

**Comment on Gattai and Molteni's paper
“Dissipation of Knowledge
and the Boundaries of the Multinational
Enterprise”**

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The Structure of the Paper

2. Literature Review

The extensive and informative survey covers theoretical and empirical studies on the boundaries of the multinational enterprises.

- 1) Theories of the Firm (contractual incompleteness, incentive system, etc.)**
- 2) Agency Costs**
- 3) Dissipation of Intangible Assets**

3. The Model

Merit of JV: In a joint-venture with a local firm, an MNE can enjoy lower production costs in the host country.

Demerit of JV: The local partner has an incentive to defect in the second period (Dissipation of technology).

4. Empirical Analysis

The authors found that R&D-intensive MNEs tend to evade avoid JV FDI.

The paper is well balanced and the results are interesting.

Comment 1. Another important entry mode: M&A

- If local firms have advantages in local production and there is a risk of future defection, why do MNEs not purchase local firms?**
- Actually, in the case of Japan's FDI in Europe and N.A., M&As are more common than JVs.**

Number of Cases of Each Entry Mode: Manufacturing Affiliates Owned by Japanese MNEs

	Greenfield investment by a single MNE	Joint venture (including JVs with Japanese partners)	Acquisition and capital participation
Europe	320	113	136
North America	429	181	180
Asia	831	1669	289

Source: METI (Ministry of Economy, Trade and Industry, Government of Japan) (2005) Dai 33 Kai Kaigai Jigyo Katsudo Kihon Chosa (the 33rd Basic Survey on Overseas Business Activities), Tokyo: METI.

- **There are several preceding studies, such as Yamawaki (1994), on the entry mode of Japanese MNEs.**

M&A vs. greenfield, majority vs. minority ownership

Comment 2. Who are the partners?

- In the case of FDI in Europe, JVs with local sales firms and firms from a third country are common.
- Motivations behind JV and potential loss of defection depend on characteristics of the local partner.

Who Are the Major Local Partners of Manufacturing Affiliates Owned by Japanese MNEs

	Local manufacturer	Local sales firm	Firm of the third country
Europe	74	26	31
North America	119	48	14
Asia	960	280	115

Source: METI (Ministry of Economy, Trade and Industry, Government of Japan) (2005) Dai 33 Kai Kaigai Jigyo Katsudo Kihon Chosa (the 33rd Basic Survey on Overseas Business Activities), Tokyo: METI.

Comment 3. JVs forced by host country governments

- In Asia, there are many JV cases forced by host country governments.**
- In such cases, MNEs will not bring their advanced technology into the local factory. Interesting research topic.**
- Are there forced JVs in Europe?**