17%, 2.37%, and 0.34% for the years 2018, 2017, and 2016 respectively. In what concerns outward FDI, there is no clear indicator of this movement nor priority sectors. Nevertheless, the advisory board still had the prevalence of export-oriented members, relegating the investment attraction to a secondary role.

The lack of attention to FDI by the agency can be explained by the fact that the Brazilian government changes the guidelines often, given the changes in the Ministries and the different views of each person in the post. The tight relations between the government and the agency is one of the causes of these problems. The most notable issue is the change in the APEX-Brasil presidency and direction. In 2019, the Foreign Affairs Ministry fired two of the agency Presidents (Estadão, 2019) and one of the directors (O Globo, 2019). The latter, according to her, it was because she did not want to sign spurious contracts. Thus, the lack of a homogeneous strategy for the government and the public facet of the agency contribute negatively to the investment attraction in Brazil and to encourage national firms.

Moreover, many activities are being organized by the government with no national strategy for FDI attraction. As posed by the interviewee, “we do not know if the government wants more jobs, innovation or qualification.” Given that scenario, the investment unit in APEX-Brasil does its planning by focusing on sectors in which the country is competitive based on internal researches.

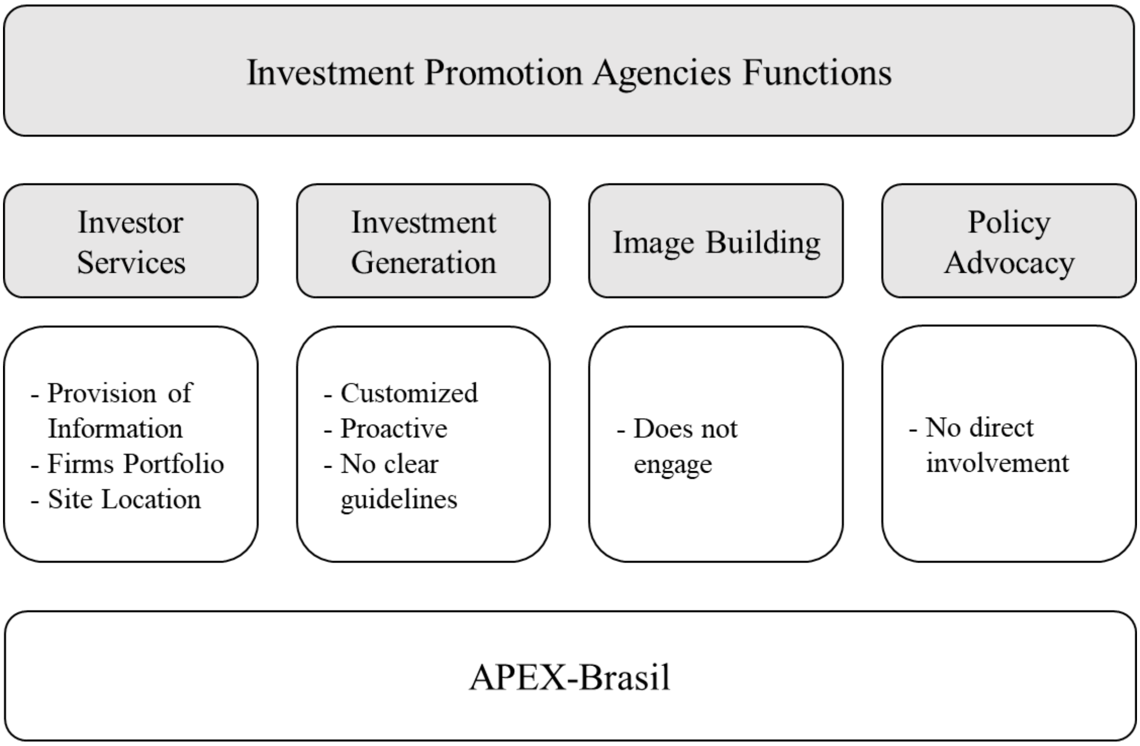
Concerning investment attraction, the agency works to identify business opportunities and to promote strategic events and to ensure support for foreign investors throughout the process in Brazil. The objective is to attract productive capital from foreign companies that can incorporate technological innovations and new business management models and to strengthen production chains, with an impact on job creation, expansion of volume and diversification of the Brazilian exports.

The investment management has the mission of supporting the strengthening of national high value-added production chains by attracting foreign investment and promoting strategic partnerships, contributing to the absorption of new technologies and business models, the creation of jobs, and the entry of foreign exchange in the country. As for the business board, it is responsible for conducting and executing policies to promote exports, to internationalization and attract investments, as well as for qualifying firms and for preparing market intelligence studies. Thus, after the reform, the investment attraction role became closer to other complementary tasks.

d) Investment Promotion Agency Functions

Here we will be discussing the roles played by APEX-Brasil concerning the main IPA functions listed by several scholars. The result is summarized in Figure 15.

Figure 15. IPAs functions and APEX-Brasil



<u>Investor Services</u>:

According to APEX-Brasil (2018), the investment attraction macroprocess focuses all its service on the investors and treatment of investment opportunities, in addition to facilitating investments until their announcement. Therefore, most of the tools to attract FDI reside in this category.

The interviewee divided this category into three main services offered:

a) Provision of information: information about Brazil, laws, regulations, sectors, and opportunities.
b) Firms portfolio: have the intent to introduce the investor to its client or supplier. The research about the suitability of the client/supplier is done on a case basis. Thus, there is no database of potential partners.
c) Site location: the intention here is to help the investor identify the best location for his investment. The agency gives information about potential sites and schedule meetings with the state representative responsible for investments.

It is important to point out that regarding bureaucracy, most of the red tape occurs at the state or city level. In this case, APEX-Brasil schedules meetings with the subnational IPA or to the secretariat responsible for investments.

Regarding fiscal and financial incentives, APEX-Brasil does not engage in this type of discussion. In some cases, if the investor wants a financial incentive, the agency schedules meetings with the representative of the BNDES. In this case, it does not exist any type of agreement between the bank and the agency nor any internal processes that regulate this interaction.

In what relates to outward FDI, the investor services are worked together with the export promotion. Therefore, the agency has been promoting missions and fairs with investors abroad and promoting reports about foreign markets. In this case, much of the reports are outdated. The few exceptions are the guides to the U.S. and U.E. Moreover, the internationalization program offers customized assistance to support structuring the internationalization strategy; practical tools for preparing the expansion plan; presential and online training activities for executives on topics and markets relevant to internationalization.

Concerning this function, the agency sees it as the most important to attract FDI or to encourage it abroad. Therefore, most of the effort and budget of the agency are for this service. Nevertheless, there is room for improvements like up-to-date reports, opportunities maps, and the creation of a client/supplier database.

Investment Generation:

The investment generation function if done in a customized way. It is a proactive service, in which the agency maps targeted sectors, their main firms, and the stage in which those firms are. If the analysts perceive any intention of expansion, they design a proposal for the firm and schedule meetings with the decision-makers to present it. It is interesting to highlight that they consider that paid media is outdated.

In this case, the lack of clear investment guidelines could be diminishing the potential of investment generation by the agency. Moreover, the lack of resources makes the agency looks only to big firms, leaving aside small firms that could bring innovation and job qualification to the country. Thus, the investment generation needs improvement, especially in what relates to investment guidelines from the Brazilian Government and resources to improve its reach and attract quality FDI to the country.

Image Building:

The agency does not engage in image building. They did it in the past with an initiative called ‘Be Brazil’ during 2017-2018 only. This function is done primarily by the Ministry of Foreign Affairs and its embassies and consulates. In this case, the lack of participation in constructing the Brazilian image abroad by the investment unit may implicate in the creation of an image only for exports and/or sectors with good political capabilities. Thus, the government could be leaving aside the country image of investment recipient with this fragmentation in the attraction structure.

Policy Advocacy:

Although “expenditures on policy advocacy are at the top of the list of high returns” and “policy advocacy appears to be the IPA function that is the most closely associated with FDI flows” (MORISSET, ANDREWS-JOHNSON, 2003, p. IX and 36), the APEX-Brasil does not engage in this function.

According to the interviewee, when the agency gets a demand, they repass the information to the Ministry of Economy by the ombudsman. Also, they repass it through the CONINV, where they have a seat. Nevertheless, when there is a gap during an investment process in which the firm may end it, APEX-Brasil can schedule meetings with the respective ministry and, sometimes, with the presence of the national association. However, the interviewee is straight when she says, ‘there is no direct involvement.’

Concerning this function, the agency has much to improve, since this can be of utmost importance to attract FDI. The investors would appreciate the creation of an advocacy team, while it could improve the country´s development. Here it is important to point out that the investment climate is one of the main determinants of FDI.

Apart from the APEX-Brasil functions, we note that the percentage of FDI attracted by the agency is irrisory compared to the total. In this sense, the fragmentation of federal entities that work with the attraction of FDI makes these same institutions limited, as they are responsible for only a fraction of what should be a broad and joint action since this is in the nation's best interest. Without coordinated actions between these entities, some competencies end up overlapping. This was reduced then the agency migrated from the MDIC to the MRE, but still, there are repeated functions or functions that should be more coordinated with the APEX-Brasil. An example of each would be the existence of the 'Investment & Export Brasil' website with reports, studies, and information about how to invest in Brazil and the APEX-Brasil website with the same information produced from different sources. Apart from confusing the investor, this is also a waste of public money. The second example is the image building function that is exclusive of the MRE, but this is also the main function of an IPA that the APEX-Brasil is not performing. In this case, a joint effort would improve the system as a whole.

6.6. CONCLUSION

FDI has played a major role in Brazilian industrialization in recent decades, attracted mainly by the large domestic market and the privatization bids. As being one of the main recipients of FDI in the world, the Brazilian IPA plays an important role in this scenario. Given that statement, the present article intended to understand how the Brazilian IPA, APEX-Brasil, perform the IPA functions described in the academic literature.

The result we found shows that APEX-Brazil has much room to improve its functions since the agency does not provide most of the services that are listed in the literature. Thus, the Brazilian IPA may not reduce transaction costs for investing firms, since nowadays information is cheap and easy to find. In this case, the agency should improve functions that could boost the flow of FDI to the country and bring development to an emerging country. The first step is to provide a clear guideline and reason of why the country should attract FDI or encourage the firms to go abroad. The second step is to invest in functions that would reduce uncertainty and risks to the firm, such as the investment climate. Thus, the creation of an advocacy team could improve the IPA role.

Therefore, our article contributed to the investment promotion in emerging markets by showing that there is much room for improvement and that even in bigger emerging markets, the reality is far from what is ideal. We pointed to the fact that the investment encouragement structure presents a series of problems, such as coordination with other government institutions and internal structural problems. Moreover, we point to policymakers some actions that could enhance the effectiveness of IPAs, especially because nowadays, the provision of information is easily made through the internet. In this case, policymakers should think about the whole investment ecosystem, bringing the firms closer to the policymaking process. In terms of academic literature, we bring a single case that highlights the contexts in which the IPA is embedded. By doing that, we showed how institutions influence FDI and the development of a country.

In terms of future studies, we suggest that comparative studies should be made to enhance our understanding of IPAs in different institutional contexts and problems. Moreover, our comprehension of outward FDI should be the focus of future studies. In this case, we suggest that articles about specific policies, political capabilities of firms, and spillover effects would greatly improve our knowledge about how this type of investment affects the country's development and how the relationship between home-country and firm impact on the result.

7. ESSAY 6. A FRAMEWORK FOR FOREIGN DIRECT INVESTMENT POLICIES

7.1. INTRODUCTION

The effectiveness of foreign direct investment (FDI) policies in promoting foreign investment had generated a lively debate that is far from being over (Buckley et al., 2010; Götz, 2016; Y. Luo et al., 2010; World Bank, 2015). International business scholars have concluded that the performance of multinationals (MNEs) is dependable of the characteristics of both home and host countries (Delios & Henisz, 2003; Witold Henisz & Delios, 2000; Lecraw, 1993). Thus, governments pursue an active role to improve their environment to encourage FDI (Holtbrügge & Berning, 2018; Lu et al., 2014; Y. Luo et al., 2010). Several authors focused their research on how policies impact the internationalization of firms by looking into the macroenvironment (Ayentimi et al., 2016; Barros, 1994; Dorozynski et al., 2017; Hansson & Olofsdotter, 2013; Van Parys & James, 2010; Wentzel & Steyn, 2014). While other studies analyzed the influence of incentives on the growth of firms (Bannò et al., 2011, 2014; S. O. Becker et al., 2012; Burger et al., 2012; Egger & Merlo, 2011; Han et al., 2018).

However, studies on FDI policies have tended to investigate the consequences of one specific policy tool at a time, be they taxes, grants, or regulatory incentives, and only considering one investment direction (inward or outward). Holistic studies on policy structure tend to be prescriptions made by the World Bank and UNCTAD (UNCTAD, 1999a, 2000, 2003, 2006, 2008, 2018; United Nations, 2018; World Bank, 2015, 2018) which are not being picked up in the academic literature. Instead, the academic literature on promotion has tended to focus on export incentives (J. Chen et al., 2016; Coudounaris, 2018; Freixanet, 2012; Navarro-García, 2016; Rabino, 1980; Seringhaus, 1993; Walters, 1990; T. Wilkinson & Brouthers, 2006; T. J. Wilkinson et al., 2005, 2011). There is much scope not only to analyze the theme, but also to advance theory.

Thus, in this article we discuss the role of policies towards FDI and propose a framework to subsidize countries and firms deal with foreign investments. We build on transaction cost economics (O. Williamson, 1975, 1985) and its application in international business (IB) as internalization theory (Buckley & Casson, 1976; J.-F. Hennart, 1982), because “it is hoped that the theory can be used as the basis for a rational economic policy toward the MNE, which will preserve the benefits conferred by these giant firms, while restoring effective social and political control over their operations" (BUCKLEY, CASSON, 1976, p. 2). Applying the logic of internalization theory, we characterize the four types of FDI policies (tax, financial, regulatory, promotion) as mechanisms that either transform uncertainties in risks or reduce the perceived risks for managers, leading to a higher chance and level of investment. Additionally, we discuss how FDI policies affects the industrial policy of a country. We do this by emphasizing the structural change brought by the investments and the coordination failures found in the FDI policy structure of several emerging countries. As a conclusion, we present a framework that shows how incentives and constraints co-exist. Our results showed us that the investment promotion agency (IPA) has a central role to play in the creation and the coordination of the investment policy. Because the IPA is the one-stop-and-shop for firms, this entity should play a pivotal role in transforming the demands of MNEs into effective policies, as well as in translating the policies in force to the MNEs and provide information about their stakeholders and the institutional environment. Moreover, when IPAs from several countries act in networks, they reduce their information costs and benefit the entire system. By doing so, our framework reduces the transaction costs for both countries and MNEs.

These ideas contribute to answering Buckley, *et al*. (2017) request for contributions to solve public policy challenges in international business. The arguments provide a comprehensive and holistic explanation of the pros and cons of the alternative investment policy mechanisms that can help guide future research. The framework brings the IPAs back to the discussion of incentives, since the one-stop and shop for information should be the hub of policies to coordinate the relationship between governments and firms. Moreover, some countries built their IPAs to mimic other countries, so they do not give the proper attention to this agency and may be losing opportunities to improve their FDI level and the gains coming from it.

The ideas also contribute to provide guidance for decision makers. Policymakers may find our framework useful to think about reforming their incentive policies in order to make them more tailored to their development needs. Managers of firms could take advantage of our discussion to demand from governments more transparent policies allied to a design that would reduce their transaction costs to operate.

7.2. TRANSACTION COSTS, UNCERTAINTIES, AND RISKS

The basic premise of transaction cost theory is based on the classic article The Nature of the Firm by Coase (1937). The main question here is whether a transaction is more efficient if performed within the firm or outside it by the market. Thus, the transaction cost theory main concern is with managing transactions in a way that the firm will minimize the sum of both production and transaction costs (O. Williamson, 1975, 1985). The first are those inherent to the internalization of the functions of a business partner, and the latter are those involving the establishment of contracts, the monitoring of performance and the fulfillment of contractual clauses against the partner.

Concerning the IB field, because economic agents are boundedly rational and some are opportunistic, the act of internationalizing will incur in transaction costs such as lack of information, enforcement, and bargaining costs. According to Buckley and Casson (1976), firms bypass the imperfections of international markets by internalizing the operation, which will confer market power and the ability to use internal transfer prices in different tax environments. However, it may lead to reduced economies of scale, communication problems, and discrimination of host countries (Fisch, 2008). The costs of internalizing, in any case, must be confronted with its benefits. Buckley (2014) highlighted that these costs encompass political influence, communication, management, and resource costs, as well as the ‘liability of foreignness’. De Beule, *et al.* (2014) by discussing these costs, added the ‘liability of origin,’ meaning the handicap incurred by firms because of where they are from. Consequently, firms will internalize when the uncertainty of demand, market attractiveness, cultural distance, and asset specificity are high (Y. Luo, 2001a). Thus, the transaction cost theory identified uncertainty problem as one factor that would determine whether the transaction costs are higher than production costs.

In the IB field, uncertainty arises mainly from the lack of information, which makes knowledge gathering the antidote for it (Liesch et al., 2011). Nevertheless, uncertainty affecting IB decisions can be exogenous or endogenous (van de Vrande, Vanhaverbeke, & Duysters, 2009). The latter is related to the investment per se and is relationship-specific, as MNEs face it when there are dissimilarities among partners (De Beule et al., 2014). The first, exogenous uncertainty, is the one that managers perceive in the institutional environment of a country, be they formal or informal (Delios & Henisz, 2003; Xu & Shenkar, 2002), or it can be coming from technological newness (De Beule et al., 2014). Unlike uncertainty, the risk is measurable in some degree. Although there is an unknown outcome, risks can be traced back to its source, be priced, and could be partially transferable to another party (Mauboussin, 2013).

Concerning countries, risks may be political, social, or economic. Economic and financial risks are defined as fluctuations in the overall level of activities and prices in a given country (Bruno & Shin, 2014), while political risk is the possibility of political change by the host government that may affect the ownership of firms or their profits (Holburn & Zelner, 2010; Miller, 1992). Lastly, cultural risks arise when it is hard to predict the actions of the relationships when values and customs are different. Studies concluded that the cultural aspect of communications, decision-making, and ethical practices impact the relationship between firms (Meschi & Riccio, 2008; Rauch, Frese, & Sonnentag, 2000). Consequently, this risk can disrupt collaboration and learning between partners (J. Hennart & Zeng, 2002).

As transaction costs encompass negotiating, monitoring, and enforcement costs, risk management is closely related to the institutional environment of a country. Williamson (1985) concluded that institutions emerge in order to reduce the costs associated with market failures. Hence, institutions allow firms to "engage in transactions without incurring undue costs or risks" (MEYER, *et al.*, 2009, p. 63). In this regard, the availability of information becomes indispensable to transform uncertainty into risk or to reduce risks, since when a firm decides to enter a given location, it is assumed that the decision maker knows the characteristics of that market (Buckley & Casson, 2019). Institutions that facilitate information gathering, relationship building, and contract protection, for example, reduce costs for risk managers, mainly due to resources and pervasiveness costs that risks bring to the firm.

Thus, the institutions of both home and host country influence the MNE activity. The combination of all types of institutions in both countries affects uncertainties and risks. Therefore, investment policies of countries play a pivotal role in transforming uncertainties into risks or in reducing risks to the MNE.

7.3. COUNTRY-SPECIFIC ADVANTAGES: REDUCING TRANSACTION COSTS TO FIRMS

Country-specific advantages (CSAs) propose that firms achieve different levels of performance due to differences in either their home or host country. In this case, these advantages are available to any firm from their home country or to any firm operating in a given host country. Scholars suggested that the location decision of MNEs will depend on the interaction between the capability of the firm and the CSA of both home and host country (Alcácer et al., 2013; Dunning, 1998; J.-F. Hennart, 2012; Y. Luo & Tung, 2007; Ramamurti, 2012). In this sense, Rugman and Nguyen (2014, p. 53) defined CSA as an "exogenous location factors in a country that represent economic and institutional environments (including geographic location, factor endowments, government policies, national culture, institutional framework, and industrial clusters)."

The CSAs are usually analyzed in terms of market size, institutions, quality of goods and capital markets, labor force, and natural resources available. Concerning institutions, their quality is seen as a significant advantage since it facilitates transactions and reduces risk. According to North (1990), institutions are the rules of the game in a society, and it includes both formal (e.g., policies, property rights, contracts, laws) and informal aspects (e.g., conventions, norms, values, codes of conduct). Thus, these rules are humanly devised constraints that structure political, social, and economic relationships.

As CSAs vary between countries, so do institutions. In this case, institutions vary mainly because they are developed based on path-dependent processes in a country. Because of that, by the late 1990s and the 2000s, several scholars began to focus on understanding the institutional and relation assets for international business to occur (Peng et al., 2008), especially because MNEs face different institutional factors and managing them is a crucial component of the performance of the firm (Hoffman, 1999; Xu & Shenkar, 2002). Thus, concerning institutional risk, firms would have problems in countries with less advanced regulatory, economic, political and social institutions (Arregle et al., 2013; K. E. Meyer et al., 2009; Schwens et al., 2011).

The regulatory institutions respond for government control over firms, which threatens their autonomy. Governments may use their authoritative and regulative powers to constrain or influence the behavior of MNEs (Arslan & Larimo, 2011). In this case, firms will opt for locations where the regulatory constraints are less restrictive to their activity (Arregle et al., 2013; Brouthers, 2002; Kang & Jiang, 2012). Additionally, regulatory distance influences the location choice, since firms have to adapt their business practices to the local stakeholders (Chang & Rosenzweig, 2001; Slangen & van Tulder, 2009).

Economic institutions involve both market intermediaries and the suppliers of the supporting infrastructure that determine the incentives and constraints of the economic activity. The intermediaries encompass those that solve information problems and reduce transaction costs (Khanna & Palepu, 1997; Khanna & Rivkin, 2001), such as investment bankers, auditors, solicitors, consultants, brokers, traders, and dealers. The suppliers focus on providing physical, human, and technological infrastructure. This structure intends to provide capital to the market, taking into consideration its availability, cost-effectiveness, and value stability. Thus, the economic institutions, such as Central Banks, try to provide the most efficient capital market so that firms have better access to financial resources (Agarwal, 1980; Bevan, Estrin, & Meyer, 2004).

Political institutions include governments and other key actors, such as politicians and political parties. They determine the political regime and the policies that affect the environment for MNEs. Political risk is an essential factor when considering FDI, as firms can internationalize to escape from the institutional void (Doh, Rodrigues, Saka-Helmhout, & Makhija, 2017; Khanna & Palepu, 1997) or can choose the host country with less possibility of expropriation or nationalization (W. Henisz, 2000; Kobrin, 1984). Moreover, political institutions deal with government efficiency, which means, for example, the rule of law (Rodriguez et al., 2005), property right protection (Ostergard Jr., 2000; Oxley, 1999), transparency and corruption (Habib & Zurawicki, 2002; Kaufmann & Wei, 2000). Thus, political stability is vital to avoid constant changes in the legal framework in a discretionary manner (Jensen, 2003).

Lastly, social institutions encompass norms, values, and customs. Thus, they derive from members of a society as they interact with each other and develop recursive practices (March & Olsen, 1989; Scott, 1995). These practices, for example, may take the form of work ethics (M. Weber, 1930), attitudes (Hofstede, 1980) and trust (Fukuyama, 1995). In this regard, each society, or niches of it, have their procedures and practices that may constrain the action or facilitate those firms with a more acceptable or desired behavior, which affects the costs of doing business in a given country.

Thus, the institutions of both home and host country influence the MNE activity. The combination of all types of institutions in both countries affect the existing, and to be existent, ownership advantages of firms in different forms. Therefore, the incentive and constraint structures of countries are a critical factor to explain the growth rates of FDI (Dunning & Lundan, 2008a).

7.4. INDUSTRIAL POLICY, COORDINATION AND TRANSACTION COSTS

Industrial policy is defined as “any type of selective intervention or government policy that attempts to alter the structure of production toward sectors that are expected to offer better prospects for economic growth than would occur in the absence of such intervention” (PACK, SAGGI, 2006, p. 2). This policy has been one of the main mechanisms for a country to achieve development, since it speeds up the process of structural transformation by moving labor from lower to higher productivity sectors (Haile, 2018; McMillan, Rodrik, & Verduzco-Gallo, 2014; Nuñez, 2006; Rodrik, 2008b).

The design of policies should take into consideration market failures arising from firm capabilities and apply its tool selectively (Yülek, 2018). These tools consist in subsidies, use of tariff and non-tariff regulations, financing, planning and selection of strategic sectors, for example. Nevertheless, markets cannot lead themselves to economic efficiency and/or income distribution, and governments suffer from information asymmetry. Therefore, in order to formulate and implement industrial policies, the state should recur to the private sector. This is because most part of the information necessary to the policymaking is held by firms, thus some coordination is needed between the parts (Harrison & Rodríguez-Clare, 2010; Rodrik, 2007, 2008a; Szirmai, Naudé, & Alcorta, 2013).

On the one hand, governments gain from this relationship because firms can indicate the meanings to achieve a more rapid growth (Lemma & te Velde, 2017), and they can use the private sector to indentify new promising activities that will be competitive – what Hausmann and Rodrik (2003) called ‘helping hand’. On the other hand, this coordination can help the identification of constraints to the productivity of firms (Lemma & te Velde, 2017) and governments can provide firms with specific inputs to production (Hausmann, Rodrik, & Sabel, 2008). Thus, this relationship is based on information sharing and investment climate reforms (Kikeri, Kenyon, & Palmade, 2006). The studies of Abdel-Latif and Schmitz (2009), Campos and Root (1996) and Sen (2010) showed that the interaction between public and private sectors in Egypt, East and South Asia and India respectively led to economic growth in those countries as the information trading improved the policy formulation. Moreover, other studies revealed that this interaction is also benefic to the private sector as it improved firm productivity in Ghana, India and Zambia (Ackah, Aryeetey, Ayee, & Clottey, 2010; Kathuria, Rajesh Raj, & Sen, 2009; Qureshi & te Velde, 2007).

Another type of coordination exists between government agencies. The intention here is to increase public value by having them working together instead of separately. Coordination requires a series of alterations in the normal functioning of the agency, it "involves, at a minimum, leveraging personnel and financial resources for collaborative purposes, designing and managing an effective operating system, reaching and maintaining consensus on basic goals and on trade-offs among relevant sub-goals, creating an effective culture or ethos of interpersonal working relationships, and securing the implicit or explicit consent of elected officials" (BARDACH, 1998, p. 18). Moreover, the author listed a series of coordination failures that may arise from the relationship between agencies, such as the pluralism problem and the obsolescence problem.

The first one is related to the protection of the agency´s niche, as this leads to a mutually exclusive jurisdiction. The example here is when there is change in the political parties in charge. One party may think that a given policy is more important, increasing the respective budget in face of others. An example here is regarding the U.S. Eximbank, where the conservatives often blocked nominees, which forbid the bank to approve large transactions due to lack of quorum. Thus, this positioning impedes the full function of the bank. Moreover, the pluralism problem also addresses the situation when agencies are overlapped and impose redundant requirements to the regulated parties, as they operate in isolation. This case directs impact the cost of doing business in a country, since it takes more time to open a business or to deal with permits. An study from Divanbeigi and Ramalho (2015) with more than 180 countries showed that the lesser is the cost of doing business, higher will be the number of firms created and country growth.

The obsolescence problem happens when the policy does not look to the entire ecosystem. This means that the agency only looks at their own issues, instead of looking to the whole society. The case of Dominican Republic export processing zone (EPZ) illustrates this problem. While the zone itself prospered, the other regions were unable to do so as there was no integration between the EPZ and producers from other regions. In other words, the exporters did not purchase inputs from local suppliers and consequently vertical integration was not built (Schrank, 2001). This left the rest of the economy weak, since the EPZ did not look to the entire ecosystem.

Therefore, coordination between agencies and between them and the private sector is important to reduce transaction costs to both the government and firms. This happens because of the information trading and the improvement of institutions related to a pro-market governance in terms of a better investment climate and better returns to the society in terms of social good.

7.5. FOREIGN DIRET INVESTMENT POLICIES: PRESCRIPTIVE FRAMEWORK

FDI is an essential part of an effective economic system and plays a significant role in development. Nevertheless, the benefits from it do not come automatically and evenly across countries, sectors or local communities (OECD, 2002), making it necessary for the governments to intervene and build up a structure to encourage FDI and to catalyze its benefits for the firms or the society in general. Therefore, these policies must take into consideration the MNEs as an interested party

Many scholars posit that firms consider several costs when entering a country such as capital, labor, intermediates, infrastructure, land, administrative, taxes, corruption, and information. Thus, an effective investment policy takes into consideration strong institutions and public governance (OECD, 2015). Yet, incentives can be a significant policy tool to channel resources and support sustainable development (UNCTAD, 2014). Thus, to understand the use of incentives by the government is indispensable to assess whether and how a society can benefit from it (Tavares-Lehmann, 2016). Still, according to the author, the incentives are used to influence the location decision of investors as they could compensate for market failures. At the same time, the restriction imposed by the governments to outward FDI may be undermining the positive effects over the home-country (World Bank, 2018).

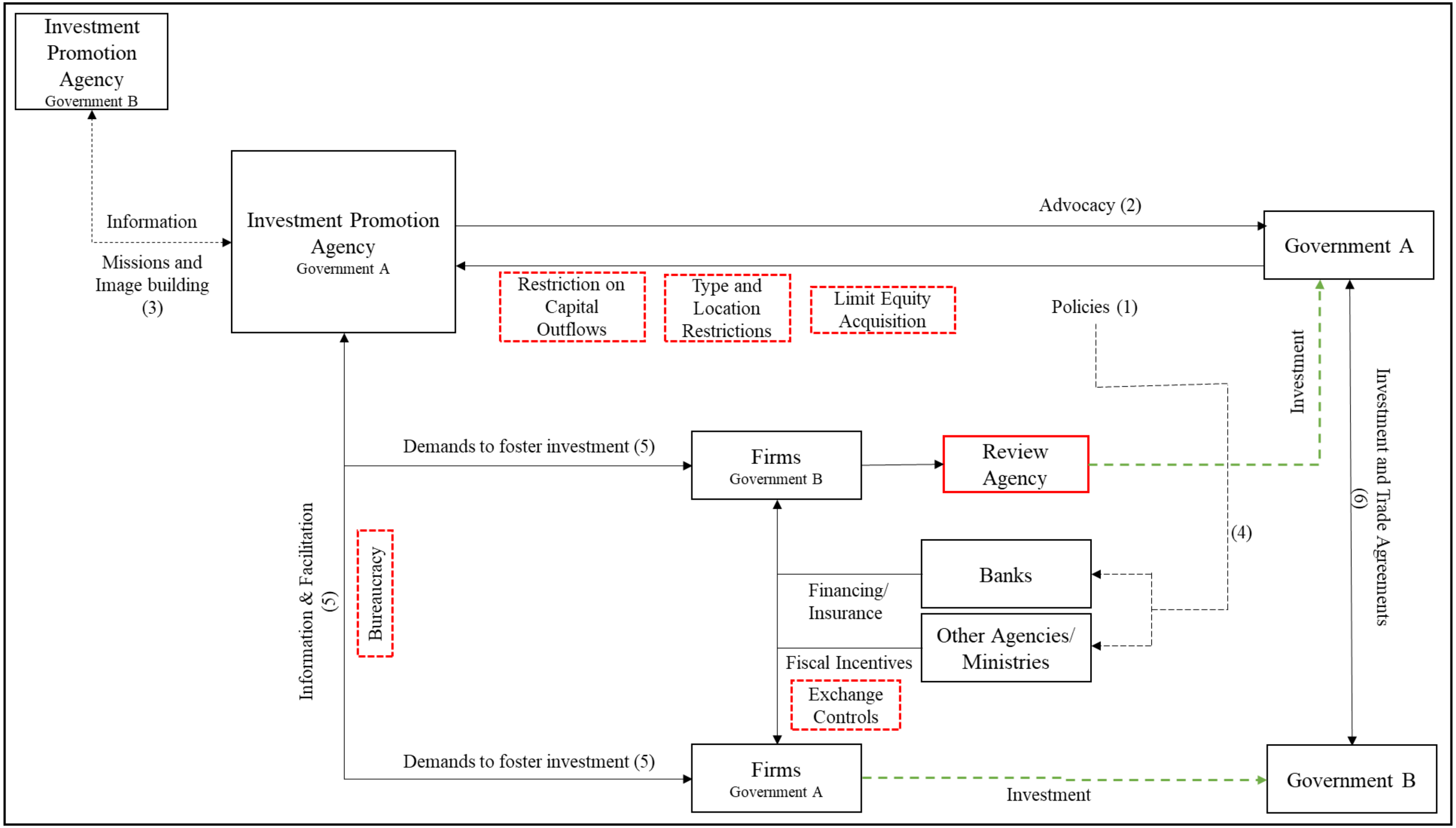
In this regard, an FDI transaction involves a triangular relationship between the MNEs, the host- and the home-country (UNCTAD, 2001a). As we discussed before, MNEs go abroad in search of market, efficiency, assets, and natural resources. In contrast, MNEs bring jobs, technologies, investments, and capital to both home and host countries.

In the search for these benefits, governments are competing for the attraction of MNEs by taking into consideration by several factors that may help to lure the MNE such as market-size, agglomerations, taxes, infrastructure, labor cost, and quality, institutions, among others. In this circumstance, it is imperative to offer incentives to promote investment as a good investment promotion program pays off (World Bank, 2009).

In order to gather the best result, countries do not need to attract larger quantities of FDI, but good quality ones. Quality here means the impact in terms of job creation, exports, and technology transfers. Nevertheless, the eagerness to improve the result may also turn into severe economic distortions. Although FDI incentives may enhance overall welfare, by distorting competition welfare will be reduced. These incentives can distort competition or be conceived to MNEs that are less efficient or produce lower quality goods. Moreover, it can lead the firm to a non-optimum location, as was going to occur in the case of Amazon HQ2 if there was no opposition.

Concerning the incentive policies to encourage FDI in both inward and outward directions, it is important to highlight that they are similar, although with a different focus. FDI incentive is defined by the UNCTAD (2000, p. 11) as "any measurable advantages accorded to specific enterprises or categories of enterprises by (or at the direction of) a Government, in order to encourage them to behave in a certain manner." For inward FDI governments rely on policies such as information provision and financial, tax and regulatory incentives (OECD, 2001; Tavares-Lehmann, 2016; UNCTAD, 2001a); while for outward FDI the policies encompass information provision, insurance, financial, tax and regulatory incentives (Gorynia et al., 2015a; Kuźmińska-Haberla, 2012; Y. Luo et al., 2010; UNCTAD, 1999a). Thus, we are going to present our framework based on these types of policies. The framework is presented in Figure 16.

Figure 16. Incentive Promotion Framework



First, it is essential to notice that our framework encompasses two governments (A and B), and two firms, one from each government. Also, the framework is drawn from the perspective of government A. Thus, firm A is engaging in outward FDI in Government B, and firm B is engaging in inward FDI in Government A.

Our explanation of the framework will be divided into six parts: independency and policy centralization; the relationship between IPA-A and Government A; the relationship between IPA-A and IPA-B; the relationship between IPA-A and banks/agencies; the relationship between IPA-A and MNEs; and the relationship between government A and government B.

a) Independent Hub

As we pointed in the framework, the structure required to encourage or discourage FDI in both inward and outward direction are the same. In both movements, governments use an IPA to provide information, and banks and other agencies to give financial or fiscal incentives. Although the goal of each policy (inward or outward) is different, the country may benefit from some partially integrated functions and technical sectors, such as research, image building, missions, and overseas offices. Specific functions should be treated in separated internal structures. Moreover, by integrating the two policies, the government will be able to potentialize the desired spillover effects when pursuing development as stated in the investment policy. In other words, it will be easier to integrate the strategy when under a hub structure. Thus, the centralization of policies and structures will help the government to be more focused, organized, and to answer the demands from both the society and MNEs quickly.

Moreover, this hub structure calls for a certain degree of independency from the government to avoid abrupt changes that may harm the agency or their customers. A recent example concerns the Mexican IPA. ProMéxico was closed by President Obrador even knowing that the agency attracted from 2013 to 2018 around $87,932 million dollars in investments and it was involved in the creation of more than 316,000 jobs. Another example is from Brazil. The Brazilian IPA, APEX-BRASIL, fired the business Director as she claims that was due to her refusal to sign ‘spurious contracts’. The agency had three presidents in the first four months of 2019 due to political reasons. Therefore, the IPA independency would reduce the pluralism problem, as it would permit the continuation of policies despite some political changes and would also reduce the political interference in the agency.

b) The Relationship Between the IPA and its Home-Government

The relationship between the Government and the IPA is based on two main flows: policies (1) and advocacy (2). The Government formulates its industrial and investment policies by consulting their ministries to decide which incentives should be provided for what type of firm and which sectors should be discouraged, as well as what rules should be enacted. However, there is a risk that investment decisions occur in silos, with no coordination between authorities or representatives of the IPA, which should have representatives of the private sector. Bhorat, Cassim, and Hirsch (2017), for example, discussed the failures in policy coordination in South Africa. The authors said that the Department of Trade and Industry (DTI) developed an industrial policy strategy based on a series of incentives, but the National Treasure blocked the strategy implementation claiming that the DTI was ‘picking winners’. We have another example in Tanzania, where the Ministry of Trade and Industry was responsible for implementing the export promotion zone (EPZ). At the same time, the Ministry of Planning, Economy, and Empowerment was managing the special economic zone (EPZ) program. Although the two programs were coordinated by the Export Processing Zones Authority, the existence of two frameworks was confusing to investors (Kinyondo, Newman, & Tarp, 2016). A similar situation happened in Ethiopia as different government levels compete for clients (Newman & Page, 2017).

By strengthening the cooperation between the Government and the IPA in what comes to policymaking, the policies will reflect a more coherent approach that will result in the optimum strategy. Moreover, this interaction outcome would be translated in a clear understanding about the different functions and objectives of the inward and outward policies, and also the common ground between them, which will help to minimize challenges and conflicts.

Policy advocacy consists of efforts to improve the country investment climate by proposing changes in regulations, laws, and policies. Thus, this function is about the relationship between the government and the private sector, taking the form of claims, proposals, and lobbying (Morisset & Andrews-Johnson, 2003; UNCTAD, 2008). In this sense, it is important to the IPA have representatives of the private sector since it deals with MNEs. The agency usually knows the issues and the possible improvements in terms of institutional environment and infrastructure. Facilitating this cross-fertilization demands not only cooperation with policymakers, but also a structure to facilitate the transference and implementation of lessons learned. Moreover, it is important to highlight that what is usually good for MNEs is equally beneficial to national firms. Thus, the environmental improvement will also positively impact the domestic economy as a whole, as well as would help the Government deals with critics about special treatments to foreigners. More on public-private relationship will be discussed in item (e).

c) Relationship Between IPAs

The relationship between IPAs (3) is not new. Still, we believe that a deeper relationship would benefit both sides. First, IPAs may exchange information on opportunities, incentives, the desired type of FDI, laws, norms, values, possible alterations in the institutional environment, among others. By doing this, the home IPA will be able to provide their national firms with up-to-date information. Moreover, host IPAs may help in the organization of missions and fairs by offering encounters with consumers, suppliers, and other relevant stakeholders. This relationship may even help image building by allowing researches with the firm database about the perception of a given country. Nevertheless, this would not substitute for advertising investment in magazines and television, for example. Thus, information sharing between IPAs would reduce transaction costs for both IPAs. The importance of partnerships between IPAs is highlighted in a study from UNCTAD (2015) where they present the potential of information sharing, technical cooperation and marketing opportunities. The example here concerns the World Association of Investment Promotion Agencies (WAIPA) that exists to strength the relationships between IPAs by promoting network building and best practices exchange. They claim that the relationship between agencies raise the FDI level in the countries.

d) Relationship Between IPA and Other Agencies

Concerning the link between the IPA and the bank responsible for providing financial incentives and the other agencies related to fiscal and regulatory incentives (4), the relationship between these entities should be tightened. As the IPA is the focal point between firms, government, and the bank/agencies, the IPA must know about the credit lines and amount of incentives that the banks/agencies are willing to give. Moreover, a closer relationship would benefit the design of these incentives in terms of not only sectors and regions benefited, but also about bureaucracy and transparency. Also, the IPA will know what is wanted by both the firms and the regions to communicate to the bank/agencies, as well as about the bank/agencies incentives capacity. Thus, this relationship would allow the joint construction of measurement mechanisms to enhance policies results and FDI quality in the government side, and to improve the benefit side to the firms by knowing their issues.

According to a study from Martincus and Sztajerowska (2019), there is more fragmentation in countries from Latin America and Caribbean than in OECD countries. This means that there are more different government agencies dealing with investment promotion, and each of them have their own personnel and programs, which reduces the possibility of best outcomes. The same study said that this situation occurs, for example, in countries such as Barbados, Brazil, Dominican Republic, Ecuador, Guyana, Honduras, Trinidad and Tobago, and Venezuela. Furthermore, IPAs do not possess a representative from the bank, customs or fiscal agencies in the board. Therefore, governments offer closed incentive packs to the firms that either may not correspond to the firm’s needs or its existence may not reach the interested part.

Moreover, a study from the OECD (2019), shows the lack of integration between IPAs and the banks that provide financing to investments, since only four IPAs from countries from the South Mediterranean region offer assistance in obtaining financing. This is could be extended to other countries, since the websites from the IPAs from Cameroon, Azerbaijan, Ivory Coast, El Salvador and Burkina Faso, only to cite a few, do not mention financing incentives to investors. This means that financing agencies do not operate in coordination with IPAs. The proposed solution here is a coordinated effort to reach and make clear to firms the types of incentives and that it would be tailored to the firm and to the country’s needs. This way we believe that the money spent by the government with financing and fiscal incentives would bring more returns to the country and would be more interested to the firm, reducing costs to both.

e) Relationship Between IPA and MNEs

In order to improve the benefits of FDI, IPAs must nourish their relationships with MNEs (5). IPAs have to provide information to the MNEs concerning institutional and economic environments, as well as to promote their links with important stakeholders such as investors, suppliers, and consumers. Investment services consist of a series of techniques to support investors while they are analyzing investment decisions. Those services encompass information provision, advice, guidance about approval processes, licenses, and assistance concerning locations and utilities (International Trade Centre, 2014; Morisset & Andrews-Johnson, 2003; Wint, 1992). Wells and Wint (2000) agglomerate those services in three broad categories: the provision of investment counseling services; information about the processing of applications and permits; provision of post-investment services.

In addition, IPAs have the advocacy function already discussed in item (b). This means that IPAs must deal with MNEs demands and discuss them with the government, banks, and other agencies aiming to improve the investment climate. The relationship between IPAs and firms may also be directed to build agglomerations or belts/clusters to improve local development. Concerning the outward direction, this relation can be responsible for encouraging the national MNE to a given country or working with the MNE to accomplish external, industrial, or R&D policy goals.

The ideal coordination here is what Evans (1995) defined as ‘embedded autonomy’. While studying the Korean model, he noticed that there was a balance between coordination and capture, as the industrial policy design were autonomous and embedded in the private sector network at the same time. During the 1960s-1970s, the strategy came from top-down to the private sector to adhere. The collaboration started during the 1980s through a commission composed by public, private sector, and labor unions members. Between 1998 and 2011, more than 80 per cent of the decisions made by the commission were implemented. This collaboration may have turned the Korean firms in major global players (Kim, 2011). The same reasoning was successful applied in Vietnam (Vu-Thanh, 2017). These examples show that the collaboration between private and public sectors contributes to the industry growth.

This balance is important to improve the investment climate by putting in practice the demands made by the private sector. This could enhance the investment climate in Latin

America, since its lacking governance quality, availability of physical infrastructure, structure of the financial sector, and good levels of education of the labor force (Alaimo, Fajnzylber, Guasch, López, & Oviedo, 2009). Similar condition is found in Africa, where Newman and Page (2017) suggested that was due to poor investment climate that African SEZs underperforms in productivity spillovers.

Apart from improving the investment climate, the feedback provided by the private sector is important to build accountability. In China, for example, the authorities responsible for the industrial development sought feedback from the private sectors (Dinh, 2017). Moreover, this coordination builds trust, and a trustful relationship improves the information sharing and the outcome for the society (Aryeetey & Owoo, 2017; Lemma & te Velde, 2017).

f) Relationship between Home and Host Governments

The last link that appears in our framework is the relation between the two governments (6). In this case, the focus should be over agreements, mainly tax and investment treaties. By doing this, governments will improve the investment climate and enhance transparency, mainly in the fiscal, labor, and environmental arena.

Regulatory incentives exist because firms are embedded in multiple institutional environments, and the differences between them increase transaction costs. According to the OECD (2003), regulatory incentives consist in derogations of rules that are intended to attract MNEs. This intervention aim is to safeguard market access to all firms and to protect customers and to keep minimum levels of labor conditions and environmental protection. This is because regulations impact on the costs of wages, work conditions, social provisions, as well as affect the risks concerning property rights and asset values for stakeholders. Apart from labor and environmental regulations, international investment agreements also provide legal protection and cost reduction to the MNEs. Egger and Wamser (2013) describes two modes of preferential liberalization for MNEs activity: bilateral investment treaties (BITs) and double taxation treaties (DTTs).

BITs are intended to raise the level of FDI as their primary purpose is to protect investors from expropriation and political risks in order to safeguard investments (Egger & Wamser, 2013; Manger, 2008; Sachs & Sauvant, 2009). As reported by the UNCTAD (2007) and Manger (2008), BITs usually offer dispute settlement procedures and contain national treatment and most-favored-nation treatment rules for investments.

DTTs occur when MNE income is taxed by both host and home countries. In this sense, DTTs are signed to avoid this situation. The objective of this type of treaty is to restrict the taxation of corporate income by assigning taxing rights, consequently increasing the return of investors (Egger et al., 2006; Hong, 2018; Murthy & Bhasin, 2015).

Thus, we believe that based on the premise of IPA hub and on the construction of networks as described here, governments may enhance the spillovers by working together policies to encourage both inward and outward FDI. From the MNE point of view, our proposal will transform the IPA in a real stop-and-shop point by reducing transaction costs regarding investment climate, institutional environment, and stakeholders' relationships.

7.6. CONCLUSIONS

The role of investment policies is to improve FDI gains, which will be translated into country development. When competing for the right type of FDI, governments may provide incentives to the MNE to improve their odds to secure the benefits that come with it. At the same time, IPAs diverge in their structure and importance across countries.

By aiming at improving development gains and reducing economic distortions, we proposed an incentive promotion framework. Our framework is centered in the IPA figure and in networking building to improve the quality of FDI. Thus, our framework intends to reduce transaction costs for both the government and the MNE and to enhance the benefits of investments to the country. Moreover, it is important to highlight that our proposal is limited to the macro-level, as we do not discuss state/regional-level incentives structure, nor its effect into the MNE strategy.

Therefore, our article calls for a new discussion concerning incentives for FDI and its institutions, as well as the revamped role played by the IPA. In this sense, we contribute to the literature by bringing back the IPA to the center of the discussion concerning public policies, as it should be the one-stop-and-shop for MNEs. Moreover, we bring into attention the fact that the solely existence of an IPA is not sufficient to contribute to FDI encouragement and development, as some governments expected by creating one, although they do not provide enough tools and budget to do so.

Moreover, we expect that policymakers and MNEs will benefit from our framework, as it can help the first tailor better policies to both the society and the firms, and it will give to the latter a communication channel with the government, as well as bargaining power to improve their conditions to engage in FDI.

8. FINAL CONSIDERATIONS

This doctoral thesis presented six essays concerning institutional theory and incentives for FDI. As the institutional theory grew to explain the internationalization process in emerging markets, we decided to take a closer look at one type of formal rules: incentives for the internationalization of firms. Therefore, the objective here was to measure the impact of these incentives and understand the structure behind it.

The growth of FDI in the past decades lead to a competition for which region would be its recipient. This situation led governments to offer incentives to attract it. Several scholars had investigated one specific incentive, but most of it was in developed countries. As shown by essays 1 to 3, there is a lack of studies concerning incentives in emerging markets and, especially, its relationship with market institutions. This was the gap we intended to fill. In this regard, essay 4 was thought to measure the effectiveness of such incentives in different realities, while essay 5 intention was to provide an understanding regarding the FDI structure. By pointing out the importance of incentives and the lack of a proper structure to support it, we wrote essay 6 to propose a framework in order to help policy-makers deal with FDI policies.

It is also important to highlight here that we showed that China is responsible for the large part of emerging market studies. This reveals that we still have plenty to do in order to understand emerging markets. China is an outlier when it comes to emerging markets as they have a large population, a big territory, and a centralized government, for example. However, most emerging countries present different realities. Hence, if we want to generalize theories to these countries, we need to go deeper into this subject.

In this study, we investigated several countries to understand the impact of incentives and institutions in the attraction of FDI. Moreover, we explored the Brazilian structure of FDI encouragement to understand the variables present in one of the most important emerging markets in Latin America. The results of our study revealed that institutions matter when attracting FDI and that incentives can play an important role in the process.

Nevertheless, many governments do not know the reason for FDI attraction, nor did not have a suitable structure to gain from it. At the same time, emerging markets started to encourage their firms to go abroad. The same pattern is seen here, as governments are offering incentives without the knowledge to back it up or with no suitable structure to collect the benefits.

In this regard, institutions are important to regulate investment behavior. This is true not only from the investment laws point of view but also when dealing with investment climate, infrastructure, and economic development.

Since FDI helps countries with development by transferring labor from low to higher productivity sectors and speeds up the structural transformation, its role in the economy of a country is the object of several policies. In this regard, IPAs appear as an entity that should play an important role in this process. However, this is not true in many countries as these agencies act as a tool to reduce transaction costs for firms by giving information about bureaucracy and partners, for example, there is plenty of space to grow. For example, IPAs could help firms also by providing more information about incentives, and governments tailor incentives and build structures to aid firms in their investments.

Moreover, these promotion agencies may also assist governments in improving institutions. As this thesis shows that institutions matter for the attraction and encouragement of FDI, IPAs can subsidize the governments with information about the investment climate and infrastructure problems faced by firms. Hence, these agencies would also have a pivotal role in the development of a country when it comes to institutions.

Thus, our study revealed that institutions matter when it comes to FDI and development. We also showed that IPAs should play a bigger role in the government to speed up the strengthening of institutions and in the development of a country.

Moreover, we pointed for further studies concerning institutions in emerging markets as a catalyzer for development. Also, the role of IPAs steering spillover effects is valuable to understand the importance of these agencies and to present different development paths.

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APPENDIX A

Summary of the analyzed articles in order of publication date

Author (Year)	Category	Objective	Methodology	Country	Period	Level	Main Finding
Levy (1993)	Government Support	Evaluate political and organisational obstacles to understand how programs to reform trade and investment policy might be matched to the capabilities of a country	Qualitative	NA	NA	Country	There is no single approach, common across countries, through which trade policy reform should proceed, as policies will depend on the country's administrative capabilities
Stare (2002)	Location Choice	Identify and to analyse common characteristics and differences in the internationalisation of transition economies' service sector from the point of view of the sequential pattern	Qualitative	Czech Republic, Hungary and Slovenia	1999	Country	Institutional and cultural dimensions bear a strong influence on the geographical distribution of OFDI
Buckley *et al.* (2007)	Location Choice	Investigate the determinants of Chinese OFDI	Pooled OLS and Random Effects models	China	1984-2001	Country	Chinese OFDI is associated with high levels of political risk in, and cultural proximity to, host countries throughout, and with host market size and geographic proximity (1984–1991) and host natural resources endowments (1992–2001).
Mishra and Daly (2007)	Location Choice	Study the effect of quality of institutions on OFDI	Two-stage least squares and OLS models	OECD countries	1991-2001	Country	Better institutions in the host countries have an overall positive and significant effect on source countries' OFDI stocks
Witt and Lewin (2007)	Political Institutions	Propose that the extent of OFDI as escape is likely to rise with the extent of societal coordination in the political economy	Qualitative	NA	NA	Country	Escape to avoid misalignment between firms' strategic needs and home country institutional constraints represents an additional explanatory factor for OFDI
Yiu, Lau and Bruton (2007)	Specific Advantages	Introduce new parameters by focusing on specific ownership advantages and strategic actions that firms have to develop in response to the institutional characteristics of the emerging economies when they decide to pursue OFDI	OLS model	China	2003-2004	Firm	Highlight the importance of the role of home country network ties in facilitating firms in emerging economies to pursue international venturing. Moreover, institutional networks play a more important role at this stage of economic development of the country under study
Stoian and Filippaios (2008)	Location Choice	Test the impact of ownership and location advantages in determining the internalisation decisions by Greek investors	Logit models	Greece	1994-1999	Firm	a) The expansion of Greek firms occurs primarily in similar countries with small market size, and open economies; b) The rule of law and high bureaucratic quality are essential for the firm's decision whereas the existence of high corruption act as a deterrent
Cui and Jiang (2009)	Specific Advantages	Identify the significant determinants of Chinese FDI ownership decisions and provide a conceptual framework for future empirical study	Qualitative	China	NA	Firm	a) The attaining of institutional legitimacy is an important factor for firms facing restrictive host-country regulation and high cultural barriers; b) Chinese firms' FDI ownership decisions may also be influenced by their home country institutional environment, especially the OFDI approval procedure administered by the Chinese government

Dewit, Görg and Montagna (2009)	Location Choice	Examine how employment protection legislation affects location decisions of MNEs	OLS, Fixed Effects and GMM models	OECD countries	1986-1995	Country	While an ‘‘unfavourable’’ employment protection differential between a domestic and a foreign location is inimical to FDI, a high domestic level of employment protection tends to discourage outward FDI
Bhaumik, Driffield and Pal (2010)	Specific Advantages	Examine the impact of ownership structures of emerging-market firms on the decision of these firms to undertake outward FDI	Pooled regression and Tobit model	India	2000-2006	Sector	Organisational forms such as family firms, which are optimal outcomes of institutions prevailing in emerging markets, may be suboptimal in a changing business environment in which OFDI is necessary for access to resources and markets
Cui and Jiang (2010)	Specific Advantages	Investigate the effect of state ownership on Chinese firms’ OFDI ownership decisions	Logistic and Tobit models	China	2000-2006	Firm	The effects of home regulatory, host regulatory and host normative pressures on a firm to choose a joint ownership structure were stronger when the share of equity held by state entities in the firm was high
Luo, Xue and Han (2010)	Government Support	Elucidates why and how emerging market governments enthusiastically stimulate OFDI	Qualitative	China	NA	Country	Chinese policies contributed to the growth of OFDI
Tan and Meyer (2010)	Specific Advantages	Explore what resources drive international growth in the case of Taiwanese business groups	Regression model	Taiwan	2002-2004	Firm	Domestic institutional resources distract from internationalisation, presumably because they are not transferable into other institutional contexts, and thus favour other types of growth
Armstrong (2011)	Government Support	Provide a theoretical basis and assess the performance and potential of Chinese OFDI	Stochastic frontier model	China	2000-2008	Country	Chinese OFDI achieves less of its potential compared with other investors gave China’s size, location in the global economy, and its endowments
Bhaumik and Co (2011)	Government Support	Examine China's economic cooperation related investment over time	OLS and Random effects models	China	1998-2006	Country	a) The impact of economic fundamentals is economically much more meaningful than the resource richness of the investment recipient countries; b) China's economic cooperation related investment is more likely to flow to countries with low levels of corruption which is correlated with institutional quality in general
Carney and Dieleman (2011)	Political Institutions	Describe the internationalisation record of Indonesia’s major business groups	Qualitative	Indonesia	1994-2006	Firm	Indonesian OFDI is impeded by a combination of institutional and firm-level factors that arrest the internationalisation of all but the largest firms
Song, Yang and Zhang (2011)	Government Support	Show whether there is a relationship between investing abroad and structural reforms in the Chinese domestic economy	Qualitative	China	2003-2010	Firm	By investing overseas, the opportunities that arise deepen the structural reform in China; however, such investment can also strengthen the monopoly position of some SOEs
Yiu (2011)	Specific Advantages	Propose that business groups constitute a micro-institutional environment for generating ownership, location, and internalisation advantages, as well as for capitalising on the linkage, leverage, and learning opportunities for internationalisation	Qualitative	China	NA	Firm	Chinese business groups facilitate such an internationalisation process via their unique attributes including internal market, inward linkages, and institutional support
Brada, Drabek and	Location Choice	Analyse the effect of corruption on OFDI	Probit and OLS models	6 Transition	2000-2003	Country	The relationship between home-country corruption and FDI is non-monotonic, with an inverse U shape where both high and low levels of corruption in the home

Perez (2012)				economies			country are reducing the probability of outward FDI flows. If FDI is undertaken to a host country, the volume of FDI is affected by home-country but not by host-country corruption
Buckley, Forsans and Munjal (2012)	Political Institutions	Examine the complementarity of country-specific linkages with country-specific advantages in explaining the foreign acquisitions	Pooled OLS models	India	2000-2007	Firm	Country-specific linkages add to the richness and improve the explanatory power of the Eclectic Paradigm
Cui and Jiang (2012)	Specific Advantages	Examine ownership decision of Chinese OFDI with a focus on the choice between a wholly owned subsidiary and a joint venture entry mode	Case study	China	NA	Firm	Chinese firms adjust their entry strategies to attain regulative and normative institutional legitimacy in host countries. Meanwhile, they also need to comply with the rules set by the Chinese government, which provide incentives to and impose restrictions on Chinese firms' FDI ownership decisions
Kang and Jiang (2012)	Location Choice	Investigate the factors determining OFDI location choices of Chinese MNEs	Random effects model	China	1996-2008	Country	Institutional factors demonstrate a higher level of significance, complexity and diversity in determining FDI location choice in comparison with economic factors
Klossek, Linke and Nippa (2012)	Market Strategy	Understand how Chinese MNEs cope with the specific institutional hurdles of a developed country such as Germany to reduce their liability of foreignness	Case study	China	NA	Firm	Chinese MNEs have gained international experience, whereas strategies to reduce their LOF depend on the establishment mode chosen
Kolstad and Wiig (2012)	Location Choice	Analyse the host country determinants of Chinese OFDI	OLS model	China	2003-2006	Country	Chinese OFDI is attracted to large markets and countries with a combination of vast natural resources and weak institutions
Luo and Wang (2012)	Political Institutions	Explore how home country conditions affect OFDI strategies	OLS model	China	2008-2009	Firm	Overseas investment strategies are influenced by home country environment parameters, including economic growth, perceived institutional hardship, competitive pressure, and by their home country operational characteristics
Peng (2012)	Political Institutions	Argue that a better understanding of the emerging market multinationals will have significant ramifications for future theory building	Qualitative	China	NA	Firm	It is neither clear whether existing theories can adequately account for this new phenomenon, nor evident that we need entirely new theories
Quer, Claver and Rienda (2012)	Location Choice	Analyse the influence of political risk and cultural distance on the location patterns of large Chinese firms	Logit model	China	2005-2009	Firm	a) High political risk in the host country does not discourage Chinese multinationals; b) The presence of overseas Chinese in the host country is positively associated with Chinese OFDI
Wang, Hong, Kafouros and Boateng (2012)	Political Institutions	Examine the forces driving OFDI of emerging-market firms	OLS model	China	2005-2006	Firm	OFDI of Chinese firms is primarily driven by their distinctive institutional and industrial environment
Wang, Hong, Kafouros and Wright (2012)	Specific Advantages	Explain the mechanisms through which government impacts the internationalisation of emerging markets firms	Regression model	China	2006-2007	Firm	Demonstrated that resource-based and institutional constructs are highly dependent on one another

Amighini and Franco (2013)	Location Choice	Provide a sector perspective on the drivers of Chinese OFDI	Negative binomial models	China	2006-2011	Sector	Chinese automotive OFDI is mostly driven by the market size of host economies. Moreover, macroeconomic stability and efficient labour markets both act as attraction factors, while the same does not seem to be true for political stability
Robins (2013)	Political Institutions	Examine the state ownership and management of major Chinese corporations, state influence over their policy direction and the impact of funding through state-owned financial institutions	Qualitative	China	NA	Firm	a) Most Chinese OFDI is still undertaken by corporations which are state-owned and in which the most senior appointments are made by the party-state apparatus; b) The state directly influences and at times directs major corporate policy decisions, including those related to the overseas expansion
Stoian (2013)	Political Institutions	Investigate the home country determinants of OFDI from post-communist economies	Random effects models	20 Central and Eastern European countries	1996-2010	Country	a) The inclusion of institutional variables increases the explanatory power of the models; b) Competition policy and overall institutional reforms play a crucial role in explaining OFDI from CEE countries
Child and Marinova (2014)	Political Institutions	Argue that it is crucial to take account of both home and host country contexts in order to understand their implications for Chinese firms investing abroad	Qualitative	China	NA	Country	In order to understand OFDI and its implementation, it is important to take into account the ‘triangle’ of resource, institutional and political factors that apply in those contexts
Gaffney *et al.* (2014)	Market Strategy	Examine the influences of both the home country institutions and intra-organizational mindsets on the development of EMNE OFDI decision making	Qualitative	NA	NA	Firm	The institutional change and shifts in the underlying culture of emerging markets promote and reinforces global orientation at the individual and organisational level
Lee, Hemmert and Kim (2014)	Location Choice	Study antecedents of the international ownership strategies of Chinese OFDI	Tobit models	China	2005-2012	Firm	Ownership shares are negatively related to administrative and regulative distance, but positively related to the cultural and geographical distance between home and host countries
Li, Cui and Lu (2014)	Specific Advantages	Elucidate how institutional reforms reconfigure SOEs’ constellation of resources, capabilities, and priorities which shape the parameters of their ability to negotiate for home and host country institutional legitimacy	Qualitative	Emerging markets	NA	Country	Institutional change is an important driving component of a firm´s strategy in emerging economies
Lu *et al.* (2014)	Government Support	Examine the extent to which Chinese government support of OFDI projects and host country institutional environments interact with prior entry experience by Chinese firms	Fixed effects logit models	China	2002-2009	Firm	Home government support and well-developed host country institutions reduce the importance of prior entry experience
Meyer *et al.* (2014)	Market Strategy	Assess how institutional pressures induce SOEs to adapt their foreign entry strategies	Logit and Tobit models	China	2009	Firm	SOEs adapt mode and control decisions differ from private firms to the conditions in host countries, and these differences are more considerable where pressures for legitimacy on SOEs are stronger

Wei *et al.* (2014)	Government Support	Examine the factors determining whether or not exporting firms expand to OFDI	Logit and Tobit models	China	2008	Firm	Productivity, technology-based capability, export experience, industry entry barriers, subnational institutions and intermediary institutional support affect firms' OFDI decisions
Cezar and Escobar (2015)	Location Choice	Studie the link between foreign direct investment (FDI) and institutional distance	Poisson and Probit models	31 OECD countries	2004-2009	Country	a) Institutional distance reduces both the likelihood that a firm will invest in a foreign country and the volume of investment it will undertake; b) Firms from developed economies adapt more easily to institutional distance than firms from developing economies
Chen, Li and Shapiro (2015)	Specific Advantages	Extend the classic country-specific advantage–firm-specific advantage framework by integrating an institution-based view	OLS, Logit and Probit models	China	2009	Firm	Strong evidence in support of the view that strong sub-national institutions help emerging market firms develop the capabilities to enter developed country markets
Deng and Yang (2015)	Location Choice	Investigate significant factors that determine the level of cross-border M&As by emerging market firms in developed and developing markets	Negative binomial models	Emerging markets	2000-2012	Country	The intensity of emerging markets MNEs to acquire vital resources for constraint absorption increases the likelihood of their cross-border M&As, and the positive relationship is negatively moderated by host government effectiveness
Drogendijk and Martín Martín (2015)	Location Choice	Investigate how distance and different dimensions of distance between countries explain the outward FDI of firms according to distinct home country contexts	Partial least squares-based structural equations models	Spain and China	NA	Country	All three dimensions of distance (socio-economic development, cultural and historic) explain the direction of Spanish investments, whereas only cultural and historical distance significantly explains Chinese OFDI
Gorynia *et al.* (2015)	Market Strategy	Identify the interdependencies between the motives and modes of OFDI undertaken by Polish companies in different host countries	Case study	Poland	NA	Firm	The presence of home-country advantage is related to the ability of firms to cope with similar institutional environments. This factor significantly affects the investigated geographical patterns of Polish firms' FDI with many of them locating their significant investments in emerging CEE economies
He, Xie and Zhu (2015)	Location Choice	Show that Chinese OFDI has expanded in both distant developing and developed countries	Probit and Tobit models	China	2003-2011	Country	a) Chinese investors are attracted to countries with large market size, abundant resources and strategic assets, and demand a sound legal system but avoid countries with the best rule of law; b) They also favour politically stable locations when seeking markets and care about political stability and corruption control when seeking resources; c) Institutional factors play a more significant role in the investment decision making before the actual investments, but the moderating role of institutions is influential for the actual investments
Liang, Ren and Sun (2015)	Political Institutions	Propose a state-control perspective to analyse government-control mechanisms in emerging economies' globalisation of SOEs	Tobin II models	China	2001-2011	Firm	The diminishing impact of executives' political connections and the increasing impact of state ownership control on firms' degree of globalisation demonstrate the evolving relationship between the state and the managers, as well as the dynamics of state control in globalising SOEs
Lin (2015)	Political Institutions	Shows that exists heterogeneity between Chinese firms	Negative binomial models	China	2003-2012	Firm	Host country institutions are not purely ownership specific, but also contingent on industries and activities in which firms tend to invest
Stucchi,	Political	Study Indian firms' internationalisation	Negative	India	1997-	Firm	a) Emerging market MNEs are not only "pushed" abroad by institutional

Pedersen and Kumar (2015)	Institutions	during periods of institutional change	binomial models		2010		difficulties, but that they also look abroad when inward-oriented institutional changes increase competition with foreign rivals; b) Outward-oriented institutional changes have the strongest positive effect on domestic firms' internationalisation
Sun *et al.* (2015)	Political Institutions	Argue that greater institutional open access in a particular region of a home country leads to a greater level of OFDI	Logit and mixed regression models	China	2001-2005	Firm	Institutional open access is indeed behind some Chinese firms' outward internationalisation
Tomio and Amal (2015)	Location Choice	Address the determinants of OFDI from Brazil from the perspective of the host countries	Random effects models	Brazil	2002-2012	Country	a) The positive effect of institutional distance on OFDI may be constrained by the bilateral trade flows between home and host countries; b) MNEs from Brazil are more likely to invest in a culturally distant country when it delivers better institutional performances, which suggests that there is a complementary relationship between cultural and institutional distance
Yang, Cheng and Lin (2015)	Location Choice	Examine the determinants of China's OFDI	Random effects models	China	2003-2009	Country	a) China tends to invest in developing countries with high political risk; b) A developing country with high political risk seems to be the favoured destination for China's ODI to acquire technologies and resources
Buckley *et al.* (2016)	Location Choice	Investigates the institutional influence on the location strategies of Chinese cross-border M&As	Heckman´s two-stage model	China	1985-2011	Country	Both location choice and amount of investment of Chinese M&As are positively affected by the poor institutional environments
Chen and Fang (2016)	Government Support	Estimate the determinants of Chinese firm OFDI	Fixed effect models	China	2008-2010	Firm	The number of Chinese returnees employed by a firm seems to be more important than tax reduction policies
Chung *et al.* (2016)	Market Strategy	Examine the role of institutions in explaining the FDI entry mode choices of transition economy firms	Logistic models	China	2012	Firm	a) Institutional pressures exerted by the home country government have a significant effect on OFDI ownership decisions, such that firms facing greater institutional pressures are more inclined to choose joint ventures over wholly owned foreign subsidiaries; b) The effect of institutional government pressures on FDI entry mode choices is weaker for firms which are less dependent on the Chinese government
Clegg *et al.* (2016)	Political Institutions	Examine how multinationality strategy, home political influence, and host country risk explain the performance consequences of OFDI patterns of firms	GLS fixed effects models	China	1991-2011	Firm	A greater moderating effect of firm multinationality strategy and home political influence affecting the OFDI and performance relationship undertaken by the multiple simultaneous patterns than by the gradually growing pattern.
Dikova *et al.* (2016)	Location Choice	Advance knowledge about factors that influence the location of Russian foreign direct investments	Negative binomial models	Russia	2007-2013	Firm	a) The importance of institutional distance, in particular, the moderating effect of different dimensions of institutional distance on the relationships between internationalisation motives and the number of Russian M&As; b) Corruption, political and cultural differences show different effects in terms of both direction and strength, but all three were found to be significant
Du and Luo (2016)	Political Institutions	Examine political connections in the home market and formal home institutions for their impact on Chinese OFDI	Logistic and Tobit models	China	2005-2010	Firm	a) Political connections at home may prevent emerging market firms from implementing internationalisation strategies by reducing the dependence constraints imposed by local governments and foreign firms; b) Home formal institutional development may promote the strategic transition of

							emerging market firms from building political connections to international expansion and also reduce the negative impact of political connections
Kang and Liu (2016)	Government Support	Investigate the dynamic mechanisms through which natural resource-seeking intent interacts with regulatory forces	Conditional logistic models	China	2010	Firm	a) Government support provides more than background conditions for OFDI activities of Chinese firms, as it becomes an active determinant for the attainment of strategic intent in OFDI; b) The institutional, regulatory regime created by the home government has played a significant role in influencing FDI location choice strategies at a firm level
Lv and Spigarelli (2016)	Location Choice	Analyse the role of institutional distance and host country attractiveness in location determinants	Logit models	China	2004-2013	Firm	a) Chinese firms tend to invest in EU countries with the reduced rule of law; b) Countries with a politically stable environment are most attractive to sales/services subsidiaries; while countries with good control of corruption, low trade barriers and encouraging foreign ownership are most attractive to manufacturing subsidiaries
Stoian and Mohr (2016)	Political Institutions	Investigate the relationship between home country regulative voids and OFDI from emerging economies	POLS and random effects models	29 emerging countries	1995-2011	Country	a) Underdeveloped institutions that characterise regulative voids lead to the misallocation of resources and competitive disadvantages that EMNEs seek to counteract through OFDI; b) High protectionism and corruption in the home market lead to resource constraints and enhance escapist OFDI
Anwar and Mughal (2017)	Location Choice	Examine the principal locational motives of cross-border M&As by South African firms	Negative binomial models	South Africa	1990-2014	Firm	South African firms are attracted to the poor institutional environment
Collison, Brennan and Rios-Morales (2017)	Political Institutions	Analyse the Chinese investment in Ireland	Qualitative	China	NA	Firm	a) Chinese OFDI requires an extent of classical theories of FDI; b) Factors above and beyond those that apply to traditional sources of investment are at play in the case of China, including the presence of host-country clusters, the strength of intergovernmental relations, and the degree of alignment between China's development priorities and the host
Dreger, Schüler-Zhou and Schüller (2017)	Location Choice	Analyse the determinants of Chinese foreign direct investment (FDI) activities in the European Union	Poisson models	China	2003-2014	Firm	a) Market size and bilateral trade are the main factors for Chinese investment in the EU; b) Business-friendly institutions do not foster FDI; c) Higher labour costs make the host country less attractive for Greenfield, but do not affect M&A entry mode
Guo, Xu and Li (2017)	Political Institutions	Argue that the likelihood of a Chinese firm adopting an isomorphic strategy in OFDI depends on the influence of external isomorphic pressures	Fixed effect negative binomial and HLM models	China	2008-2012	Firm	a) Support the prediction that Chinese firms tend to implement OFDI strategies in response to domestic, regional isomorphic pressure, as well as in response to domestic industrial isomorphic pressure; b) The positive impact of domestic, regional isomorphic pressure on a Chinese firm's probability of adopting an OFDI strategy is strengthened by state ownership in the firm
Huang *et al.* (2017)	Political Institutions	Argue that state ownership creates a dependence of SOEs on their home governments, which may undermine manufacturing SOEs' willingness to	Poisson models	China	2007-2013	Firm	a) A high percentage of state-owned shares exerts negative effects on SOEs' OFDI; b) These negative effects will be alleviated by institutional development and competition intensity

		conduct OFDI, autonomy and market orientation, and legitimacy in overseas markets					
Lattemann *et al.* (2017)	Political Institutions	Propose a dynamic embeddedness multilevel framework	Qualitative	China	NA	Firm	The internationalisation patterns of Chinese firms should be analysed by jointly considering the institutional perspective and the resources and networks while taking into account interactions between country, industry, and the firm characteristics
Li, Cui and Lu (2017)	Specific Advantages	Investigate the effect of marketised state ownership on emerging market firms' propensity to engage in foreign direct investment	Negative binomial and pooled Poisson models	China	2002-2009	Firm	Firms with marketised state ownership may derive institutional competitive advantages from their dual responsiveness to shifting global market conditions and home government expectations which has a positive impact on their foreign investment decisions
Li and Ding (2017)	Government Support	Examine the dual effects of home country institutional forces on the internationalisation of private firms in emerging markets	OLS models	China	NA	Firm	a) Both institutional support and institutional constraints promote the internationalisation of private firms in emerging markets; b) Firm resources strengthen the effect of government support on internationalisation
Luo, Qi and Hubbard (2017)	Location Choice	Test the extent to which SOEs might be attracted to poorer institutional host environments	Poisson models	China	2005-2015	Sector	a) Chinese SOE investment in resources regardless of ownership type is attracted to countries with political stability, but is negatively related to the rule of law measure; b) For non-resource investment, we find no strong institutional preferences
Pan (2017)	Location Choice	Conceptualise how firms' strategic motives interact with the heterogeneity of host country institutional environments in determining the subsidiary ownership	Logistic and Tobit models	China	2000-2009	Firm	a) Firms with market seeking motives are more affected by the heterogeneity of host country institutional environments, while firms with resource seeking motives are less affected by the heterogeneity; b) Firms with market seeking motives are more affected by the regulatory efficiency of the institutional environments, while firms with resource seeking motives are more affected by the power of government
Park and Xiao (2017)	Government Support	Examine how home-country government involvement and institutional environments interact with the exploration orientation of emerging market firms and how these interrelationships affect the OFDI behaviours of EMFs	Logistic and Tobit models	China	NA	Firm	a) Exploration orientation has a positive effect on the OFDI propensity and OFDI intensity of Chinese firms; b) Government support can enhance the independent effects of exploration orientation on OFDI propensity and OFDI intensity, but such effects will weaken when a high degree of state ownership exists within these firms
Quer, Claver and Rienda (2017)	Location Choice	Argue that the influence of host country institutional factors on location decisions differs between Chinese and Indian MNEs	Negative binomial models	India and China	2005-2014	Firm	The negative impact of both cultural distance and political risk on location decisions is lower for Chinese MNEs as compared to Indian MNEs
Shi *et al.* (2017)	Political Institutions	Develop the concept of institutional fragility to investigate the OFDI behaviour of firms from emerging economies	GEE and GLS random effects models	China	2000-2009	Firm	Institutional fragility at the provincial level is associated with increased OFDI decision
Wei and Nguyen	Government Support	Examine the effects of home country institutional factors, namely, home country	OLS models	China	1991-2010	Firm	a) Home country government support and domestic institutional weaknesses have significant and negative effects on global integration strategy of Chinese

(2017)		government support, domestic institutional weaknesses, and state ownership on the subsidiary-level strategy of global integration and local responsiveness of emerging market MNEs					multinational subsidiaries; b) MNEs with a higher degree of state ownership in their parent firms are neither willing to disintegrate from their parent firms nor motivated to pursue local responsiveness strategy in order to deal with home country institutional deficiencies and develop new sources of competitiveness in foreign markets
Yang and Deng (2017)	Location Choice	Investigate major macro-level factors that determine cross-border M&As by Chinese firms in developed markets	Negative binomial models	China	1996-2012	Firm	a) The overall economic freedom of host countries positively affected Chinese M&As, whereas the host government effectiveness negatively influenced the number of Chinese M&As; b) The effects were significantly strengthened by the home country's government involvement mainly through ownership

APPENDIX B
Interview Questionnaire

STRUCTURE AND STRATEGY

1. What is the reason for the Brazilian government to want to invest investments? What factors are taken into account?
2. What is the role of the incentives proposed by APEX?
3. What is the structure of the agency that attracts investments? Number of staff, budget by function ...
4. How are APEX's objectives traced? How do they align themselves with Brazilian macroeconomic policies?
5. What are the priority sectors? For what reasons were these choices made? Is there a focus on the home country of these sectors? Is there a focus on the specific type of investment (greenfield, expansion)?
6. What are the main changes selected over the years? What was the focus of these changes?
7. How does APEX relate to local governments and subnational agencies?

IPA FUNCTIONS

<u>Image Construction</u>

8. How is the construction of Brazil's image abroad? What are the main tools?
9. How to measure the scope of these initiatives?
10. How is the relationship between APEX and Itamaraty? What has changed with the agency's move to the MRE?
11. How is APEX's relationship with other promotion agencies?

<u>Investment Facilitation and Investor Services</u>

12. What are the main tools and services provided to facilitate investments in the country?
13. How do you help with Brazilian bureaucracy? Is it the main obstacle for the investor?
14. How is the relationship with the BNDES? Does APEX participate in discussions on financial incentives to attract investments? Are they closed incentive packages or are they offered according to what the investor needs?
15. How is the relationship with other government agencies? Especially those that may provide tax incentives.

16. How do investors get in touch with possible suppliers / consumers?
17. What aftercare initiatives are offered? What is the intention of each one?

Investment Generation

18. How are investment opportunities advertised abroad?

Advocacy

19. Is there an advocacy function? How is APEX's relationship with the demands of investing companies?
20. Is there any way for APEX to help improve the investment climate in the country?