FDI in Developing Countries:
The case of Ericsson in Mexico and Vietnam

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Abstract

Title        : FDI in developing countries: The case of Ericsson in Mexico and Vietnam
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One of the most important notions of our world is “globalization” which affects the lives of human beings in several ways. It is a concept which removes boundaries and limits; therefore, involves a global world, and consequently a global economy. Within the global economy, there are flows of goods, capital, technology and other means of production among different countries. As a result, these movements create a high competition among the different actors of the game. In order to develop themselves in this global economy, firms have to expand their businesses abroad to compete in the international arena. Foreign Direct Investment (FDI) is one of the mostly used ways of internationalization which plays an important role as an engine of employment, technological development, productivity enhancement, economic intensification, and more importantly, as an instrument of technology transfer especially from developed to developing countries. Each country in which foreign companies want to invest has its own characteristics; particular opportunities and barriers from each country might arise when a foreign company starts its investment. This study analyzes the inward FDI in developing countries, by analyzing a case of a Swedish company, Ericsson, in two developing countries: Mexico and Vietnam. The cases of Ericsson in Mexico and Vietnam describe the general business environment, availability of production factors and competitiveness factors in those two countries and provide sets of data in order to build a cross-case analysis and generalize the results of this research.

Key words: Foreign Direct Investments (FDI), developing countries, Ericsson, Mexico, Vietnam, Sweden
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M. Talha Atik
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Abbreviations

APEC  Asia-Pacific Economic Cooperation Mechanism
BIT   Bilateral Investment Treaties
COFECO  Federal Competition Commission
COFETEL  Federal Commission of Telecommunications
EFTA  European Free Trade Association
EU  European Union
FDI  Foreign Direct Investment
GATT  General Agreement on Tariffs and Trade
GDP  Gross Domestic Product
GDT  General Department of Taxation
NAFTA  North American Free Trade Agreement
OECD  Economic Cooperation and Development
UNCTAD  United Nations Conference on Trade and Development
USAID  United States Agency for International Development
VNPT  Vietnam Post and Telecommunication
WTO  World Trade Organization
1. Introduction

This chapter gives readers an overview of the subject matter. The authors present the background research of the thesis, problem discussion, the purpose of the thesis, research questions, then the scope and limitations of the thesis and finally, the thesis disposition.

1.1 Background research

Nowadays it can be seen that there are flows of goods, services, capital, technologies and people increasingly permeating the world trade (European Commission, 2002). In this global economy, Foreign Direct Investment (FDI) plays an important role as an engine of employment, technological development, productivity enhancement, economic intensification, and more importantly, as an instrument of technology transfer, especially from developed to developing countries (Jensen, 2003). Particularly in developing countries, which referred as “low-income and middle-income economies” (The World Bank, 2007), over the last twenty five years the FDI inflows have increased remarkably (Busse & Hefeker, 2007) from USD 4 billion in 1980 to USD 379 billion in 2006 (UNCTAD, World Investment Report 2007). The increase in FDI inflows into developing countries reflects the wide-ranging privatization of state-owned assets in a number of countries in Latin America and Eastern Europe and the sale of banking and corporate assets in several Asian economies following the Asian crises (Working Group of the Capital Markets Consultative Group, 2003).

According to John and Bellak; “the degree of multinational of an economy’s production is determined by the extent of production in other economies” (John & Bellak, 1998, p.99). The extent of production of a firm could be carried out in various ways; by domestically-owned firms, or by setting up production in the economy which is owned by foreign firms. John and Bellak also stated that the outward and inward FDI of a nation is the measurement of the international production (production under foreign ownership) (John & Bellak, 1998). On the other hand, from the perspective of developing countries;
“FDI has become an important factor in the economic growth and a new instrument for the integration of countries into the global economy” (UNCTAD, 2005, p.1). Therefore, attracting and managing FDI has become an important strategy for developing countries in order to develop their economies. However, without the required knowledge or capacity to engage in developing countries many investment firms will continue to face difficulties attempting to integrate into the markets of developing countries and thus will remain unable to make the right type of investment because of obstacles such as national investment policies, investment rulemaking and cultural aspects.

Historically, developed countries have the most FDI outflows thanks to their competitive advantage among the rest of the world and Sweden is one case. It is a country with a relatively small population (compared to other countries in Europe), and has therefore focused its efforts for a long time on trading with different countries; this probably can be traced back to the seventh and eighth centuries when the Swedes were merchant seamen known for their far-reaching trade, and therefore for their knowledge of trading between nations (Department of State, Bureau of European and Eurasian Affairs, 2007). Nowadays, Sweden has an excellent macroeconomic performance with high rates of growth, low unemployment and stable inflation expectations (OECD, 2007). Sweden has four-party coalitions to strengthen the economy, “with a view to easing welfare dependency and social exclusion and boosting labor supply. Measures include cuts in income tax; lower employers’ social security contribution, and reduced unemployment benefit” (Economist Intelligence Unit, 2007, p.124). With the most liberal foreign investment laws in the world, Sweden has fairly stable FDI outflows in recent years, averaging USD 23.5 billion in 2003-2006. From the perspective of developing countries, the outward FDI of Sweden to developing countries accounted for 22 percent of the total outward FDI (Economist Intelligence Unit, 2007).

The mentioned FDI issues, to which Swedish companies are not excluded, are closely interrelated with the general business environment of the host countries, including domestic policy matters, political environment, culture, and the link between national policies and foreign investor policies. In their research about “The Mechanism of
Internationalization”, Johanson and Vahlne (1991) retake the concept of “psychic distance”, developed by Johanson & Weidersheim (1975), which is defined as the degree to which a company does not have a clear knowledge of the characteristics of the foreign market, which disturb the flow of information between them. Thus, there is a need to strengthen the understanding and knowledge of general business environment and the investment policy framework of the host countries market to foreign investors so that they can select the right type of investment which is most suited to the firm’s situation as well as enhancing the development of the host countries economy.

Ericsson is a leading global provider of telecommunication equipment, mobile and fixed network services operator with headquarters located in Stockholm, Sweden (Ericsson Global, 2007). Ericsson had many FDI activities in many countries by providing telecommunications infrastructure equipment. In terms of corporate responsibility, Ericsson considered FDI as a tool to contribute capital to the global economy, as “FDI not only creates employment and adds to the economic health of a nation, it also creates a platform from where the transfer of knowledge, skills (human capital), technology and global best practice can be achieved” (Ericsson Corporate Responsibility, Economic impacts, 2007). The authors of this thesis come from different nations and cultural backgrounds and met each other under the Master in Business Administration Program in Linköping University, Sweden, and were interested in researching how a company, particularly a Swedish company, develops its FDI activities in Mexico and Vietnam, classified both of them as developing countries according to the United Nations Conference on Trade and Development (UNCTAD, 2007). Ericsson was selected as the case study company since it is a Swedish company which has investment activities (under different types of investment forms) in both countries: Mexico and Vietnam.

1.2 Problem discussion

One of the most important theories analyzing the internationalization process of the firms in economic literature is the Uppsala model which has been developed by two
famous Swedish economists Johanson and Vahlne by examining the internationalization process of Swedish firms. When building the theory, Johanson and Vahlne realized that many companies start to go abroad to countries which are closer to them, then after that they expand their businesses to countries further away from their homelands. The authors used the term psychic distance to explain this process.

Psychic distance refers to differences in culture, language and political environment between home and host country markets. According to this theory, firms start to internationalize by entering the countries in which there is low psychic distance, meaning that they start to go abroad from the countries where they see a low level of uncertainty about the market knowledge. Because, if there is low psychic distance in the host country market, it is possible to acquire the market knowledge easily in comparison to those countries in which there is a high level of psychic distance (Johanson and Vahlne, 1990).

For companies who want to commence FDI in a foreign country, it is logical to start with the countries where the company has the knowledge about the host country market. For that reason, companies seek information about the countries where they want to invest in. As developing countries are facing with problems such as stabilizing and strengthening their economies, and at the same time improving their democracy and development level it can be hard for them to provide regular, credible and sustainable knowledge about their home markets.

1.3 Purpose

The purpose of the thesis is to analyze the main factors which a company, particularly a Swedish company, should consider when starting its FDI activities in developing countries, especially Mexico and Vietnam. The thesis maps out factors that influence investment decisions of a company; pinpointing the main opportunities and barriers companies experience when they commence direct investment in Mexico and Vietnam.
1.4 Research questions

This thesis is designed to answer the following question: What are the factors that a company, particularly a Swedish company, should consider when starting its FDI activities in developing countries, especially Mexico and Vietnam? To be able to answer this question, some sub-questions were formulated:

- What kind of barriers and opportunities might arise when a company starts its direct investment in developing countries?
- How the theoretical framework can be used to help Swedish companies when they evaluate their own situation to start their direct investment in Mexico and Vietnam?

1.5 Scope and limitations

The main objective of the thesis is to analyze the main factors which affect investment decisions of companies, particularly Swedish companies, when they start their FDI activities in developing countries. Since Ericsson Company is one of the few Swedish companies that have activities in both countries: Mexico and Vietnam, the case study has been limited and applied to Ericsson. The Swedish companies that do not realize FDI activities in one of the selected countries or did not reply to our interview request were eliminated in this research study.

Mexico and Vietnam were chosen as the target host markets because those two countries are in the developing countries area. Moreover, two of the authors of the thesis come from those countries and they have special interest in their own country. They have many connections in the field of international business during the time they worked in their country. A lot of unique information was received from those relationships and during many interviews with the particular case study companies as well.
As for most other Master students, time was an important limitation in the thesis. Luckily, some of the basic information was already gathered earlier during course assignments of the Master in Business Administration Program at Linköping University, Sweden and could be used now as the framework for references. Having access to Linköping University Library to borrow the appropriate books and articles, as well as many meetings with the tutor also helped the authors reduce the time it took to search information enabling the group to stick to the original way of thinking as established at the beginning of the thesis.

1.6 Thesis Disposition

The thesis has the following outline:

1. **Introduction**
   This chapter gives readers an overview of the subject matter. The authors present the background of the thesis, problem discussion, the purpose of the thesis, research questions, then the scope and limitations of the thesis and finally, the thesis disposition.

2. **Methodology**
   This chapter provides the research method which has been applied in the thesis and explains why the authors have chosen this particular research approach to answer the research questions. The authors describe the qualitative research method as the main approach, the case study research design, the method of collecting data, the process of how the authors analyze the data, and finally evaluate the validity and reliability of the data.

3. **Frame of references**
   In this chapter authors build a theoretical frame of FDI, particularly in developing countries; afterwards, there is a classification of the environmental factors,
barriers and opportunities that companies face in the host country when FDI is developed.

4. Empirical findings
This chapter displays the specific data collection for the cross-case analysis in chapter 6. Based on the structure of theory framework in the previous chapter, the empirical data in this chapter provides facts about the economy, FDI, general business environment, foreign market opportunities, and factors of production in Mexico and Vietnam. Those sets of data are arranged in the same structure for each country.

5. Company cases-Ericsson in Mexico and Vietnam
This chapter includes the cases of Ericsson in Mexico and Vietnam which have been developed by the results of the interview and the empirical findings about the case company in those two countries.

6. Analysis
In this chapter, the authors analyze data across two cases in order to identify similarities and differences of Ericsson when conducting FDI in Mexico, and Vietnam. By identifying similarities and differences, the authors provide further insight into the subject concerning the foreign direct investment of Swedish companies in developing countries by generalizing the case study results.

7. Conclusion
This chapter describes the conclusion which is taken out from the cross-case analysis and answers the research questions posed in the research questions section.

8. Recommendations
In this chapter, the authors present recommendations on the issues of the foreign direct investment in developing countries, particularly in Mexico and Vietnam.
2. Methodology

This chapter provides the research method which has been applied in the thesis and explains why the authors have chosen this particular research approach to answer the research questions. The authors describe the qualitative research method as the main approach, the case study research design, the method of collecting data, the process of how the authors analyze the data, and finally evaluate the validity and reliability of the data.

2.1 Qualitative research

FDI across nations and through organizations is made by human beings with different cultural backgrounds, motivations, knowledge, stand-points and so on, that act within particular contexts in certain boundaries. These aspects involve the complex process in which FDI is made.

In order to capture, interpret and “explicate the ways people in particular settings come to understand, account for, take action, and otherwise manage their day-to-day situations” (Miles & Huberman 1994, p.7), it is necessary to develop a methodology research which is adequate for this kind of complex environment.

This thesis is developed under a qualitative research approach. The purpose of the qualitative research method is to discover concepts and relationships in these kinds of settings, using several tools, which might consist of interviews and observations but also might include documents, films or videotapes, and in general raw data that will be interrelated after the author -by using creativity and analytical thinking-, discovers the links between them.

The main characteristic of qualitative research method is that it arrives to findings without using mathematical, statistical procedures or other means of quantification.
Basically there are three components of qualitative research (Strauss & Corbin, 1998): First of all there is the data sourcing, which might be based in different procedures to collect it; then the organization and interpretation of the data, which is synthesized in the term referred as coding by Miles and Huberman (1994). Coding consists of “conceptualizing and reducing data, elaborating categories in terms of their properties and dimensions, and relating through a series of prepositional statements” (Strauss & Corbin, 1998, p. 12). The third and final component is the communication of the results, which can consist of written and verbal reports, such as articles, papers, conferences and so on.

2.2 Case study research

For the purpose of this study in which a real life situation is explored, which is formed by complex social units where several factors interact with each other; the case study is a valuable research tool providing researchers and readers with a rich and holistic understanding of the phenomenon.

The case study is defined as an empirical inquiry which focuses on contemporary phenomenon within its real-life context & boundaries, often with data collected over a period of time, of one or more organizations, or groups within organizations (Yin, 1989, Hartley, 1994 in Cassel & Symon, 1994).

2.3 Research design

FDI is the framework for this paper; therefore a theoretical background was written based on writings about this topic. As the paper explores the barriers and the opportunities companies, particularly Swedish companies, face in developing countries when they are commencing their FDI activities, there is a strong base on FDI in developing countries. The case study company selected for the purposes of this research is Ericsson, representing a Swedish company that is operating in the selected two developing countries: Mexico and Vietnam.
After the FDI framework was built, the next step was to classify the environmental factors (opportunities and barriers), which a company faces in the host country when a FDI is made. The classification is divided in three main categories:

- General business environment
- Availability of production factors
- Competitiveness factors in the host country market

The theoretical framework was used as a template to compare the environmental factors and empirical findings to generalize the case results, in order to reflect the barriers and opportunities identified in the real contexts. Therefore; empirical findings for each country were built within the theoretical frame. The empirical findings reflect an overview of the two economies, summarize the FDI trends and the Swedish Direct Investment in those countries, and in addition, give information about the general business environment, availability of production factors, the competitiveness factors in Mexico and Vietnam, and show the opportunities that investors will gain by investing in those two countries; and further provide a valuable data which is going to be used for the analysis.

The empirical findings were used as secondary data while the interviews were used as primary data collection, with which to develop the two descriptive cases in order to reflect the barriers and opportunities identified in the real actual contexts.

After the individual case reports of Ericsson in Mexico and Vietnam were written, the authors then decided to use cross-case analysis to more closely resemble reality and offer an insight into the actual situation in the two particular countries. Figure 1 below illustrates the structure the research follows giving the reader a better understanding of the research undertaken.
2.4 Data collection

For the authors to provide reliability and validity, the collected data and the way how it is collected have to be relevant with a certain level of credibility. Data collection methods include surveys, experiments, interviews (both face-to-face and by telephone),
and secondary data (Yang, Wang and Su, 2006). As this study is aiming to analyze FDI in the selected cases with two countries, multiple data collection methods are used in this study to increase credibility and validity; meaning that both primary and secondary research methods are used by authors to provide a reliable research for the reader.

2.4.1 Primary research

Primary research methods in qualitative analysis include interviews and observation (May, 2002). Figure 2 below shows the source of primary data in qualitative studies. According to the authors, for credibility, interviews are a good source for data collection in case studies. They are the most widely used data collection method in qualitative research (Bryman & Bell, 2007) and “their flexibility makes them attractive” (Bryman & Bell, 2007, p.472). Therefore, the authors have decided to collect the primary data mainly via interviews rather than observation.

![Figure 2: Primary Data in Qualitative Research](source: Hair, Money, Samuel and Pake (2007), p.192)

2.4.1.1 Interviews:

Interviews are the data collection method “where the author speaks to the respondent directly” (Hair, Money, Samuel and Pake, 2007, p.196). In case studies, interviews are mainly used to get the whole picture of a certain situation (Hair, Money, Samuel and Pake, 2007, p.203). As this study is aiming to research two cases in two
different countries, interviews are selected as the source to gather the primary data required for this research.

There are basically three different kinds of interviews (Hair, Money, Samuel and Pake, 2007; Bryman and Bell, 2007): structured interview, semi-structured interview and unstructured interview.

Structured interviews are mainly used for quantitative studies (Bryman and Bell, 2007); they are the interviews in which the author decides on what questions are being asked to the respondent before the interview (Hair, Money, Samuel and Pake, 2007). Some of the questions are closed questions which do not enable respondents to answer them by going out of the structure (Hair, Money, Samuel and Pake, 2007).

Semi-structured interviews are the most common interview used in qualitative case study result, “which is used for gathering certain information and guided by a set of questions and issues should be explored” (Sharan, 1988, p.122). In semi-structured interviews, the interviewer has a list of questions about a certain topic; respondents are usually not limited to answer the questions. However, the interviewer has to be a guide for the respondent: the respondent does not follow an order, but the respondent has to ask all questions to provide a reliable comparison with other interviews (Bryman and Bell, 2007).

Concerning the unstructured interviews, they are the interviews in which there are no structured questions; author is free to ask what he wants and the respondent can answer the questions as he wishes (Hair, Money, Samuel and Pake, 2007).

For this research, authors decided to use a semi-structured interview since a semi-structured interviews better help the authors when gathering information about FDI in developing countries in general and in particular about Ericsson investment activities in Mexico and Vietnam with a set of questions prepared by the authors in advance. Therefore, the interviews are structured by the authors before the interview, each question
is selected in relation to research questions and they are formed to explore the problem of this study.

For the interviews, the first stage was the selection of the companies. It has been decided to enter into contact with the companies which are operating both in Mexico and Vietnam. Afterwards, an internet search was made, to find the companies that are required for the interviews. After the selection of the companies, to establish the contact with the right people who can provide the most relevant data in the companies that are going to be used in the analysis, both e-mails and phones were used as vehicles to communicate.

For the next step, an e-mail was formed outlining the purpose of the research and was sent to the authorized people who are responsible for arranging the necessary meetings within the companies. The forms of interviews are shown in figure 3.

**Figure 3: Forms of Interview**
For this study, authors used one-to-one interviews. In Mexico interview was made face-to-face, in Vietnam it was made by telephone. Face-to-face interview in Ericsson Mexico was conducted approximately in a natural conversation style between two people; the author from Mexico and a director of Ericsson Mexico. The interview was carried out in Spanish and the telephone interview with Ericsson Vietnam was in Vietnamese. The content of the interviews were written-down in English for further comparisons and analysis among the authors. Name of interviewees, position of interviewees, date of interviews, types of interviews, and locations of interviews can be found in the table below:

<table>
<thead>
<tr>
<th>Position of interviewee</th>
<th>Date of interview</th>
<th>Type of interview</th>
<th>Location of interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>One of the Directors of Ericsson Mexico</td>
<td>December 19th, 2007</td>
<td>Face-to-face interview</td>
<td>Ericsson Mexico, Offices of Teleindustria Ericsson S.A. de C.V., Mexico City</td>
</tr>
<tr>
<td>Communications Manager</td>
<td>December 21st, 2007</td>
<td>Telephone interview</td>
<td>Ericsson Vietnam, Ho Chi Minh Office</td>
</tr>
</tbody>
</table>

Table 1: Interviews summary

2.4.2 Secondary research

Another research method used in this study is secondary research. “Data used for research that was not gathered directly and purposefully for the project under consideration are termed secondary data” (Hair, Money, Samuel and Pake, 2007, p.118). Secondary data can be either qualitative or quantitative; in case studies it is mainly used to support the study (Hair, Money, Samuel and Pake, 2007). Figure 4 illustrates the secondary data used in business research and their sources.
According to its source secondary data can be internal or external. If data is directly provided from the company it is called internal data; but if it is from a third person outside of the company, such as individuals, organizations and governments, then, it is called external data (Hair, Money, Samuel and Pake, 2007).

Sometimes the collected data needs to be processed and sometimes it is ready to be used. The data needs processing are raw data, recorded discussions and written reports. Concerning the data which is ready to be used, it includes all finished studies, statistics and similar datasets (Hair, Money, Samuel and Pake, 2007).
According to its type, secondary data is divided into three different categories: ad-hoc, time series and cross-sectional series. Ad-hoc refers to the single studies for specific purpose; time series are the data collected by central statistical offices which provide data regularly, such as OECD. And the cross-sectional series are the secondary data such as GDP, Inflation rates, Unit Labor Costs provided by individual member states (Hair, Money, Samuel and Pake, 2007).

For this thesis almost all these kinds of secondary data are used, sometimes the data required is gathered from time series or cross-sectional series, and sometimes from the previous studies or directly from raw sources. Mainly internet is used as a vehicle to collect the secondary data required for this research. Secondary data are mostly used for the empirical findings about the FDI in the selected cases of two countries: Mexico and Vietnam; in addition, secondary data are also utilized for the analysis of the case companies in those two countries. The authors believe that together with the interviews, the usage of secondary data will provide a more reliable research for study by the reader.

2.5 Data analysis

Analyzing data is the most difficult part of building the thesis, “it is both the most difficult and the least codified part of the process” (Eisenhardt, 1989, p.539). One of the challenges of analysis in qualitative research is “the large volume of data, lack of tight framework for analysis, and the potential for bias and misinterpretation” (Stevenson & Britten & Barry & Barber & Bradley, 2000, p 317). Moreover, since the thesis is written by three authors, each author may have very different perspectives on the data they collected.

In this thesis, the authors tended to use inductive analysis of data, “meaning that the critical themes emerge out of data” (Patton, 1990, p.145). The analysis of data in qualitative research requires some creativity, for the challenge “is to place the raw data into logical, meaningful categories; to examine them in a holistic fashion; and to find a way to communicate this interpretation to others” (Hoepf, 1997, p.55). The team
consisted of three students of a Master program coming from three different countries, and all three were involved in the analysis.

The analysis process begins with “identification of the themes emerging from the raw data, a process sometimes referred to as "open coding" (Strauss and Corbin, 1990, p.169). It stresses the variety of decisions a company has to make when starting FDI activities. The research question was “What are the factors that a company, particularly a Swedish company, should consider when starting its FDI activities in developing countries, especially in Mexico and Vietnam?” To answer this question, it was necessary to build two sub-questions to be answered, which in addition to the theory used as a template, formed the answer to the main question in this thesis.

The first sub-question was: “What kind of opportunities and problems might arise when a company starts its direct investment in developing countries?” To answer this question the primary research and the secondary research methods were used, analyzing mostly published sources (articles, books, and internet) as the secondary data and using interviews as techniques to get primary data.

After the identification step, the raw data are broken down into “manageable chunks”, the author must re-examine the categories identified to determine how they are linked, “a complex process sometimes called "axial coding" (Strauss & Corbin, 1990, p.183). During the interviews with the company, the classification of information was carried out and the result will serve as a basis when the decision of directing investment will be made. At first, the category of questionnaires had been chosen in cooperation between the experts and the authors. The Expert is a person who has greater knowledge about a certain subject, in this case about investment activities of Ericsson in Mexico and Vietnam. Managers of the case study company fit with the title “expert”, who are able to make certain decisions and keep an overall picture of strengths, weaknesses, opportunities, and threats of the case study company. Some basic information about the company, FDI in Mexico and Vietnam was needed and the authors were able to give that to the expert. After the categories of questionnaires were selected, the author asked the
company provide information by categories. In this stage, no exact figures were needed because the information was based on knowledge and experience, where the directors and managers of the company are the experts. No business secrets were involved in this stage, thus making the situation very open-talk from the point of the expert.

Then, the authors moved to the next category where the relationship between the company in Sweden, Mexico and Vietnam was found. The basic situation was mapped out using the interviews (face-to-face interview, phone interview) of the directors and managers in Mexico and Vietnam respectively, then the authors translated the data into the story that was to be read and constructed the cases of the Swedish company in both countries. Finally the authors developed the cross-case analysis and the generalization. This analysis gave the solutions to interconnect the theoretical framework and the empirical findings with the reality, and subsequently it guided the authors to answer the second sub-question "How the theoretical framework can be used to help Swedish companies when they evaluate their own situation?"

2.6 Validity and reliability

Patton (2001) stated that “validity and reliability are two factors which any qualitative author should be concerned about while designing a study, analyzing results and judging the quality of the study” (Patton, 2001, p.601). Qualitative methods usually answer the research questions through several research methods. It could be the use of secondary research such as documentary analysis, or primary research such as company visit and interviews. “This might be the result of different angle of the same research, or a need to corroborate an account with other sources of data”. (Cano, 2007, p. 4)

Concerning this thesis, the use of multiple research methods in order to corroborate data sources increases the reliability of the thesis. Three concrete methods were used in this thesis: literature review by using written material, books, articles, and internet as source of information; face to face interviews; and phone interviews. The using of several data sources and different methods is called triangulation. The idea behind triangulation is that the “more agreement of different data sources on a particular
issue, the more reliable the interpretation of the data” (Cano, 2007, p.4). The fact was that before the research was carried out, several meetings among three authors were set up in order to agree on which data sources are utilized to answer the research questions, building the questionnaires framework, and deciding which research methods are used. During some interviews in Mexico, the contents of the discussions were recorded in order to increase the reliability of interpretations later. Moreover, during the analysis of document, the authors gave a selected portion of text to other authors and ask them to interpret the text. In doing this it will increase the degree of agreement of the interpretation by different authors within the team.

“The concept of validity is described by a wide range of terms in qualitative studies. This concept is not a single, fixed or universal concept, but "rather a contingent construct, inescapable grouped in the processes and intentions of particular research methodologies and project" (Winter, 2000, p.1). In general, the validity method addresses the validity of the interpretations of the data. In other words, authors responsible for showing that the authors did not "invent" the interpretations, but that they are the products of conscious analysis (Cano, 2007). The literature reviews section, for example, provided some guidance for a company to start its FDI. The information in the literature review, of course, cannot be invented by the authors, since it is the product of the collection, interpretation of the data from analysis processes, interviews, books, articles, and internet.
3. Frame of references

In this chapter the authors build a theoretical frame of FDI, particularly in developing countries; afterward, there is a classification of the environmental factors, barriers and opportunities that companies face in the host country when FDI is developed.

3.1 Foreign direct investment

3.1.1 What is foreign direct investment?

Foreign Direct Investment (FDI) is “the process whereby residents of one country (the source country) acquire ownership of assets for the purpose of controlling the production, distribution and other activities of a firm in another country (the host country). It involves the transfer of financial capital, technology and other skills such as managerial, marketing, accounting”, etc (Moosa, 2002, p.1).

Frankel and Romer stated that “FDI is often seen as one of the important catalysts for economic growth in the developing countries” (Frankel & Romer, 1999, p795). FDI is acting as an important vehicle for developed countries to transfer technology to developing countries. FDI also encourages investment of domestic firms in order to compare with foreign investors and improve human capital, as well as institutions in the host countries. Moreover, in comparing with other capital inflows of a nation, FDI is expected to have stronger effects on economic growth of a nation as FDI provides “more than just capital”. Additional, “FDI offers access to internationally available technologies and management know-how and may render it easier to penetrate world markets” (Nunnenkamp, 2001, p.27).

FDI is one of several approaches that a foreign investor can use to enter foreign market. Imad A. Moosa (2002) declared that there are four common ways that firms use to develop foreign markets for their products:
• Export of the goods produced in the source country.
• Licensing a foreign company to use process or product technology.
• Foreign distribution of products through an affiliate entity.
• Foreign (international) production, which is the production of goods and services in a country that is controlled and managed by firms headquartered in other countries.

Steps 3 and 4 involve FDI. By going from step 1 to step 4 from the above list as the way to enter a foreign market “a firm requires a larger commitment of resources, and in some respects greater exposure to risk” (Moosa, 2002, p.12). Therefore, it can be said that most FDI is carried out by multinational corporations (MNCs) which have become household names (for example Toyota, IBM, Phillips, Nestle, Sony, etc) because of the simple fact the MNCs dominate overwhelmingly not only international investment but also international production, trade, finance and technology (Moosa, 2002).

3.1.2 Types of FDI

The types of FDI can be seen from two perspectives: from the perspective of the investor (the source country) and from the perspective of the host country. (Moosa, 2002) Since the dimension of this thesis is FDI from developed country (Sweden) towards developing countries (Mexico and Vietnam), only the types of FDI from the perspective of the source country are discussed. From the perspective of the source country, there are three types of FDI: horizontal FDI, vertical FDI and conglomerate FDI.

*Horizontal FDI* refers to when firms invest in the same industry in which they work in their homeland (Hill, 1998). For example, the automobile company Ford builds an automobile manufacturing facility in Mexico. It includes world-class engine and vehicle plants in order to specializing production in the Escort and Tracer models.

*Vertical FDI*, on the other hand, is divided into two different types: *Backward Vertical FDI* when the abroad sales of a company serve as inputs for the downstream
operations of domestic companies, and *Forward Vertical FDI* when there is investment into a foreign industry that sells the output of a company's domestic production processes (Hill, 1998) For instance, if Ford builds an engine production facility in Mexico which ships engines to its manufacturing unit in U.S.A., this would be backward vertical FDI. If Ford buys ten dealers in Mexico to distribute cars made in the U.S.A., this would be forward vertical FDI.

The third type of FDI, *conglomerate FDI*, involves companies operating in different businesses (Rivera-Batiz & Oliva, 2003) The two largest British companies operating in Africa, Unilever and Lonrho, are prime examples of this type of conglomerate phenomenon.

### 3.1.3 The determinants of FDI

There are numerous reasons why a firm chooses FDI as the way to expand internationally. Generally, there are four motives behind determinants of FDI: market-oriented, cost-oriented, raw material oriented, and strategic asset-seeking motives (Tayeb, 2000). Each of these motives will be discussed in turn.

In *market-oriented investment*, the firm supplies a foreign market by producing goods locally in an affiliate instead of shipping them directly from the home market. This usually happens when the foreign market is protected by the government through tariffs imposed on the imported goods. In addition, when production involves large volume of goods or goods that are heavy or bulky relative to their value, it may be cheaper to produce in the host market. By having production located in the host market, the firm is able to be in closer contact with markets and customers, increasing its local responsiveness in terms of product adaptation, delivery and after sales care (Tayeb, 2000; Czinkota, Ronkainen and Moffett, 2003).

According to Porter, among the three generic strategies of a firm, cost leadership is perhaps the clearest strategy. In cost leadership strategy, a firm will set out a strategy to become the low-cost producer in its industry (Porter, 1998). Therefore, firms are seeking
to locate their production in countries where costs associated with producing goods are low such as energy, natural resources, and labor. In developed countries, in fact, labor costs are often high compared to those in developing or less developed countries. Those firms which undertake *cost-oriented investments* find that it is an attractive way to move their production to developing or less developed countries in order to take the lowering cost advantage. By doing so, firms can lower production costs and thus increase their competitiveness (Tayeb, 2000; Czinkota, Ronkainen and Moffett, 2003).

In the world, each country is endowed with certain natural resources. Firms with production heavily dependent on imported raw materials often find it costly to pay for transaction and transportation costs over the long term; and also sometimes the suppliers can be unreliable in terms of quality and delivery, thus affecting the overall performance of production. Therefore, it is wiser for firms to move their production to the area where the supply of the needed raw material is more secured, or so called *raw material oriented* (Tayeb, 2000; Czinkota, Ronkainen and Moffett, 2003).

In term of asset-seeking FDI, it is driven by a foreign firm's desire to gain access to valuable assets which are available on better terms to firms operating in the host country than in the investing firm's source country (Wesson, 1999). In this way, the acquiring firm (in the source country) sustains or advances its international competitiveness through its acquired firms (in the host country). The acquiring firm can benefit from gaining access to new markets via the foreign party involved by using its already established distribution networks and government contact (Tayeb, 2000).

### 3.2 FDI in developing countries

It can be said that FDI is enriching developing countries by the number of assets that MNCs deploy with their investment. Naturally, most of these assets which foreign investors are bringing to developing countries are intangible and scarce. They include technology, management skills, channels for marketing products internationally, product design, quality characteristics, brand name, etc. (Agosin & Machado, 2005). From the
It can be seen from Table 2 below that FDI inflows into developing countries have been concentrated in a few leading Southeast Asian and Latin American economies.

<table>
<thead>
<tr>
<th>Areas</th>
<th>Export share in GDP</th>
<th>FDI Share in Export</th>
<th>% of Total FDI Flows to DCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>All DCs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SE Asia and Pacific Rim</td>
<td>23.2</td>
<td>27.8</td>
<td>32.2</td>
</tr>
<tr>
<td>South Asia</td>
<td>10.8</td>
<td>10.9</td>
<td>17</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>18.1</td>
<td>17</td>
<td>14.6</td>
</tr>
<tr>
<td>Middle East and N Africa</td>
<td>50.7</td>
<td>34.9</td>
<td>37.8</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>33.6</td>
<td>31.9</td>
<td>32.5</td>
</tr>
<tr>
<td>E Europe and Central Asia</td>
<td>14</td>
<td>13.7</td>
<td></td>
</tr>
</tbody>
</table>

Table 2: Inward FDI flows to developing countries (DCs)
Source: De Mello, Luiz R. Jr. 1997

In fact, according to the GATT/WTO, total FDI flows into the developing countries have increased nine times between 1982 and 1993, whereas world trade of merchandise and services has only doubled in the same period. The most important factors explaining the surge of FDI inflows into the developing countries in recent years have been the foreign acquisition of domestic firms in the process of privatization, the globalization of production, and increased economic and financial integration (UNCTAD- United Nations Conference on Trade and Development, 1996). However, the growth of FDI flows into developing countries has not matched the flows into developed economies (Katseli, 1992), mainly due to the international debt crisis faced by developing countries in the 1980s (De Mello, 1997).
According to Nunnenkamp, traditionally, “FDI was a phenomenon that primarily concerned highly developed economies” (Nunnenkamp, 2001). On the figure 5 below, it can be seen that developed countries still attract a higher share of worldwide FDI than developing countries.

![Figure 5: Share of all developing countries (dark color pieces) in worldwide FDI inflow, 1982-1999 (percent)](image)

Source: Peter Nunnenkamp, 2001

In recent years, however, the FDI inflows into developing countries turned out to be higher than the FDI inflows to developed countries. Nunnenkamp explained in his report that “average annual FDI flows to developing countries soared eightfold when comparing 1982-1987 and 1994-1999. As a result, developing countries have attracted almost one third of worldwide FDI flows recently” (Nunnenkamp, 2001, p.4). Moreover, FDI plays a more important role in developing countries than in developed countries. In the former, FDI inflows in 1994-1998 represented an average share of almost ten percent of gross fixed capital formation, in comparison to six percent in developed countries.
UNCTAD, 2001). Inward FDI of developing countries in 1998 amounted to twenty percent of their GDP, compared to twelve percent in developed countries (Nunnenkamp, 2001).

As mentioned earlier, the determinants of FDI into developing countries are likely to vary between different types of FDI, such as market-oriented, cost-oriented, and resource-seeking. Furthermore, the determinants of FDI may change overtime due to, for instance, the ongoing of globalization. Nunnenkamp grouped important factors of the determinants of FDI into developing countries into three categories: relating to resource-seeking FDI, relating to market-seeking FDI, and relating to efficiency-seeking FDI.

Resource-seeking FDI, as its name suggests, “is motivated by the availability of natural resource in host countries” (Nunnenkamp, 2001, p.11). This type of FDI, as similar to the raw material oriented determinant of FDI, “was historically fairly important and remains a relevant source of FDI for various developing countries” (Nunnenkamp, 2001, p.11). However, the resource-seeking FDI decreased significantly on a worldwide scale since “the share of the primary sector in outward FDI stocks of major host countries was below 5 percent in the first half of the 1990s” (Nunnenkamp, 2001, p.11).

Market-seeking FDI, on the other hand, is fairly difficult to assess. Due to the economic globalization, it is hard to tell whether this type of FDI has already become less important (Nunnenkamp, 2001). However, it is debatable whether this is still true with ongoing globalization (Nunnenkamp, 2001).

Efficiency-seeking FDI “is motivated by creating new resources of competitiveness for firms and strengthening existing ones” (Nunnenkamp, 2001). This determinant of FDI may then be known as the most important type of FDI toward developing countries.

Accordingly, the competition for FDI into developing countries “would be based on cost differences between locations, the quality of infrastructure and business related
services, the ease of doing business, and the availability of skills” (Nunnenkamp, 2001, p.13).

3.2.1 The impact of FDI in developing countries

The fact is that the impact of FDI in a certain country may vary from one country to another country. The impacts of FDI depend on the policy of the country invested in, the kinds of FDI a country receives and the strength of domestic enterprises (Agosin & Machado, 2000).

Extensive research showed that FDI has a positive impact on the economic growth of developing countries, and the size of the impact may vary across countries depending on “the level of human capital, domestic investment, infrastructure, macroeconomic stability, and trade policies” (Makki & Somwaru, 2004, p.1). The interaction between FDI and human capita is that; for the country with very low levels of human capital, the impact of FDI is negative (Borensztein, Gregorio and Lee, 1998). The simple idea is that the inflows of FDI always come with advanced technologies by foreign investors. Those advanced technologies can increase the growth rate of the host economy only by interacting with that country’s absorptive capability. Put in another way, in countries with a low level of human capital, the implication of FDI makes a negative contribution to the economic growth (Borensztein, Gregorio and Lee, 1998). It is likely that in a country with very low levels of human capital, the contribution of FDI to the growth is close to nil and vice versa.

Borensztein, Gregorio and Lee in their research also showed that “FDI exerts a positive, though not strong, effect on domestic investment, presumably because the attraction of complementary activities dominates the displacement of domestic competitors” (Borensztein, Gregorio and Lee, 1998, p.125). However, this is an indirect effect of FDI on growth, “since it operates through "pulling in" other sources of investment” (Borensztein, Gregorio and Lee, 1998, p.125). On the other hand, the relationship between FDI and domestic investment in developing countries becomes
positive when the FDI “stimulates or crowds-in domestic investment” (Makki & Somwaru, 2004).

A theoretical precondition for FDI into developing countries is the stability of its macroeconomic policies (Makki & Somwaru, 2004). Moreover, a country's economic growth is also affected by the stability of its macroeconomic policies. This implies that in order to promote economic growth, a country has to lower its inflation rate, tax burden, and government consumption. In other words, “lower inflation rates would indicate that the host country's macroeconomic policies are stable and disciplined. Lower tax burden would make the investments, foreign and domestic, more profitable. Decreasing the government consumptions would leave more money for investment” (Makki & Somwaru, 2004, p.797).

3.2.2 Characteristics and factors of FDI in developing countries

This paper is focused on describing the factors that a company will face when they are starting FDI in a developing country. This explained, the authors can go further on to describe which characteristics, barriers and/or opportunities the company will find in a particular market.

To develop a categorization of those characteristics, the researchers based their analysis on a previous categorization done by Kwon and Konopa (1993) in their article: “Impact of Host Country Market Characteristics on the Choice of Foreign Market Entry Mode”. The categorization used in this article is really useful to analyze the characteristics, due to the fact that they explore every aspect of the environment, opportunities and barriers in the host country market. The factors are categorized in three types as it follows:

1. General business environment in the host country market,
2. Availability of production factors in the host country market,
3. Competitiveness factors in the host country market.
3.2.2.1 General business environment in the host country market

Political environment

In the economic and social setting after the 1990s, the role of government as a direct participator in national economies is declining, however its function as a originator and sustainer of the institutional, legal and commercial infrastructure, as a designer of value systems and ideologies, and as a decision maker for the allocation of resources can be defined as becoming more, rather than less critical (Chang, 1994 in Dunning, 1997).

When FDI is made in a host country, the political situation is explained from two perspectives, from one angle there are the socio-political risks such as political instability or the level of expropriation/nationalization that can influence the firm’s entry decision (Goodnow, 1985), and on the other angle there are host country trade policies such as tariffs and rigid quotas that have to be studied before a company enters a foreign market.

Companies may have low confidence in investing in developing countries in which the reliability and fairness of property rights is low, additionally investors may complain that the rules and laws in a country are unclear or variable over time (Delios & Henisz, 2002), therefore, as long as the foreign companies have other countries as alternatives for their investment, they may be able to have bargaining power to negotiate the terms in which the investment is being made, face to face with the host country’s government.

In high risk environment countries, the host governments make an effort to attract FDI; developing countries see it as a primary mean to increase the economic growth.

In order to attract FDI, there are two main ways in which a host country acts, and those ways may be substitutes or complements (Abbott, 2000): Initially, the host government set up favorable conditions that do not apply to all investments; these conditions could be, good transportation and communications systems, such as excellent telecommunications infrastructure, new roads or port facilities, but also they can appear
as special subsidies or exemptions from taxes or certain local laws. The second way to attract FDI is to reduce the overall political/economic risk. The most important means to reduce risk is to enforce the property rights and thus it will create a stable market environment and larger amounts of domestic investment. Certainty on political and economic stability reduces the cost of doing business (Abbott, 2000).

**Home government’s policies**

On a similar path, there are the government’s policies which include the local content requirements, the foreign exchange control, the unionization as well as the nature of legislative requirements and restrictions e.g. foreign ownership restrictions. The host country could be more attractive if the local legislation provides foreign investment incentives (Contractor, 1984).

Entering in communications with the host country authorities in order to arrange the regulatory or tax concessions, or negotiating the acquisition of land for facilities, the contracts with employees or securing licenses and permits for international trade, will help the company to understand the policies and political process in a nation (Hillman et al., 1999). These linkages with the political process might enhance the company to secure the advantages for the FDI in the host country. As the political process in most countries is highly complex in which the political behavior is difficult to predict, it is important for a company to develop these linkages to be involved in the current issues within the political system (Hillman et al., 1999).

In recent years international companies have been aided by the creation of bilateral investment treaties (BITs from now on). BITs for the purposes of this paper are treaties that governments from home and potential host countries sign to set the framework for the FDI.

BITs in general, protect the foreign investments in the host countries and settle the same laws and rules to the foreign investors or even they give parity with or advantages over domestic investors.
Governments from developing countries use BITs as means to attract FDI. The protections that are signed in the treaties, offer to the investors a secure environment for their investments in the foreign country. Those investments will lead the developing country to economic development, and consequently, it should spread beyond foreign investment to increased overall investment.

**Foreign market opportunity**

Opportunities in the foreign market should be found prior to entrance, these opportunities are in a way influenced by the country’s economic development and performance and obviously by the size of the target market.

According to Johanson and Weidersheim-Paul (1975) in their article, “The Internationalization of the Firm”, the first activity phase in the internationalization process is identifying and measuring market opportunity. A market is defined as the set of all actual and potential buyers of a product or service. It is important to carefully identify which is the market in the foreign country, in order to measure it. The following marketing processes are keys to help the investing company in a foreign country in order to recognize the market opportunities:

- Measuring market size
- Measuring market growth rate
- Measuring market consumption capacity
- Measuring market intensity
- Specifying target customers
- Identifying relevant competitors

The market size is measured according to Cavusgil (1997) with the number of the total population; meanwhile the market growth rate is based on the annual growth rate of the specific industry. The market consumption capacity is based on the size of the middle class; and the market intensity is measured by two estimates: purchasing power parity
(PPP) estimates of GNP per capita (50 percent weight) and private consumption expenditure per capita (50 percent) in the country.

Nowadays the size and growth potential of foreign markets are becoming more important when the decision of FDI is being made. Especially when FDI is made in emerging and developing countries there is an increasing focus on servicing the domestic market rather than on the labor costs (Capital Markets Consultative Group, 2003).

**Cultural environment**

Investigations on FDI patterns to the “psychic distance” between countries done by researchers at the University of Uppsala have reasoned that psychic distance “would be influenced by differences in the culture and language of the home and target countries” (Kogut & Singh, 1988). The concept “psychic distance” is defined as the degree to which a company does not have a clear knowledge of the characteristics of the foreign market, such as differences in language, culture, etc., that disturb the flow of information between the firm and the foreign market (Johanson & Vahlne, 1990).

Before the authors go further into the characteristics of the foreign market in terms of culture, the concept of culture is defined. According to Edgar Schein culture is defined as: “a pattern of shared basic assumptions that was learned by a group as it solved its problems of external adaptation and internal integration, that was worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems” (Schein 2004, p.17). Each culture also has its own artefacts and symbols. These artefacts and symbols are the visible structures of culture, such as clothing, design, and architecture (Schein, 2004).

Subculture is “a subdivision of a culture of a group” (Mowen 1995, p.738). It includes nationalities, religions, racial groups and geographic regions (Kotler et al, 2001). For the purposes of this study, nationality will be taken as the main element to analyze the barriers or opportunities a company will face when it is starting the process of FDI in Mexico and Vietnam.
Therefore, *nationality* will be important in this study for three reasons. The first is political. Nations are political units with legal systems, forms of government, labor and employer’s association systems and even educational systems will vary in every nation. The second reason is sociological. Nationality has a symbolic value to the members of the country; it is part of their identity. Finally, the third reason is psychological; the way of thinking is in a certain way conditioned by national cultural factors (Hofstede, 1983).

**Hofstede’s four dimensions**

Hofstede (1983) analyzed differences in culture in 40 nations previously, and then he added 10 more nations to complete his research. In his studies, he identified four dimensions in which the employees from the same multinational company showed similarities on their values when he clustered them on national groups. The terminology he used to classify the four dimensions was: Power Distance, Individualism, Achievement and Masculinity.

- Individualism versus Collectivism;
- Large or Small Power Distance;
- Strong or Weak Uncertainty Avoidance; and
- Masculinity versus Femininity.

The research data that he got from the data bank of the multinational corporation, allowed him to build index values between 0 and 100 on each of the following dimensions.

**Individualism/Collectivism (IDV)**

Countries with a collectivist society are more focused on the welfare of the group and seek to find the harmony and the benefits for the society. This kind of cultures work together and make sacrifices to develop a new business; this could likely to be more attractive for FDI. On the opposite side, the individualist societies will have emphasis on
personal goals and achievements. The foreign investor could find apathy or resistance on the countries with this type of cultures (Head & Sorensen, 2005).

Power Distance (PDI)

High power distance cultures refers to the groups that believe in hierarchical ranks and social inequality, in which they see those differences as a normal status quo, and it is accepted as legitimate. A high power distance culture, by definition, lends itself to autocratic/centralized decision-making processes. Countries with this type of culture usually require not only national authorization but also regional and local approval when foreign business operations are done (Head & Sorensen, 2005).

In low power distance cultures the population accepts that some ranks have privileges, but they do not see it as just or right. The people tend to be more participative and they are involved in decisions that concern the whole group, they do not tend to accept autocratic decisions, the decision-making process is much more democratic. This type of participation among the employees could help the foreign investor to understand the cultural dimensions and practices in the host country (Head & Sorensen, 2005).

Uncertainty Avoidance (UAI)

A low uncertainty avoidance culture is that one in which the members feel comfortable in situations with incomplete information, in settings where the risk is present. On the other hand, the population of a high uncertainty avoidance culture will be uncomfortable on ambiguous or risky situations. The people from a high uncertainty avoidance country will seek to gather the larger amount of data before taking decisions.

A country in which the culture is trying to avoid the uncertainty on a high level usually has large regulatory bodies that try to collect all the data before FDI is made, and eventually this certainly will discourage FDI (Head & Sorensen, 2005). The more time and effort a potential investor has to put on bureaucratic issues, the higher the costs to invest will be.
Masculine/Feminine (MAS)

While a feminine based culture focuses on contemplation, social welfare, and spiritual gains; masculine based culture focuses on personal achievements, materialistic goals and an exulted aggressiveness. The decision making processes is faster on masculine societies meanwhile the feminine society is more focused on long term relationships, with the benefit for the most of the collectivity. Nations possessing a masculine culture will experience a slight advantage in attracting acquisition focused FDI, due to reasons such as speed in decision-making and implementation, additionally one could expect a relatively rapid pace through the government’s regulatory system (Head & Sorensen, 2005).

After Hofstede analyzed differences in culture, he developed different conclusions; one important conclusion is that within a nation or a part of it, culture changes on a gradual way. This is in part due to an important reason, what is in the minds of the people; it is also crystallized in the institutions in which they form part. Government, legal systems, educational systems, industrial relations systems, family structures, religious organizations, and so on, reflect common ways of thinking, which are deep-rooted in the common culture but may vary within different cultures (Hofstede, 1983).

3.2.2.2 Availability of production factors in the host country

One of the important factors that attracts foreign investors to invest abroad is the availability of production factors in the country in which they are investing (Nunnenkamp, 2002). In classical economics there are mainly three fundamental production factors: labor, land and capital (Lipsey, Courant and Ragan, 1999, p.167-168)

Land refers to “national resources and raw materials” (Lipsey, Courant and Ragan, 1999, p.167). Labor includes “both physical and mental efforts of people” (Lipsey, Courant and Ragan, 1999, p.168). And, capital refers to money and other financial materials used in production, such as machines and production facilities.
Those three factors are very important for a firm to take a decision concerning production matters. Related to International Economics they are also important to attract foreign investors (Nunnenkamp, 2002; Porter, 1990). However, in modern economics, it is also important to take into consideration the technology and the communication/transportation as other important production factors in addition to those three fundamental factors. Therefore, the analysis of the production factors in the host country will include those five factors:

- Local skilled/unskilled labor,
- Local raw materials and national resources,
- Local capital,
- Local technology,
- Local communication/transportation.

### Local skilled/unskilled labor

As mentioned above, labor refers to both mental and physical powers of the people in economical societies. It is the only factor which can be used in every sector (Krugman & Obstfeld, 2003). Therefore, it is one of the most significant determinants of production decision. Today, many multinational companies are moving their production facilities where there is a low labor cost because of its huge effect on cost of production (Abraham, 2001). At the same time, governmental regulation on labor is also an important factor for companies to launch their businesses abroad. For instance, Mexico has one of the strongest labor laws in the world (McKinniss & Natella, 1994). Therefore, it is an important driving force for companies to make their decision to launch a business in Mexico.

Developing countries have low labor costs in comparison to developed countries. Therefore, for the companies which are aiming to cut the production costs by cutting the labor costs, developing countries can be seen as attractive countries. As cost of labor is an attractive factor for companies, at the same time the quality of the labor is also important.
Therefore, many companies are also seeking efficiency in the labor force (Karaege, 2006).

**Local raw materials and national resources**

Another factor influencing investors to make FDI is the availability of raw materials in host country and the national resources of that country. In economics, for a company to produce, raw materials and how this company gets those materials is very important. Because, transporting raw materials from their location to production facilities can have a high cost burden on companies, many companies try to establish their factories and facilities in the area which is close to raw materials and resources related to their business field (Kogut, 1985). For instance, in Turkey the majority of the tea factories are located in North-eastern Anatolia, in which the climate enables farmers to grow the plants for tea. Therefore, companies directly can buy these plants from local farmers and can carry them with a low cost to their factories and mill the plants there and package them.

For a company, to select the entry mode is related with the market resources and business conditions in the country that the company wants to enter (Dev, Brown and Zhou, 2007). Therefore, in today’s global environment, many companies set up their facilities in the country which enables them to reach the resources they need. Establishing production facilities close to the raw materials can allow companies to gain a cost leadership position. For example, the Swedish giant IKEA uses the local suppliers in the country in which they entered. This strategy enables them to cut the transportation costs and allows them to maintain their cost leadership position in furniture industry.

**Local capital**

Capital is another production factor. In economics, capital refers to financial assets as well as all other means of production used by companies in production line, such as machines, buildings and vehicles. For some businesses and for some reasons, foreign investors seek local capital as well. Therefore, it can also be a factor that
influences foreign investors. For instance, if the economical and political structure of the country does not allow foreign investors to enter the host market, companies try to make alliances with local firms by using their own capital. Also, some companies make joint ventures and local partnerships to easily reach the local market. They prefer to use the current supplier chains of their local partners, instead of building their own; to cut the extra costs and to shorten the time to establish a strong chain and a brand identity.

Local technology

The interaction between technology and FDI is considered of vital importance in the field of FDI (Moosa, 2002). For some industries technology is a factor sought by companies. A technology seeking company tries to establish its facilities close to Research & Development centers. For instance, IT and hi-tech companies are willing to establish their facilities close to technology centers. For example, there are many hi-tech companies located very close to the Silicon Valley in USA. And also, the level of technology and the type of technology in which the country specialized is a strong determinant for companies.

One of the most famous economists in the economics history, David Ricardo, when analyzing foreign trade relations in nineteenth century, created his famous comparative advantages theory which is known as Ricardian model in economics literature. Ricardo (cited in Krugman & Obstfeld, 2003) uses a one-factor economy and two different countries to analyze international trade relations; and concludes that each country must specialize in producing goods that the country has a comparative advantage in productivity comparing to others. To implement this theory into technology, it is possible to observe that many countries are specialized in products which they have a better technology level influencing their productivity comparing to other countries. For instance, Ericsson is a good example of a company which is one of the biggest players in telecommunication industry because of the high level of R&D intensity on telecommunication sector in Sweden. Therefore, it is also important to mention that multinational companies prefer to operate in countries which have a better technology level related with their businesses.
Driffield and Love (2007) described the motivations for FDI in their article. Figure 6 shows the taxonomy of those motivations that they described in their study. ULC represents the Unit Labor Cost and RDI represents Research & Development Intensity. Basically a company can aim technology sourcing as a motivator, and unit labor cost is a strong determinant for investors, as it has been described before. In the horizontal line, there is the comparison of ULCs and in the vertical line, there is the comparison of RDI between host and source country. In their study, they argue that if the level of RDI in a host country is higher than the level in source country, investors enter country for technology. So in figure 6, upper right and left sides show that investors are aiming to source the technology in host country. Therefore, technology is also a factor influencing foreign investors to go abroad.

<table>
<thead>
<tr>
<th>ULC host</th>
<th>ULC host</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;</td>
<td>&gt;</td>
</tr>
</tbody>
</table>

ULC source | ULC source

<table>
<thead>
<tr>
<th>RDI host</th>
<th>RDI source</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;</td>
<td>location advantage</td>
</tr>
<tr>
<td>technology sourcing /</td>
<td></td>
</tr>
</tbody>
</table>

(1) technology sourcing
(2) technology sourcing

<table>
<thead>
<tr>
<th>RDI host</th>
<th>RDI source</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;</td>
<td>efficiency seeking</td>
</tr>
<tr>
<td>ownership advantage /</td>
<td></td>
</tr>
</tbody>
</table>

(3) ownership advantage
(4) ownership advantage

Figure 6: Taxonomy of Motivations for Foreign Direct Investments
Source: Driffield, Nigel and James H Love, 2007, p.3
Local communication/transportation

Companies prefer to reach the market easily and they want to communicate easily with society and their suppliers. Therefore, local communication and transportation are also important for companies to enter a country. Especially for market-oriented investors, the geographical position of the country is a very strong determinant, meaning that a country which has connections with important markets in the world is an appealing investment area for foreign investors.

And for raw material oriented investors transportation and communication are important to cut the extra expenses for transporting the raw materials from their source to production facilities. However as this study tries to analyze the FDI in developing countries, it would be appropriate to mention that, because of the poor infrastructure and less developed transportation roads and communication channels, the costs of transportation are relatively high in developing countries comparing to developed ones (Venables & Limao, 1999). Therefore, developing countries are frequently faced with some problems to attract foreign investors to invest in their countries.

3.2.2.3 Competitiveness factors in the host country market

As this study is trying to analyze foreign direct investments, it is also important to point out the competitiveness factors in the host country market as a barrier against foreign investors.

In every country, established firms have some advantages over new entrants such as size of the firm, R&D intensity, economies of scale, absolute cost, product differentiation, and capital. When the competitive advantages of strengthened local firms are considerable, they serve as barriers to entry against foreign entrants (Caves, 1974). Also it is not easy for foreign companies to capture the market knowledge as they have lack of knowledge about the country that they are willing to invest in (Buckley & Casson, 1998). Therefore, foreign investors often compete with local firms in the host country. And, sometimes governments create some entry barriers against foreign companies for
some political and economical reasons. All these governmental policies such as trade barriers, tariffs, quotas and high taxes are obstacles for foreign competitors to enter that country.

Porter (1990) suggests that each nation also has some competitiveness which enables local firms to be successful in certain industries depending on national differences, culture, economic structures, institutions and histories. According to Porter, the position of the production factors and the availability and the characteristics of them in the host country provide some competitive advantages for local firms. Nations succeed in industries in which they have good factor conditions (Porter, 1990).

Also domestic firms have the knowledge about demand conditions, domestic rivalry, organizational and political structure, and economical environment. This knowledge provides them to build a competitive strategy against foreign investors (Porter, 1990).

Finally Porter states that related and supporting industries which provide sources for local firms create advantages for them. This can be in three ways. First, they deliver the resources in a most effective way by minimizing the costs. Second, local firms can build close working relationships with their local suppliers. Third, local firms can provide their needs easily from the local suppliers who are totally dependent on domestic industries and who are not serving for foreign firms in comparison to those foreign companies who are not able to receive the same sources from local suppliers (Porter, 1990).
4. Empirical findings

This chapter displays the specific data collection for the cross cases analysis in the next chapter. Based on the structure of the theory framework in the previous chapter, the empirical data in this chapter provides facts about the economy, FDI, general business environment, foreign market opportunities, and factors of production in Mexico and Vietnam. Those sets of data are arranged in the same structure for each economy.

4.1 Empirical findings for Mexico

4.1.1 Mexico economy overview

According to statistics of the World Bank and the International Monetary Fund (2007), Mexico is one of the 15th largest economies in the world. Among its various assets and riches, which include a stable economy and a real democracy (Basic Guide for Foreign Investors, 2002), Mexico has signed several treaties and free trade agreements which have made of this country a strategic and natural platform for trade and investment. In addition, Mexico has an ideal geographic location that connects the Latin American and Caribbean regions with North America. Besides, the country has access to the coast of the Atlantic and Pacific oceans, which facilitates the trading logistics.

Over the last twenty years, Mexico has followed an open economic strategy for foreign trade and investment. The process has led to several structural changes focused to reduce the barriers and to shift the economy’s trade specialization towards medium and high technology products (Economic survey of Mexico 2007, 2007).

Since 1986, Mexico is part of the GATT (now the World Trade Organization), and since 1994, Mexico has been part of the Organization for Economic Cooperation and Development (OECD). In November 1993, Mexico became a member of the Asia-Pacific Economic Cooperation Mechanism (APEC), and in addition Mexico has bilateral
agreements with a number of Latin American countries, including some of the members of MERCOSUR (Common Market of the Southern Hemisphere) (Basic Guide for Foreign Investors, 2002).

4.1.1.1 Foreign direct investment in Mexico

From 1982 and on, Mexico has pursued an active policy of lowering entry barriers to Foreign Direct Investment (Pacheco-López, 2005), in order to pursue an economic development through knowledge transfer, an increase in the trading activities and a continuous investment. Particularly since the signing of a number of free trade agreements and the North American Free Trade Agreement (NAFTA) and the Free Trade Agreement (FTA) with the European Union (EU) in particular, there has been a large increase of FDI in the country (Pacheco-López, 2005). In addition, over the last few years, Mexico has made great advances in improving infrastructure and services sectors such as telecommunications, domestic land transport, coastal shipping and airports, and has lifted property rights restrictions on foreign investment to create a stable market environment (Pacheco-López, 2005).

![Figure 7: Foreign Direct Investment in Mexico by Sector (January 1999 – June 2007)](source)

Source: Ministry of Economy of Mexico, General Direction of Foreign Investment, 2007
The total FDI inflows done in Mexico since 1999 summarize the amount of USD 165.10 billion (not including FDI which has not been notified to the Ministry of Economy of Mexico) and these have been focused on the manufacturing industry which holds almost the half of the total inflows, followed by the financial services sector with more than 25 percent. The last quarter is shared by other services, wholesale and retail, transports and communications, and others.

In Latin America, Mexico has maintained its position above the rest of the countries, except for Brazil which has been working on the same pattern as Mexico to increase the FDI inflows. During 2006 the FDI inflows for Mexico were about USD 19.22 billion (including an estimate FDI which has not been notified to the Ministry of Economy of Mexico). In the following table it can be seen that Mexico and Brazil have the leadership of FDI inflows among the ten top economies in the Latin America and the Caribbean region during 2005 – 2006.

Table 3: Latin America and the Caribbean: FDI inflows, top 10 economies, 2005-2006a (Billions of dollars)


Note: a Ranked on the basis of the magnitude of the 2006 FDI inflows.
4.1.1.2 Swedish FDI in Mexico

For the period 1999-2007, there are 147 companies with Swedish participation in its venture capital in Mexico; they represent the 0.39 percent of the total number of companies with FDI in the country for the same period. The Swedish Direct Investment is mainly focused on the manufacturing, services and commercial sectors, representing 60.2 percent, 28.6 percent and 9.17 percent respectively (Report from the Ministry of Economy of Mexico, 2007).

Between 1999 and 2007 Swedish companies made FDI for USD 376.2 million, representing 0.22 percent of the total Foreign Direct Investment in the country and 0.75 percent among the European Union (EU) countries for that period. Sweden is situated in the tenth position in the list of FDI from the EU countries (Report from the Ministry of Economy of Mexico, 2007)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Millions of US dollars</th>
<th>Share %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Manufacture of cellulose, paper and its products</td>
<td>128.52</td>
<td>34.16</td>
</tr>
<tr>
<td>2 Automotive Industry</td>
<td>54.03</td>
<td>14.36</td>
</tr>
<tr>
<td>3 Professional, technical and specialized services</td>
<td>53.49</td>
<td>14.22</td>
</tr>
<tr>
<td>4 Retail sale of non-food products</td>
<td>34.53</td>
<td>9.18</td>
</tr>
<tr>
<td>5 Manufacture and assembly of accessories of domestic use (It excludes the electronic ones)</td>
<td>34.02</td>
<td>9.04</td>
</tr>
<tr>
<td>6 Insurance and financial institutions</td>
<td>31.23</td>
<td>8.30</td>
</tr>
<tr>
<td>7 Pharmaceutical industry</td>
<td>20.84</td>
<td>5.54</td>
</tr>
<tr>
<td>8 Manufacture of other metallic products</td>
<td>19.12</td>
<td>5.08</td>
</tr>
<tr>
<td>9 Rent of equipment, machinery and furniture</td>
<td>14.60</td>
<td>3.88</td>
</tr>
<tr>
<td>10 Building</td>
<td>7.52</td>
<td>2.00</td>
</tr>
<tr>
<td>11 Services of financial institutions of the market of values.</td>
<td>6.28</td>
<td>1.67</td>
</tr>
<tr>
<td>12 Manufacture and repair of machinery and equipment for specific aims</td>
<td>5.56</td>
<td>1.48</td>
</tr>
<tr>
<td>Others</td>
<td>-33.54</td>
<td>-8.91</td>
</tr>
<tr>
<td>Total</td>
<td>376.2</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table 4: Swedish Direct Investment in Mexico by Industry, (January 1999 – June 2007)  
Source: Ministry of Economy of Mexico, 2007
4.1.2 General business environment in Mexico

As mentioned before, the Mexican government has pursued the objective of attracting more investment, domestic and foreign. To reach this goal, the government has taken actions to decrease the governmental intervention and sustain the country openness in the global competition, even in activities that previously were exclusive for the state. The last decades there has been an intensive deregulation program directed to promote the investment in the country and liberalize the economy (Industrial Costs in Mexico, 2002).

In Mexico, the highest law concerning FDI is the Foreign Investment Law, which “establishes, as a general rule, that foreign investors may hold 100 percent of the capital stock of any Mexican corporation or partnership, except in those few areas expressly subject to limitations under the same.” (Basic Guide for Foreign Investors, 2002, p. 9)

However, in the case of the telecommunications sector, there is a law that expresses some limitations concerning the ownership of foreign investors. According to Federal Telecommunications Law (FTL); “the foreign investment participation in no case shall be able to exceed 49 percent, except in cases of cellular telephone services. In this case, a favorable resolution of the National Commission of Foreign Investments (NCFI) is required for the foreign investment to participate with a greater percentage.” (Federal Telecommunications Law, article 12, 1995)

To regulate the foreign investment, there is a special commission in Mexico formed by several Ministers of the Mexican government which is called The National Commission of Foreign Investments - NCFI (Comisión federal de Inversiones Extranjeras) and is responsible for:

- issuing policy guidelines, general rules and criteria of the Mexican federal government concerning foreign investment; and
- authorizing, together with the Ministry of Commerce and Industrial Works - SECOFI (Secretaría de Comercio y Fomento Industrial), on the viability and conditions...
for the participation of foreign investments in activities or acquisitions, which may be reserved, totally or partially, to the Mexican government or Mexican investors.

Mexico has a large number of bilateral treaties in effect to avoid double taxation and prevent tax evasion with Belgium, Canada, Chile, Denmark, Ecuador, Finland, France, Germany, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Netherlands, Norway, Portugal, Romania, Singapore, Spain, Sweden, Switzerland, United Kingdom, and the United States. The Mexican government has also concluded tax treaty negotiations with the Czech Republic, Greece, India, Indonesia, Poland and Venezuela (Industrial Costs in Mexico, 2002). Tax treaties, among other things, reduce withholding taxes on dividends, interest, royalties and capital gains.

The impact of the free-trade agreement between EU-Mexico has been positive. According to the free trade agreement between Mexico and the EU (art. 12), quantitative restrictions are hereafter forbidden between the two parties (The EU’s Relations with Mexico, 2007).

When talking about the general business environment in any country, it would be appropriate to mention about the taxation system of that country. Federal income tax is the most important tax in Mexican taxation system with the highest portion of the total tax collected in Mexico. The two criteria central to the imposition of the tax to individuals and corporations are residency and source of income (Basic Guide for Foreign Investors, 2002):

- Mexican residents are taxed on every income, from whichever source.
- Foreign residents are taxed when they have settled a permanent establishment in Mexico.

Companies are considered to be residents of Mexico when the place of incorporation of the company is in Mexico or when they have in Mexico their main management or business decisions center.
An important aspect of the general business environment in Mexico concerning FDI, is the Maquiladora Program, which involves the importation of foreign raw materials or component parts into Mexico on a temporary basis, where it is assembled, manufactured or repaired by a Maquiladora plant and then exported, either to the country of origin or to a third country, without taxation. However, when the finished product is sold in the domestic market, the foreign merchandise is subject to the general import duty and counter-veiling duties (Basic Guide for Foreign Investors, 2002).

Last but not least, it would be appropriate to mention about the policies in telecommunications. Before 2000, there was a change in the organization of the government bodies responsible for telecommunications, most of the functions done by the Ministry of Communications were transferred to the Federal Commission of Telecommunications (COFETEL), which now acts as a regulator on the issues related to telecommunications. The Ministry of Communications shall grant the use, installation, operation or exploitation of public telecommunication networks, which are carried out through concessions.

**Foreign market opportunities in Mexico**

With a population of more than 105.79 million people, according to INEGI (2007), and an estimate annual growth rate of 1.16 percent (Department of State, 2007) Mexico has a considerable growth potential in different markets. With a GDP (purchasing power parity) of USD 1.149 trillion (2006 est. PPP method), USD 10,700 (2006 est. PPP method) per capita and a real growth rate of 4.8 percent (2006 est.) (CIA, The World Fact Book, 2007), Mexico stands up to be a recipient of FDI, especially in the Latin American region.

In addition to the Mexican market, Mexico has access to markets in North America (NAFTA), Western Europe (EU and EFTA), Israel, and to ten emerging markets in Latin America, thanks to the largest network of Free Trade Agreements in the world (Representative office of Mexico in Europe, 2007).
And also, one of the strongest characteristics of Mexico which attracts foreign investors is its location. Mexico has a strategic geographic location, between the North American and the Latin American markets which provides an opportunity for investors to have access to both markets.

**4.1.3 Availability of production factors in Mexico**

**Local skilled/unskilled labor in Mexico:**

Since Mexico started the intensive deregulation program directed to promote the investment in the country, one of the strategies followed by the government was to take advantage of the low labor costs comparing to other countries in the world. However, that advantage was dangerous and unsustainable according to experts (Mora Tavares, 2007), in addition to the fact that the country forgot to invest in human resources development during the same period of time.

Nowadays, China's economic surge and entry into the World Trade Organization, has made the developing world to be alarmed, just in Mexico, since the year 2000 there has been a lost of 270,000 jobs in the assembly factories (Mora Tavares, 2007).

Mexico and other developing countries must create jobs in higher-value-added activities to continue moving up the development path, instead of continuing the low labor cost strategy. As cost of labor is an attractive factor for companies, at the same time the quality of the labor is also important. Therefore, many companies are seeking nowadays for the efficiency of the labor force (Karaege, 2006).

**Local raw materials and national resources in Mexico:**

Mexico is a rich country in biodiversity, it has an abundance of raw materials such as cotton, wood, iron, silver, lead, tin, cupper, petroleum, and in natural resources such as corn, potatoes and coffee; or activities such as livestock breeding, agriculture and fishing.
In Mexico, there are different ecosystems in which the climate enables to grow and produce different resources, for instance in the north-western part of the country there is a special climate that allows the growing of the best vineyards in the country, and in the southeast, there is the best coffee production. In the middle part of the country there is a presence of mines that produce iron, copper, silver, etc. in addition there are several oil fields along the coasts to Pacific and Atlantic oceans.

**Local capital in Mexico:**

In Mexico there are several entities that finance foreign and domestic investments, financial groups formed by Mexican and Foreign Capitals. There is a Mexican Stock Exchange, several brokerage houses, banks and authorities that regulate the transactions. As it has been mentioned previously, for some businesses and for some reasons, foreign investors seek for local capital, as well. Therefore, it can also be a factor influences foreign investors to invest in Mexico.

**Local technology in Mexico:**

Although in Latin America, Mexico represents one of the countries with the largest technology offer, this is still mainly concentrated in the metropolitan major cities. Comparing to developed countries, Mexico presents a research and development gap in terms of science and technology (De la Fuente in Galán, J., 2007), which could be reduced with the allowance of more FDI and the creation of regulatory policies that must to be adapted to the evolution of high tech.

**Local communication/transportation in Mexico:**

As mentioned previously, companies prefer to reach the market easily and they want to communicate easily with society and their suppliers. Therefore, local communication and transportation are also important for companies to invest in a country.
In Mexico, there are more than 340 thousand km that forms the National Road Network; from this amount, the highways conform 5 thousand km. 55 percent of the total freight is transported through this network (El Tratado de Libre Comercio y el Transporte en Mexico, 2004). The railway network covers an extensión of 17 thousand km in concession to six main companies (El Tratado de Libre Comercio y el Transporte en Mexico, 2004).

On the main coasts of Mexico there are 97 ports handling approximately 250 million tons per year. The main docks are located in Veracruz, Manzanillo, Ensenada, Lázaro Cárdenas, Altamira, Tampico, Coatzacoalcos y Progreso (El Tratado de Libre Comercio y el Transporte en Mexico, 2004).

There are 62 airports, 25 of them are located on coastal cities. The air freight is distributed among foreign and Mexican companies, the foreign companies transport 80 percent and the Mexican companies the rest 20 percent of the total loads (Rico Galeana, 2004). The main air Terminal is located in Mexico City and the second is located in Guadalajara, these airports control around 40 percent of the international freight (Rico Galeana, 2004).

4.1.4 Competitiveness factors in Mexico

In Mexico there is a regulatory body that protects the competitive process in the country. The Federal Competition Law gives capability to the Federal Competition Commission (COFECO) to act in all economic sectors: “to protect the competitive process and free market participation by preventing and eliminating monopolies, monopolistic practices and other restraints of the efficient functioning of markets for goods and services” (Article 2 of the Federal Competition Law in OECD Competition Law and Policy Committee, 1998).

Nevertheless, there are foreign observers which noted that in especial cases, there is a lack of action by the government on monopolistic practices, due to the fact that these
companies have a strong power and influence on the country’s economy. These issues would discourage a higher level of foreign investment (García-Murillo & Pick, 2004)

4.2 Empirical findings for Vietnam

4.2.1 Vietnam economy overview

In 1986, an economic reform known as "Doi Moi" (renovation) changed the structure of Vietnam economy. The economic reform restructured the economy from a planned economy to a market economy. Since then, the Vietnamese economy had moving forward from a low level development to the developing economy. According to the General Statistics Office of Vietnam, Vietnam has reached an annual GDP growth rate of 7 percent per year from 1997 to 2004, in 2005 growth hit 8 percent and 7.8 percent in 2006. Vietnam became a member in the ASEAN Free Trade Area (AFTA) and entered into force of the America-Vietnam Bilateral Trade Agreement in December 2001. It had led to even more rapid changes in Vietnam's trade and economic regime.

Recently, after a decade of long negotiation process, Vietnam joined the WTO in January 2007. Joining the WTO provides an important boost to the economy and helps the economy to continue the reforms. Since then the percentage of the population living under USD 1 per day has declined significantly, and has become smaller than in India, China, and the Philippines. Vietnamese government is working to create jobs to meet the challenge of a labor force that is growing by more than one million people every year and targeting an economic growth rate of 8 percent during the next five years.

4.2.1.1 Foreign direct investments in Vietnam

Since the introduction of "Doi Moi" (renovation) economic reforms in 1986, Vietnam’s economy has been among the fastest growing economies in the region. Its economic structure reflected an increasing share of industry and services while the share of agriculture declined. Vietnam has been successful in poverty reduction strategies and has been able to ensure rapid growth with relative equity. Among the factors that led to this success, FDI has played a crucial role, “providing Vietnam’s economy with its
relatively scarce factor, capital, and representing an extremely important instrument for integration in the world economy, especially at the regional level” (Leproux & Brooks, 2004, p.7).

When the Law on Foreign Investment was approved in 1988, there has been a substantial FDI inflow. According to the Ministry of Planning and Investment, Vietnam attracted FDI of USD 12 billion in 2006, a high record for the last eight years. Table 5 shows the FDI in Vietnam between 1988 and 2006. As it can be observed from the table, from 1988 to the end of 2006, the Vietnamese economy attracted 8266 projects with total investment capital of about USD 78.2 billion. However, it is important to mention here that there is a significant increase in the number of the projects after 2000. From 1988 till 2000, the number of the projects is 3344, and as it can be observed from the table, the number of the projects after 2000 is higher than the previous period with a number of 3935 projects.
According to the General Statistics Office of Vietnam, up to the end of 2006, investors from 74 countries and territories had invested in Vietnam. Singapore is the most important foreign investor with 543 projects and USD 10 billion of total registered...
capital; followed by Taiwan (1743 projects and USD 9.5 billion); Republic of Korea (1438 projects and USD 9.2 billion); Japan (838 projects and USD 8.3 billion); Hong Kong (584 projects and USD 6.4 billion) These top five investors account to 55.6 percent of total FDI commitments in the period of 1988-2006.

<table>
<thead>
<tr>
<th>Number of projects</th>
<th>Registered capital (Mill. USD)</th>
<th>Of which: Legal capital</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>8266</td>
<td>78248.2</td>
</tr>
<tr>
<td>Singapore</td>
<td>543</td>
<td>10002.9</td>
</tr>
<tr>
<td>Taiwan</td>
<td>1743</td>
<td>9502.3</td>
</tr>
<tr>
<td>Korea</td>
<td>1438</td>
<td>9251.9</td>
</tr>
<tr>
<td>Japan</td>
<td>838</td>
<td>8397.6</td>
</tr>
<tr>
<td>Hong Kong SAR</td>
<td>548</td>
<td>6400.3</td>
</tr>
<tr>
<td>British Virgin Islands</td>
<td>329</td>
<td>5361.0</td>
</tr>
<tr>
<td>United States</td>
<td>374</td>
<td>3121.2</td>
</tr>
<tr>
<td>France</td>
<td>236</td>
<td>2902.5</td>
</tr>
<tr>
<td>Netherlands</td>
<td>91</td>
<td>2765.7</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>99</td>
<td>2065.5</td>
</tr>
<tr>
<td>Others</td>
<td>2027</td>
<td>18477.3</td>
</tr>
</tbody>
</table>

**Table 6: Foreign Direct Investment in Vietnam by countries (period 1988-2006)**


During these years Vietnam's economy was able to attract foreign investment in all sectors. The manufacturing sector accounted for the most important share of the capital inflows over the period of 1988-2006 with 5338 projects and USD 41 billion total registered capitals. Another important role in attracting FDI was played by real estate services, which absorbed the highest amount of FDI after manufacturing sector (1014 projects and USD 8 billion) The tertiary sector (construction) accounting for 181 projects and USD 5.8 billion.
<table>
<thead>
<tr>
<th>Number of projects</th>
<th>Total</th>
<th>Registered capital (Mill. USD) (*)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>Total</td>
<td>8266</td>
<td>78248.2</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5338</td>
<td>41462.8</td>
</tr>
<tr>
<td>Real estate, renting business activities</td>
<td>1014</td>
<td>8077.0</td>
</tr>
<tr>
<td>Construction</td>
<td>181</td>
<td>5814.7</td>
</tr>
<tr>
<td>Hotels and restaurants</td>
<td>253</td>
<td>5652.5</td>
</tr>
<tr>
<td>Transport; storage and communications</td>
<td>242</td>
<td>4715.8</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>103</td>
<td>3480.5</td>
</tr>
<tr>
<td>Agriculture and forestry</td>
<td>504</td>
<td>3349.2</td>
</tr>
<tr>
<td>Electric and gas and water supply</td>
<td>23</td>
<td>1928.1</td>
</tr>
<tr>
<td>Recreational, cultural and sporting activities</td>
<td>103</td>
<td>1273.2</td>
</tr>
<tr>
<td>Financial intermediation</td>
<td>61</td>
<td>830.4</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>97</td>
<td>512.0</td>
</tr>
<tr>
<td>Fishery</td>
<td>154</td>
<td>504.8</td>
</tr>
<tr>
<td>Health and social work</td>
<td>42</td>
<td>478.9</td>
</tr>
<tr>
<td>Education and training</td>
<td>88</td>
<td>135.2</td>
</tr>
<tr>
<td>Community, social and personal service activities</td>
<td>63</td>
<td>33.2</td>
</tr>
</tbody>
</table>

Table 7: Foreign Direct Investment in Vietnam by economy activities  
(Period 1988-2006)  

All 61 provinces of Vietnam have attracted FDI but investors have so far located their investments mostly in urban area where they can take advantage of more developed infrastructure (Leproux & Brooks, 2004). Ho Chi Minh City and Hanoi accounted for 23 and 16 percent, respectively, of the total FDI absorbed by Vietnam in 1988-2006. Apart from those principal cities, other areas attracted high amounts of FDI, especially in the southeast. The provinces of Dong Nai, Binh Duong, and Ba Ria-Vung Tau absorbed another 30 percent of total FDI, far more than the other principal northern provinces of Hai Phong, Quang Ngai, and Da Nang, which absorbed just 8 percent. From these data, it can be said that: over the period of 18 years (1988-2006) 69 percent of the total amount of FDI absorbed by Vietnam was invested in only five of the 61 regions of Vietnam.
In order to provide appropriate infrastructure for foreign investors, Vietnam has developed a system of industrial zones all over the country. According to the Ministry of Planning and Investment, by the end of August 2007, Vietnam had a total of 150 industrial zones.

Those industrial zones are located in 49 cities and provinces but are more concentrated in the three key economic regions of Vietnam (southern, northern and central key economic zones) and account for 80 percent of the total area of all industrial zones in the country. According to the report of the Vietnam Foreign Investment Agency, industrial zones attracted 253 foreign invested projects with a total registered capital of more than USD 2 billion in the January-July period of 2007, accounting for more than 30 percent of the total registered foreign capital of Vietnam and over 2.7 times more than the same period of 2006 (Vietnam Foreign Investment Agency, 2007). Accordingly, the total number of foreign invested projects in industrial zone is 2600 with a registered capital of USD 24.2 billion.
According to the Law of Foreign Investment of Vietnam, there are three forms of foreign investment in Vietnam: Business Corporate Contract (BCC), Joint Venture (JV) and 100 percent foreign-invested company. If any foreign investors want to invest into the oil and telecommunication sectors, BCC forms have to be applied, while for a wide range of other industries like transportation, tourism and other sectors the Law of Foreign Investment endorses JV as the form of investment. For other sectors, the investors are free to choose the investment forms as well as the size and location of investment (Doanh, 2002). In 2006, the number the projects under 100 percent foreign-invested companies account for 61 percent of licensed projects, while JVs account for 34 percent of licensed projects (Ministry of Planning and Investment of Vietnam, 2006).

In general, Vietnam has received less FDI than most of its South-east Asian neighbors, and the impact of foreign investment has been less marked in the way of technology transfer between foreign firms and joint-venture partners (Economist Intelligence Unit, 2007). In 2006, the value of foreign-invested enterprises increased by almost 19 percent, around 6 percent of this output is accounted for by the oil and gas industry, which is practically controlled by foreign-invested enterprises. Reflecting the export-oriented nature of many foreign firms operating in Vietnam, foreign-invested enterprises share of exports stood at 58 percent in 2006, with exports growing by 23 percent year on year, compared with growth of 21 percent in the export receipts of domestics firms (Economist Intelligence Unit, 2007).

**4.2.1.2 Swedish FDI in Vietnam**

Table 9 illustrates the Swedish FDI in Vietnam between 1988 and 2006. As it can be observed from the table with a number of 14 projects and USD 402 million of total registered capital, Sweden is standing at position number 23 of total 74 foreign investors in Vietnam.
FDI of Sweden in Vietnam mainly focuses on telecommunication, mobile phone, and electricity equipment. Particularly, the Kinnevik/Comvik Corporation has projects to build the Vietnamese GMS network (Vietnam Mobile Services, VMS) with registered capital up to USD 341.5 million through a general purchasing agreement with Ericsson for equipment supply (account for 80 percent of total Swedish FDI to Vietnam). Nowadays, almost big companies of Sweden have direct investments in Vietnam such as Ericsson, ABB, Alfa-Laval, Electrolux, Ikea, etc.

4.2.2 General business environment in Vietnam

Vietnam is moving forward from a highly-regulated and closed business environment to foreign investors and a new more open environment. From middle of 2006, a number of laws that substantially increase the transparency of the investment environment, including laws in the area of intellectual property, taxation and competition (Whelan, 2007).

In general, political and social stability are strengths of Vietnam. The Political and Economic Risk Consultancy in Hong Kong (PERC) has ranked Vietnam after the September 11th event in the first position among regional countries. In terms of religions, languages or ethnic disputes, there are fewer problems in Vietnam in comparison to other countries in the region, and the safety of foreign direct investments is guaranteed (Doanh, 2002). Moreover, the Vietnamese Government is cooperative with investors and committed to reform the law of investment. For example, since 1987, the Law on Foreign Direct Investment has been amended four times in 1990, 1992, 1996 and 2000 in order to responding to the perceived needs of investors (Doanh, 2002).
Before the "Doi Moi" program in 1986, Vietnam's international trade was restricted to commodities exchange programs with Socialist countries. At that time, with high tariffs and numerous non-tariff barriers, the international trade relations of Vietnam with the world was limited. However, during the economic reform from 1986, international trade had become an important strategy of the Vietnamese economy. “In order to promote trade, Vietnam had implemented trade liberalization, including tariff reductions and other measures designed to relax import and export restrictions” (Nguyen, Nguyen and Meyer, 2003, p.250). Additional, the decision 46 of the Prime Minister, which became effective in May 2001, lead to a reduction of non-tariff barriers and more transparent import and export regulations which provided a roadmap for future trade liberalization (Nguyen, Nguyen and Meyer, 2003). Currently, Vietnam had signed bilateral trade agreements with more than 60 countries. As one member of AFTA (ASEAN Free Trade Area), Vietnam is committed with other members for reducing tariff rates and removed other non-tariff barriers in 2006 and completely comply in 2010 (Nguyen, Nguyen and Meyer, 2003).

The tax system in Vietnam has also undergone through a significant reform since 1986. In Vietnam, there are five principal forms of taxation: business income tax, withholding taxes, import and export duties, value added tax (VAT), and royalties. The General Department of Taxation (GDT) under the Ministry of Finance administers each of these forms of taxation. There is exception for import and export duties, which are payable to the General Department of Custom. All of these forms of taxation are administered at national level; there are no local taxes. However, provincial tax departments are responsible for collecting taxes and for tax audits (Department of Planning and Investment, 2007). From 1987, a corporate income tax ranging from 15 to 25 percent of earned profits applied to the enterprises with foreign invested capital and foreign partners, operating under business co-operation contracts. However, this percentage changed to 25 percent on the profit earned in 1996 (Nguyen, Nguyen and Meyer, 2003).
Foreign market opportunities in Vietnam

According to Vietnam's Minister of Planning and Investment, the Purchasing Power Parity of Vietnam in 2006 was USD 280.2 billion with the growth rate of 8.2 percent. The government targets of GDP growth of around 8.5 percent for 2007.

In terms of market size, in July 2005, Vietnam's population was estimated at approximately 83.5 million and this number is expected to grow to 90 million in 2010 with an annual growth rate of 1.6 percent. The mean of population density is 253.7 people per square kilometer. The most populous areas are in the South of Vietnam (PriceWaterHouseCoopers, 2006). During the 2000-2006 periods, Vietnam reached an annual gross domestic product (GDP) growth rate close to 7 percent, becoming the second-fastest developing economy in Asia. Vietnam's economy is expected to develop at around 8.5 percent in 2007 (Vietnam Ministry of Foreign Affairs, 2007).

In Vietnam, the size of the middle class would include professional employees working or holding positions of responsibility in the bureaucracy and state enterprises. A rather newer group in this category would be “professional Vietnamese employed by foreign companies” (Martin, 2002, p.54). This middle class stands for the consumption capacity of Vietnam market. Research by TNS, a market research based in London, has shown that in an average household in Ho Chi Minh City, people spent 2.5 to 7 times more than the amount they earned. Whether it is families dining at fancy restaurants, businessmen buying luxury cars or people shopping for vanity items, conspicuous consumption is popular, especially in Ho Chi Minh City and Hanoi (McCool, 2006).

4.2.3 Availability of production factors in Vietnam

Local skilled/unskilled labor:

Among the population of 83.5 million, over 61.6 percent are under 25 years old, 15.5 percent of the population are considered trained or skilled workers (with elementary qualifications or higher). This situation is improving as a result of updated training programs in training and education centers. Vietnamese government is putting a high
priority concern for investment in quality training and education in order to provide more professional employees to the market (PriceWaterHouseCoopers, 2006). The rest of the workforce (85 percent) does not have professional qualification. It was reported that many foreign investors had to spend time and passion re-training their workforce at all levels (Nguyen, Nguyen and Meyer, 2003).

In response to that situation, Vietnamese government had many efforts in recent years to improve the professional qualifications of the workforce, at both national and local level. Particularly, in order to attract foreign investment into their province, some provinces were willing to cover the whole or part of training costs incurred by FDI companies. With these policies, Vietnamese government hoped to upgrade the professional qualifications in the workforce to the levels expected by foreign investors (Nguyen, Nguyen and Meyer, 2003).

Local raw materials and national resources in Vietnam:

Vietnam has a considerable richness in raw materials such as oil, gas and coal, and its 41,000 km of waterways provide a basic resource for hydropower. Vietnam is also rich in minerals such as bauxite, iron ore, lead, gold, precious stones, tin, chromate, white sand and graphite. Additional, with fresh and saltwater fauna and dense tropical forestry resources, Vietnam has considerable great agricultural potential (PriceWaterHouseCoopers, 2006).

Local capital in Vietnam:

Agriculture, as one of the basic economic sector in Vietnam, is continuing to contribute to the stability of the economy. This industry has continued to remain its fast development with an annual growth rate of 5.4 percent. Forestry and fishery have considerably improved their contribution to the growth of the economy, meeting the economic growth and the people demands. Moreover, as mentioned earlier, Vietnam is rich in other natural resources such as oil, gas and coal, mineral, and waterways.
Local technology in Vietnam:

The local technology level of Vietnam's economy in general might be lower in comparison to advanced technologies brought in by foreign investors. The technologies used within FDI projects generally have a higher level than the technologies currently used in domestic projects, especially in oil and gas, telecommunication, chemical, electronics, and automobiles sectors (Thuy, 2005). The disparity of technology levels can also be seen in enterprises under Vietnamese ownership. For example, the technology level of central state sector is higher than that of the local state, foreign sector level is higher than domestic sector, and the level of state sector is higher than private domestic (Thuy, 2005).

A certain thing is that on Joint Ventures and 100 percent foreign enterprises, modern and advanced technologies are highly concentrated. In most of state enterprises there is a mixture of technologies between modern, advantage technologies with old technologies which was used from 1986 period. Technologies applied in these state enterprises are mainly applied from Eastern Europe, Malaysia, Taiwan, Korea, China, India, which are not really at advanced levels. In several cases, enterprises import second-hand equipment due to the shortage of production cycle. The development and investment in technology remains slow and unbalanced among enterprises. Some of the enterprises really focused on investment for new technology, meanwhile the significant portion of enterprises use second-hand equipment with low level technologies. Furthermore, since the quality of technicians and engineers is still insufficient, the degree of technology application has restricted the usage ratio of technologies which is still low, accounting for only 70-80 percent of capacity, even 50-60 percent for some sectors (Thuy, 2005).

Local communication/transportation in Vietnam:

Recently, Vietnam has made great efforts in upgrading its telecommunication systems, although much remains to be done. In the period of 2000-2006, the annual growth of the telecommunication market in Vietnam reached 30 percent. Specially, in
2005 and 2006, the growth rates were more than 50 percent. In the first eight months of 2006 only, the number of new phones was double comparing to the entire period from 1975 to 2000. The Vietnam Telecom Ministry entered into new technology with regards to international calls made over the internet. Moreover, the speed of mobile phone subscriptions has further improved the telecommunications landscape, especially in rural areas (PriceWaterHouseCoopers, 2006).

Vietnam has 210,000 km network of road system, it includes 10,732 bridges and 178 ferries. However, Vietnam has no expressways, and only 26 percent of the national highways has two lanes or more. In recent years, with international financial support, Vietnamese Government has invested a significantly large amount of capital to upgrade the highway system (PriceWaterHouseCoopers, 2006). The rail network consists of about 2600 km of single-track line covering several routes. There are about 260 stations in the network (PriceWaterHouseCoopers, 2006).

Vietnam has two major inland waterway systems which serve as major transportation outlets. The first major inland waterway system is in the Red River area in the north of Vietnam which stretches for approximately 2,500 km. The second major inland waterway extends 4,500 km along the Mekong River in the South (PriceWaterHouseCoopers, 2006). Regarding to the airline system, there are three international airports in Vietnam: Ho Chi Minh City (Tan Son Nhat Airport), Ha Noi (Noi Bai Airport) and Da Nang Airport. Recently, the Government has significantly upgraded international airports to handle the increase in the volume of traffic associated with Vietnam's invigorated economy (PriceWaterHouseCoopers, 2006).

4.2.4 Competitiveness factors in Vietnam

Political and social stability is strength of Vietnam, as well as of local firms. Using Government policy such as regulations as an ally rather than an adversary can give a local firm a competitive advantage. Moreover, government may also give direct subsidies or other assistances to domestic companies. Additional, the demand conditions of 83 millions people are growing rapidly. Young, fast learning relatively well-educated
labor forces are also a competitive advantage for local companies. Cheap labor costs are also competitive with other regional economies (Doanh, 2002).

In the recent years, domestic businesses of different economic sectors have focused investment on advanced technology and production management in order to increase product quality, stabilize production, ensure reasonable product prices, and gain the confidence of domestic customers. By doing this, domestic firms produce high quality products and thus raise the competitiveness with foreign enterprises. Moreover, local firms also paid more attention to improving trade labels on their products. Finally, Vietnamese customers now highly appreciate many Vietnamese made products such as paper, cement, and dairy products. The appreciation of Vietnamese people in Vietnamese products provides huge encouragement and competitiveness for domestic firms to compete with foreign enterprises (Vietnam Economic Times, 2007).

4.3 Cultural environment: Sweden, Mexico and Vietnam

Figure 8 summarizes the differences in the cultural dimensions for Sweden, Mexico and Vietnam using the scores and ranks as determined by Hofstede (1980).

![Figure 8: Comparison of Scores by Country of Geert Hofstede’s Cultural Dimensions](source: Geert Hofstede’s Cultural Dimensions, 2007)
Power Distance (PDI)

In a low power distance culture such as Sweden, the members of an organization value more democracy and consensual decision making than in high distance cultures such as Mexico and Vietnam. In these two countries the absence of participation by subordinates when decisions are taken is common and respected, subordinates are expected to accept unconditionally what their bosses decide (Kras, 1995). Delegation of authority is more present in cultures with low power distance such as Sweden than in high power distance cultures such as Mexico and Vietnam.

Individualism/Collectivism (IDV)

Countries such as Mexico and Vietnam are characterized by having a collectivist culture, in which people stay in constant contact and information flows among a multitude of informants at many levels. This constant contact and flow of information brings the people to form closer ties and to form groups and subgroups within the society.

In an individualist culture such as the Swedish society, the flow of information is highly focused, compartmentalized and controlled (Leidner, Dorothy E, Carlsson, Sven, et al. 1999), the people is responsible for their own tasks and does not share more information than the necessary.

Masculine/Feminine (MAS)

According to Hofstede’s scores, the Swedish culture is one of the societies that have the lowest score on masculinity. The role of the women in society is almost equal to the role of men. In a feminine culture, the society is concerned about long term relationships, social welfare and contemplation.

Mexico has the highest score on the masculine dimension, this means that the society of this country is more assertive, aggressive and decisive, but it also represents a large inequality between men and women. The position of women in Mexican society is not as developed as position of men, and there are still differences when men and women
are trying to be successful in this type of society. Vietnamese society follows the same masculine culture pattern as in Mexico; however, they are below Mexico on the scores, and far from the Swedish scores.

Uncertainty Avoidance (UAI)

In Mexico, there is a high level of uncertainty avoidance, due to several reasons such as the extreme fluctuations in the economic, cultural and political climate. Such fluctuations lead the societies to a short-term focus and a lack of detailed analysis (Kras, 1995). In cultures such as the Swedish society, there is a long-term focus, in which risks are taken as a normal part of the decision-making. Vietnam has also a culture focused on long-term plans; in Vietnam there is a socio-political stability; therefore, Vietnamese society is used to take risks in which there is more to win than to loose.

Swedish companies could find many similarities between Mexico and Vietnam, in terms of cultural dimensions. When the FDI process is initiated, Swedish firms can develop a general plan that might be adapted to the two cultures.
5. Company cases - Ericsson in Mexico and Vietnam

This chapter includes the cases of Ericsson in Mexico and Vietnam which have been developed by the results of the interviews and the empirical findings about the case study company in those two countries.

5.1 Case of Ericsson Mexico

The researchers developed the case described in the following paragraphs based on the interview held in the offices of Teleindustria Ericsson S.A. de C.V. (Ericsson Mexico) by one of the researchers in Mexico with the interviewee: One of the directors of Ericsson Mexico, on December, 2007. In addition, empirical findings developed in previous chapters and the history of Ericsson built by the Centrum för Näringslivshistoria (Centre for Business History) together with the Chronology of Telephony in Mexico, made by the Federal Commission of Telecommunications (COFETEL, 2007) were used to write the history of Ericsson in Mexico. Ericsson’s Mexico web page, Ericsson’s worldwide home page and other sources were used to corroborate and complete the information.

5.1.1 The history of Ericsson in Mexico

In October of 1904, L.M. Ericsson (Ericsson) started its operations in Mexico by winning a concession to manage the telephone network in Mexico City and outlying areas. After four years, Ericsson created a subsidiary, Mexeric, which took the control of the network (Centrum för Näringslivshistoria, 2007).

In 1925, International Telephone and Telegraph Co. (ITT) entered the market by acquiring a Mexican company, and started the battle with Ericsson to become the leading telecom operator in Mexico. In 1936 the President of Mexico through the Ministry of Communications and Public Works, informed that the two companies must unify their
lines and combine their services (COFETEL, 2007). After several negotiations in which both companies were owners of a share of each other, and in which a Swedish industrialist saw an opportunity to enter into the market: Ericsson, ITT and Axel Wenner-Gren founded a new company in 1947, named Telefonos de Mexico, S.A. (Telmex). Then, all the networks were unified and consolidated into one company.

During the 1950s a group of Mexican businessmen acquired the new company which eventually was taken by the Mexican government in 1972, owning the 51 percent of the shares (Centrum för Näringslivshistoria, 2007). After the acquisition of Telmex by Mexican interests, the new function of L.M. Ericsson was to provide of equipment and technical and administrative consultancy to Telmex. In addition, there was an agreement in which Telmex paid 2.5 percent of the annual income to L.M. Ericsson until 1957, and 3 percent starting in 1958 (COFETEL, 2007).

After this situation, Ericsson decided to invest together with ITT in a manufacturing and industrial company (Industria de Telecomunicación, S. A. de C. V.), to provide Telmex with telephone equipment (COFETEL, 2007). Later in 1964 Ericsson left this acquisition, and purchased a new company which was named: Teleindustria Ericsson S.A. de C.V. (Ericsson Mexico) (Ibarra López, 1995, Centrum för Näringslivshistoria, 2007).

The industrialization stage starts when Ericsson Mexico builds the first factory of telecommunication systems in Mexico. And then the first electrical central with centralized control trough computers AKE, for long distance calls is installed. In the 1980s, the Telmex network is digitalized, and Ericsson’s AXE system is launched. In 1989, the first AMPS mobile telephone system was installed in Mexico with Ericsson as the supplier. In 1994, the company Ericsson Radio Systems is created to supply with systems and services of wireless networks for the largest mobile systems operator in Mexico (Ericsson México, 2007).
By the year 2000, Ericsson had a market share of 55 percent for local calls and 90 percent for long distance calls. The market share in mobile telephony was 64 percent. The number of Ericsson employees in the country was 1,200. Starting the new century Ericsson Mexico launches the first GSM/GPRS network in the country with national coverage. Ericsson celebrates their first 100 years in Mexico in 2004, being an active participator in the modernization and development of the telecommunications industry in the country (Ericsson México, 2007).

Nowadays, Ericsson is the worldwide leader in the area of 2G (GSM) and 3G (WCDMA/HSPA) mobile networks, and is involved in the expansion of fixed broadband offering which will integrate their fixed and mobile networks, through IP infrastructure, IMS, media gateways, and microwave and optical transport solutions (Our business offerings, 2007).

5.1.2 General business environment for Ericsson in Mexico

According to the interviewee, Ericsson is in Mexico mainly for a strong reason: Mexico is and has been, at least in the last 110 years, a leader within the Latin American environment, what happens in Mexico is replied in the countries of Central and South America, then that helps Ericsson as a starter in the business ventures, not only in Mexico, but also in other countries. Because of the market size in Mexico and the necessities the market demands, such as quality in technology and the technological advance. And finally, because of the economic capacity and the legal certainty the country has nowadays, which is sufficient to guarantee the stay of Ericsson in the country.

Ericsson has been in Mexico since 1904. And there they have remained; inclusively survived the Mexican Revolution in 1910, according to the interviewee, Ericsson has been investing and being with Mexico, not in Mexico but with Mexico. In order to maintain their position, during the Mexican Revolution, Ericsson tried to converge with the policy or the strange environment that happened by then, always following the principle of the Swedish culture. According to the interviewee “The
Swedish culture at any moment must be neutral by nature. Almost in all the wars or at least all the important wars, Sweden has not participated, it has been neutral. In Mexico in that kind of conflicts Ericsson decided to stay neutral and it worked for them”.

Ericsson Mexico through the interviewee, believes that the hardest or difficult situation they have faced in Mexico was in 1972 and lasted until 1982, when the local currency suffered continuous devaluations of more than 100 percent. The currency was been devaluated every month and Ericsson had to make wage adjustments almost every month until 1986 inclusively, because there were reminiscences of the effects of those devaluations.

Ericsson then decided by that time to gradually remove the company from the Mexican Stock-Market of Values, even when Ericsson was one of the leader indicators in the market. They repurchased every share to be able to guarantee the permanence of Ericsson in the country. They defined to leave the Stock-market of values, on a gradual way; Ericsson finished the process until 1992, when they already gathered almost the 100 percent of the shares.

Without acting that way, with the volatility of the markets, according to the interviewee, Ericsson Mexico “would ended up closing, because organizing a scheme of investment or rescue of the companies was not feasible if we did not have the control, and being in Mexican stock-market of values as openly as we were, Ericsson was at the mercy of the market, not really at the business conditions, they are two totally different things”.

Regarding the home government policies, nowadays, the restriction that Ericsson Mexico sees more delicate is the foreign investment restriction for the operators. In Mexico, in order to be able to make an investment as a operator of a public telecommunications network, that investment can only be formed by 49 percent of foreign investment and 51 percent of national investment. Officially a foreign company cannot serve in the telecommunications industry without having to fulfill certain type of investment scheme. Obviously it limits the entrance of new participants in the market of
companies that are interested in providing new or different services which are already provided at world-wide level, but in Mexico because of its investment characteristics it is not attractive to them, in terms of investment. That situation obviously creates a negative chain in which, when having less operators, the market size is smaller and there are less business opportunities for Ericsson.

When talking about the Free Trade Agreements that Mexico has signed in recent years, according to the interviewee, to Ericsson in Mexico or in the region, the North American Free Trade Agreement (NAFTA) did not have benefited nor have affected them, because their services and products are not regional neither depend on one specific regionalization, they are in equality of circumstances with other products that come from other countries within the agreements. Inside NAFTA, the interviewee mentioned: "there is equipment manufactured in Canada by Nortel; and on the other hand there was a large equipment manufacturing in the United States with the company that was called Lucent, which now has been bought by Alcatel".

On the other hand he pointed out that the Free Trade Agreement with Europe (FTA) has given Ericsson Mexico greater flexibility of work and greater flexibility of procedures. However, it is important to mention that nowadays the equipment and parts do not come from a single country, or a single region. The interviewee manifested that Ericsson Mexico receives parts from China, from Japan, from Korea, from Taiwan, from the United States, from Australia, in addition to Europe or America, in itself. He concluded: “Then the Free Trade Agreement with Europe is not so impressive in that sense for the business, because it is not a closed industry, like the dress, the fabrics, or perhaps including the automotive industry; our business is more global”.

Concerning the cultural aspect, as mentioned before, in times of crisis or strange environment in Mexico, Ericsson, following the Swedish culture, has decided to stay neutral, and it has worked for them. During extreme fluctuations in the economic and political climate, such as the Mexican Revolution in 1910 or the devaluations of the Mexican currency (peso: MXN) approximately from 1972 to 1982, Ericsson acted within
a long-term focus with a close attention to detailed analysis, following which is seen as commonly represented in the Swedish culture according to Hofstede’s studies described before in empirical findings in a previous chapter of this thesis. This long-term focus contrasts with the short-term focus of Mexicans that appears to be endemic to their political, economic, and cultural context which interacts with the high uncertainty avoidance that is showed in the same Hofstede’s studies described in a previous chapter.

On the other hand, on the foreign market opportunity aspect, according to the interviewee, the market for Ericsson is: “those who buy products and services directly, the end users, not only the operators but “their” users. From there, the supply and demand chain starts for us”. Following this statement, according to INEGI (2007), Mexico has a population of more than 105.79 million people, and a relatively low fixed line density which have reached over 20 million users. In mobile communications, today there are over 64.35 million subscribers (IT and Telecom in Mexico, 2007). In addition, telecommunications services are becoming more readily available due to the increased penetration of fixed lines, lower rates and an explosive growth in the wireless subscriber base (IT and Telecom in Mexico, 2007).

Due largely to the reasons explained before, Mexico’s telecommunications equipment and services markets have a considerable growth potential for the upcoming years, which will benefit Ericsson Mexico and future investments.

5.1.3 Availability of production factors for Ericsson in Mexico

After Ericsson had changed its position in Mexico from being operator of public networks to become supplier and manufacturer in 1957-1958, and in addition to the necessity and the growth that was already been planning by the Mexican government; Ericsson saw the opportunity to invest more money in the country and to build up the first two factories before last one that they established in Tlalnepantla, which covered about two hectares of manufacturing.
According to the interviewee, almost 85 percent of Ericsson’s production was manufactured by the company inside the country. Ericsson got to have according to the formulas of the Ministry of Commerce and Industrial Promotion of Mexico, 96 percent of national integration. From the copper, the cables, until the microphones, the telephones and the complete central telephone station, everything was manufactured by Ericsson in the facilities of Tlalnepantla.

According to the interviewee, Ericsson has never got problems to recruit qualified and educated people in Mexico, in all the branches of manufacture, the personnel were always Mexican; from the less qualified worker to the most qualified engineer, the personnel were always Mexican. The percentage of foreigners working in Ericsson of Mexico, was maintained at a maximum of 12 percent, this means that only that personnel who came to make the transference of technology was the one who stayed here, but the resource that applies the technology, the resource that learns it, develops it, always has been 100 percent Mexican, until today in all the branches.

As Ericsson Mexico was almost self-sufficient within the country, except for critical components, there was not a very high necessity of import. Nowadays, obviously the globalization, more than the Free Trade Agreements, has affected the business schemes: Ericsson must decide where to maintain manufacture and where not, and if they maintain it, which type of manufacture; which pieces or parts of all the set of products or components that they use or that they require, they should maintain in certain country.

And according to the interviewee: “obviously, all is based on the technological capacity and on the costs, both hand in hand, to be able to make these decisions. And the costs are not only the costs of manufacture, but the cost of opportunity; the transportation, the distribution at global level”.

5.1.4 Competitiveness factors in Mexico

In Mexico as the interviewee mentions: “Ericsson was self-sufficient and in equality of circumstances with the others. The Free Trade Agreements that Mexico
signed have not made an impressive change on Ericsson, as the group is present in the countries that signed the Agreements as Ericsson was present in Mexico before”.

However, the Free Trade Agreements have benefited the competitors of Ericsson, entering Mexico through the agreements with a unique opportunity: to enter the market with North American standards. Because the wire net in Mexico was before 100 percent structured in European standards: ITT had the equipment that nowadays is Lucent, with Franc-Belgian origins, and Ericsson with Swedish origins. “It brought more competition to Ericsson in Mexico”, said the interviewee.

The main competitors in the Mexican market concerning telecommunications equipment nowadays are Ericsson, Alcatel-Lucent, Nec, Cisco, Nokia and Nortel (all of them are foreigners and competitors on the international arena). And the main customers are Telmex, with approximately 93 percent of the fixed lines market share and Telcel, with 77 percent of the market share in the mobile arena, it is important to point out that the two last companies belong to the same group, which leads the market in the country; and in a second position in the mobile telephony market is Telefónica Moviles – Movistar with 14 percent (IT and Telecom in Mexico, 2007).

5.1.5 Future for Ericsson in Mexico

As mentioned before, Mexico’s telecommunications equipment and services markets have considerable growth potential, due largely to the relatively low fixed line density and resultant growing demand. In addition, The Mexican telecommunications sector has grown eight times more than the economy as a whole during 2007 (Milenio, Negocios, 2007).

According to the interviewee, the investments that the actual operators of telecommunications networks realize in the country make the size of the market in Mexico as competitive as any market at a world-wide level. The type of services, the quality and the technology with which those services are provided in the country are at
the same level of any world-wide group, and have the same size of investment which the others do. The Mexican telecommunications market is a profitable market.

“Ericsson wants to grow as supplier to the end user but also in the possibilities of new businesses in the telecommunications market, to achieve that it is necessary to change the investment schemes in Mexico”, said the interviewee.

To conclude what Ericsson is expecting for the upcoming future, the interviewee also mentioned the following: by initiative of the government, the telecommunications services have to arrive to the most remote zones, to interconnect and integrate Mexico. Then, if, in a future the facilities would arrive to remote zones, Ericsson being with Mexico will support that the country is integrated at the communication level.

5.2 Case of Ericsson Vietnam

The researchers built the case of Ericsson Vietnam using the information from the phone interview with the Communication Manager (Ericsson Vietnam, Ho Chi Minh Office) on December 2007. Furthermore, Ericsson Vietnam's web page was used to provide audience the history of Ericsson in Vietnam, together with information from empirical findings and article from United States Agency for International Development (USAID) to support the case study.

5.2.1 History of Ericsson in Vietnam

Ericsson has had activities in Vietnam since 1991 when the company launched the first telephone network project in Vietnam - the installation of the Ericsson switching system for the international gateway in Hanoi. Since then, Ericsson has had representative office in Hanoi and branch offices in Ho Chi Minh City and Danang (Ericsson Vietnam, 2007). Furthermore, Ericsson has had important corporate milestones with Vietnam Mobile Telecom Services Providers such as in 1996, Ericsson was entrusted to build multimedia communication network for Vietnamese government; from the period of 2001-2003, and Ericsson had contracts to supply services and telecom
equipment with three biggest Vietnam Mobile Telecom Services Providers (VinaPhone, VNPT, and Viettel); particularly in 2004, Ericsson first began a trial of 3G in Vietnam. Today, Ericsson has growth and became one of the most successful telecom companies in Vietnam market and its systems are operating at all levels of the telecommunication network in Vietnam. Ericsson Vietnam is accounting 40 percent of total telecom infrastructure equipment in Vietnam. In mobile sector, Ericsson Vietnam is leading in GMS and 3G technology - one of latest technology in Vietnam. Moreover, in fixed line sector, Ericsson Vietnam is one of the biggest service providers in Vietnam (Ericsson Vietnam, 2007).

Although operating in Vietnam as a representative office, Ericsson Vietnam has a large investment in telecommunication sector in Vietnam. For example, within a period of two months (August - October 2006), Ericsson Vietnam invested more than USD 80 million in the telecommunication infrastructure of Vietnam by signing contracts with Vietnam Mobile Telecom Services Providers such as VMS, VinaPhone, Viettel and SPT. Those Vietnam Mobile Telecom Services Providers are providing services for more than 90 percent of mobile subscribers in Vietnam (Ericsson Vietnam, 2007).

5.2.2 General business environment for Ericsson in Vietnam

As stated earlier, Ericsson has only representative office and does not have any direct investments in Vietnam. The reason is mainly because when a foreign investor comes to private or direct investment in the telecommunications sector, Vietnam has a restrictive investment law. As mentioned in section 4.2.1, the Vietnam Law on Foreign Investment permits Joint Ventures and 100 percent foreign-invested form in a wide range of industries, except the oil and telecom sectors. Domestic firms are permitted to invest in telecom sector but foreign investors, like Ericsson, can only invest through a Business Corporate Contract (BCC). In fact, Ericsson could invest in Vietnam through a Joint Venture form by corporate with a local partner, but it is a "complicate procedure and costly", said the interviewee in Ericsson Vietnam.
As a representative office in Vietnam, Ericsson Vietnam has around 120 employees and they are mainly local staff with a limited number of expatriate staff (about 15 staff). Ericsson Vietnam conducted a wide range of business activities including market research in telecommunication sector, assisting Vietnamese enterprises in applying information and telecommunication technology in business, monitoring the marketing and sales activities, as well as pursuing long-term relationship with Vietnamese enterprises and government. All of those operations are under authority of Ericsson head office in Stockholm, Sweden. Additionally, as a representative office, Ericsson Vietnam is exempt corporate tax auditing requirements but income tax of Vietnamese and expatriate staff must be paid according to the taxation regulations of Vietnam.

5.2.3 Availability of production factors for Ericsson in Vietnam

Recently, Ericsson Vietnam is granted certificate to convert from a representative office in Vietnam to a 100 percent foreign-invested company. The certificate was issued in June 2007 but Ericsson Vietnam will officially operate as a 100 percent foreign-invested in January 2008. Becoming a 100 percent foreign-invested, Ericsson Vietnam will have more authorities in its operations in Vietnam market, for example, Ericsson Vietnam will be able to sign equipment supply contracts with customers by itself without the invention of head office in Stockholm. Moreover, the human capital of Ericsson Vietnam will increase from 120 employees to 150-170. "This process of conversion is an indispensable result when Vietnam joined WTO on (11th January 2007) and creates more opportunities for foreign investors to invest into Vietnam in many business areas, including telecom field", said the interviewee. From this step, Ericsson Vietnam commits continuing to assist and invest in Vietnam in terms of financial and technology, and expect a sudden development of telecommunication sector in Vietnam and "Ericsson hopes to join in different projects in telecomm sector and internet in Vietnam"

Minister of Vietnam Post and Telematics, Mr. Le Doan Hop, in the letter that he sent to Ericsson Vietnam, stated that the conversion of Ericsson Vietnam from a representative office to a 100 percent foreign-invested is a "positive signal" for the
Answering the interview question of how Ericsson Vietnam evaluates the telecom market of Vietnam nowadays, the interviewee said that "Vietnam is an important market for Ericsson Vietnam". Vietnam's telecom industry has a rapid development recently. Two years ago, Vietnam had 7 million fixed lines and 7 million mobile subscribers. Now, the fixed lines subscribers remained the same but the number of mobile subscribers goes up to 25 million (USAID, 2005). According to the interviewee, previously, Vietnam Mobile Services Providers only concentrated in urban areas and ignored rural areas; however, with the impetus development of the telecom market, they changed their business thinking and expanded their operations to rural areas. One can say that this is an appropriate moment and a suitable business environment for foreign telecom equipment suppliers, including Ericsson Vietnam. Moreover, Vietnam is a country which has a big opportunity to develop telecom market due to its young population, well educated, interested in learning new technologies and experiments with new services. Especially when Vietnam became a member of WTO, the development of the telecommunication market in Vietnam is supported by the advantage legal environment from Vietnamese government since the government determines telecommunication as an important infrastructure for the economy’s development.

The biggest thread of Ericsson Vietnam, as the interviewee discussed during the interview, is not attracting enough local human resources. The interviewee thinks that this threat is not because of the treatment regime of Ericsson Vietnam since she believes that Ericsson Vietnam has a better treatment regime to Vietnam employees in comparison to other foreign telecom companies that are operating in Vietnam. The privation is a professional team of Vietnamese engineers and technicians who can work with service providers. However, Ericsson is active at sharing technical know-how with employees in Vietnam through seminars, training for Vietnamese engineers and technicians both locally and at Ericsson training centers in Sweden, Malaysia and Australia.
5.2.4 Competitiveness factors in Vietnam

The concept of competition into the telecom sector is a new phenomenon in Vietnam in 1993 since previously, telecom was viewed as a monopoly services. The monopoly position of VNPT in Vietnam's telecom sector was unquestionable when the company holds 94 percent of the total share of Vietnam's telecom market. However, in 1993, there are number of competitors were introduced into the telecommunications sector and the monopoly status of VNPT was ended. Those competitors came under ownership of several government branches such as Military, Transportation, Energy, etc. Furthermore, recently, the government issued the law on competition to reduce the abuse of dominance apply to telecom sector such as prohibition of high prices of infrastructure services, refusal of services, unfair allocation of network facilities, etc. Those actions have resulted in rapid development of Vietnam's telecom market and became one of the fastest in the word from a network perspective (USAID, 2005). With a rapid development in telecom market, Vietnam's telecom market provides more and equal opportunities for both local firms and foreign investors.

The main competitors of local firms in Vietnam concerning telecommunication sectors today are Telstra Australia, Comvik (Sweden), Ericsson (Sweden), Voice International (Australia), Sapura SDN-BHD (Malaysia), Cisco, Nokia, Worldcorp Holding (Singapore), Korea Telecom (South Korea), Nippon Telegraph and Telephone (Japan), France Telecom (France), Cable & Wireless (UK). The main customers are VNPT in fixed line sector, Mobiphone (45 percent of mobile phone market share) and Vinaphone (with 54 percent of mobile phone market share) (USAID, 2005)

5.2.5 Future for Ericsson in Vietnam

As mentioned before, from January 2008, Ericsson Vietnam will officially operate as a 100 percent foreign-invested, however, it is a question if Ericsson Vietnam would have a manufacturing unit in Vietnam or not. In order to answer that question the interviewee replied that the manufacturing procedures in Ericsson require special conditions in order to provide products in a short time by offering a best quality
condition. Based on Ericsson research, nowadays, Ericsson has three manufacturing plants in three different countries: China, Sweden, and Brazil to qualify several conditions such as centralization of manufacturing, able to provide large quantity of products at one time, and stay close to customers. Ericsson does not have any plan to set up manufacturing units in other countries, as well as in Vietnam. Vietnam market is suitable in developing software and applications for Ericsson. At this time, Ericsson has two software development centers in China and India, and in the near future, Ericsson maybe will set up a new software development center in Vietnam. This had been done by several giants such as Intel, IBM and Microsoft.

Moreover, Ericsson Vietnam will continue corporate closely with Vietnam Telecom Mobile Service Providers to share knowledge, experience, and introduce newest telecom technology in order to provide more quality services, cheap price products to meet the demand of Vietnamese customers.
6. Analysis

In this chapter, the authors analyze data across two cases in order to identify the similarities and the differences of Ericsson when conducting FDI in Mexico and Vietnam. By identifying similarities and differences, the authors provide further insight into the subject concerning the foreign direct investment of Swedish companies in developing countries by generalizing the case study results.

6.1 Cross-case analysis

After the cases of Ericsson Mexico and Vietnam have been developed, a cross-case was built to provide a comparison of the two cases to show the similarities and the differences of Ericsson in the selected two countries.

6.1.1 General business environment

Although in Mexico, Ericsson started as an operator in 1904, while in Vietnam entered until 1991; Ericsson developed the first telephone network projects in both countries, and nowadays, Ericsson is leading provider of total telecom infrastructure equipment in both countries: Mexico and Vietnam.

Due to economic and socio-political reasons, in Mexico the network operations were controlled by the state by one company (Telmex) since 1958, after three decades, by 1990 the Mexican government decided to privatize such services and sold the company to Mexican and foreign investors, which with Telmex, the largest telephone operator in the country, now own approximately 93 percent of the fixed lines market share.

There is a similar situation in Vietnam, the monopoly position of VNPT held 94 percent of the total share of Vietnam's telecom market. In 1993, a number of competitors entered into the telecommunications sector and the monopoly status of VNPT was ended.
Vietnam has joined WTO just recently on January 2007, as a consequence of that, there has been an increase of foreign investment opportunities into Vietnam in many business fields, including telecom sector. Nevertheless in Vietnam there is a particular situation, the Vietnam Law on Foreign Investment does not allow 100 percent foreign investment in Telecommunications sector. Domestic firms are permitted to invest in telecom sector but foreign investors, like Ericsson, can only invest through a Business Corporate Contract (BCC).

In Mexico, there is a comparable situation, as mentioned previously, in order to be able to make an investment as an operator of a public telecommunications network, that investment can only be formed by 49 percent of foreign investment and 51 percent of domestic investment; except in cases of cellular telephone services. Officially a foreign company cannot serve in telecommunications industry without having a fulfillment of a certain type of investment scheme.

When the authors compare the opportunities in both markets, as it was stated before, Ericsson sees its market as “those who buy products and services directly, the end users, not only the operators but “their” users.” From there the authors take Vietnam's population which was estimated around 83.5 million, and Mexico’s population which is approximately 105.79 million people, and both countries have relatively low fixed line density: Vietnam two years ago had 7 million fixed lines, meanwhile Mexico have reached over 20 million users. As a result of this, the authors see a resultant growing demand in both countries.

6.1.2 Availability of production factors in Mexico and Vietnam

With regard to the availability of production factors for Ericsson in Mexico and Vietnam, Ericsson considers local human resource as an important factor for its development. Ericsson can recruit its staff by itself and has never got problems to have qualified and educated staff in two countries, from technicians to top manager positions. In Ericsson Mexico, for example, the number of local staffs was maintained at 90 percent up to 100 percent, the number of foreigners is limited at a maximum 12 percent. The
same situation occurs in Ericsson Vietnam where employees are mainly local staff with a limited number of foreigners. There are a couple of reasons to explain why Ericsson has a limited number of foreigners working in Mexico and Vietnam such as the Law of Foreign Investment in those two countries, geography location, culture aspects, etc. However, Ericsson admitted that Mexico and Vietnam have high quality of local human capital in terms of education, interesting in learning new technologies, and experiments with new services and Ericsson put a lot of investments for training local staff in order to meet the quality conditions from Ericsson.

However, there is a difference between the operations of Ericsson in Mexico and Vietnam. Ericsson Mexico has a manufacturing unit inside the country where it produces almost 85 percent of Ericsson's production, except for critical components and Ericsson Mexico was not highly depended on import of products. Meanwhile, Ericsson Vietnam is a representative office in Vietnam and it does not have a manufacturing unit in Vietnam and all the products are imported from outside of the country. Even when Ericsson Vietnam will become a 100 percent foreign-invested company next year, it does not have any plans to set up a manufacturing unit in Vietnam.

6.1.3 Competitiveness factors in Mexico and Vietnam

As it has been mentioned before, the political environment, law of investment, and the form of investment of Ericsson in those two countries are different that leads to the difference of competitive advantage for Ericsson in the local market. As Ericsson Mexico was self-sufficient and had no effects when Mexico signed the Free Trade Agreement but on the other hand, the Free Trade Agreement will bring more competitors to Ericsson in Mexico. Meanwhile, Ericsson Vietnam will convert its form of investment from a representative office to become a 100 foreign-invested next year, which is the result of the "open policy" when Vietnam became a member of WTO. However, the reform of investment policies in Vietnam also bring equal opportunities to other foreign companies in telecom industry, it means that more competitions to Ericsson in Vietnam.
6.1.4 Future

After Ericsson will start its operations in Vietnam as a 100 percent foreign investor, Vietnamese market will grow in different directions. First of all, Vietnam has a relatively low fixed line density and resultant growing demand as in Mexico. In both countries, there is a particular accumulation of lines in urban and metropolitan areas and a huge opportunity to build telecom infrastructure in the rural and the most remote zones.

In Mexico and Vietnam the development of telecommunications market is supported by the advantage of the legal environment from the home governments since both nations agree on that telecommunications are important tools for the development and the integration of the countries. In addition, Ericsson considers Vietnam as a suitable place for developing software and applications in the near future. Meanwhile in Mexico, Ericsson will support that the country is integrated at the communication level, by arriving to the most remote zones.

Ericsson Vietnam will continue corporate closely with Vietnam Telecom Mobile Service Providers to share knowledge, experience, and introduce newest telecom technology in order to provide more quality services, cheap price products to meet the demand of Vietnamese customers.

6.2 Generalization

In contrast with developed countries, developing countries usually have a concentration of industries, communications and technology in the capitals or main cities meanwhile most of the other areas in the country are still undeveloped, rural and not communicated. The availability of factors is rather low outside of the capital and the main cities in developing countries, communication/transportation, technology or skilled and well developed human resources might be difficult to find. Therefore, a company that is planning direct investment on a developing country should consider this, prior to an entrance is made.
However, in the case of Ericsson, as a telecommunications equipment and infrastructure provider, the opportunities might increase when the company is the one who will be required to create or develop the infrastructure required in a country that is in a process of development. Therefore, it is important to point out this particular situation: Companies that will help to develop the country, in which they are investing, might find more opportunities to grow and in addition, will find openness and a particular disposition from the home government to attract and receive their investments, through several bilateral agreements, through special subsidies or exemptions from taxes, through strong property rights and political/economical stability.

At this point, it is important to mention that when FDI is made in particular situations especially in developing countries, where there could be a presence of political, social or economical instability such as devaluations, terrorism, or in a worse case a revolution in the country; a Swedish company might act as neutral and maintain its position of no intervention. As an example, Ericsson stayed neutral and continued in Mexico during and after the Revolution in the country, started in 1910; and moreover, Ericsson stayed during the currency devaluations from 1972 to 1982. Nowadays Ericsson is a leading provider of total telecom infrastructure equipment in Mexico, and has been an active developer of the telecom infrastructure and communications in the country, through technology transfer, experience, and high quality products and services.

In many countries, the home government creates policies to protect key industries in the country, to assure that they are owned and controlled by national investors or by the state in itself; particularly for the companies that want to invest in developing countries, it is important to mention that they might find barriers and restrictions in more than one or all of these types of industries, for instance: telecom, oil, electricity, nuclear power, postal service, ports, airports and heliports, finances, banking, explosives and firearms, petrochemicals, local newspapers, cable television, and others of special importance in countries in contextual situations.
Ericsson as a company that belongs to the telecom sector could find some barriers and restrictions to develop FDI in many countries. Telecommunications is a key industry in almost every country in the world, small or large, developing or developed.

In Vietnam as in many developing countries, the biggest barrier, especially for companies that work on a high tech field, is not attracting enough local human resources which have the skills, training or necessary education to work within the company. Consequently, several companies that develop FDI in developing countries have training programs to share know-how, experience meanwhile the resources develop themselves.

As mentioned previously, foreign companies that invest in developing countries might find more opportunities when they help the countries in their development process, as in the case of increasing skills in human resources, as in building infrastructure, transferring technology or simply investing capital in the country. On the other hand, one of the most common barriers that a foreign company could face in a developing country is the presence of monopolist activities from companies that own a great percentage of market share in their sector; when a company has a large control over a key industry in a country, such as the telecom industry, the home government usually is an active cooperator with the company that has the control of that industry. When a foreign company is trying to enter the market in this particular situation, it could find certain limitations and restrictions to fairly compete with the monopolist company. Nevertheless, in the cases of Mexico and Vietnam, the governments of these countries nowadays are following a policy of openess for future foreign investors and therefore creating the regulatory and the environment to enable fair competition.

A company that plans to start FDI in countries such as Mexico or Vietnam, expects growth and expansion, as these countries are in process of development and therefore growing, in addition, globalization and other socio-political and economical situations are leading developing countries such as those studied in this research to reduce risks and increase stability to assure the entrance and permanence of FDI in the country; consequently companies are attracted to invest there.
7. Conclusion

This chapter describes the conclusion which answers the research question posed in the research question section.

The authors present and analyze the factors that a foreign company might face when it is developing a FDI process in developing countries. Therefore, in this thesis, there is a resemblance of the reality of a Swedish company which has investments and activities in Mexico and Vietnam, and is actually developing this process in more than 140 countries around the world, a Swedish company which has been active in developing countries for more than one hundred years, and has faced many of the barriers and opportunities described in this paper. The resemblance of the reality and analysis are made through a multiple-case study of two units of analysis: The case of Ericsson in Mexico and the case of Ericsson in Vietnam.

As it was mentioned before, the thesis was designed to answer the main research question: What are the factors that a company, particularly a Swedish company, should consider when starting its FDI activities in developing countries, especially in Mexico and Vietnam? Since this research question is very broad, some sub-questions were formulated.

The first sub-question was: What kind of opportunities and problems might arise when a company starts its direct investment in developing countries? By answering this sub-question, mostly by building up the frame of reference, the companies will recognize the factors that they will face when they start and develop their direct investment process in developing countries. The companies can see an overview of FDI in developing countries and further, the characteristics, barriers and opportunities the companies could face.

The second sub-question was: How the theoretical framework can be used to help Swedish companies when they evaluate their own situation to start their direct investment
in Mexico and Vietnam? The authors used the theoretical framework as a template where to build the empirical findings to resemble the reality in the countries and therefore to be used as a base for future Swedish companies that are planning their investment particularly in Mexico and in Vietnam, then in addition, the cases of a real Swedish company were developed and cross-case analyzed in order to connect the theoretical framework with the reality and subsequently to answer the second sub-question, and therefore to assist the Swedish companies to evaluate their own situation. When answering both sub-questions, the authors answered the main research question.

Finally, to conclude this thesis is to give a brief summary of the answer to the main research question:

The factors a Swedish company should consider when it is starting its FDI activities in developing countries, especially Mexico and Vietnam, are divided into three different categories as mentioned previously: General business environment in the host country, Availability of production factors in the host country market and Competitiveness factors in the host country market. Forming these factors there are the barriers and opportunities the companies might face and they are inside the following elements of analysis: political environment, home government’s policies, foreign market opportunity, local skilled/unskilled labor, local raw materials and national resources, local capital, local technology, local communication/transportation. In those elements of analysis, in a general way companies and Swedish companies in specific can find the barriers and opportunities they should consider.

When investing in developing countries, there are particular situations that a company should take into consideration, such as: investment restrictions, political/social instability, economical risks, a rather undeveloped infrastructure for technology or communications on rural areas, monopolized markets and so on; however there is a presence as well, of important opportunities that can be found in developing countries. Especially when companies’ investments are helping in the country’s development, companies might find a disposition from the home government to attract and receive their
investments through several bilateral agreements, special subsidies or exemptions from taxes, strong property rights and through political/economical stability; and further, they will find a country which is in the middle of a process of growing in several areas: technology, infrastructure, potential market opportunities, and so on.

In addition, globalization and other socio-political and economical situations are leading developing countries such as those studied in this research to reduce risks and increase stability to assure the entrance and permanence of FDI in the countries.
8. Recommendations

In this chapter, the authors present recommendations on the issues of the foreign direct investment in developing countries, particularly in Mexico and Vietnam.

Swedish companies that want to start a Foreign Direct Investment process in developing countries should consider several factors, those factors were studied and analyzed in this research, therefore the most important recommendation is to use this thesis as an example to help companies in general and Swedish companies in particular to evaluate their own situation when they plan their Direct Investment; in addition, when companies have selected the country in which they will invest, they should continue by developing a deep analysis of the characteristics of its market, as these specific characteristics vary in every country and every market.

As mentioned, the characteristics in every country and every market will vary, for instance the political environment, the home government’s policies or the foreign market opportunities and so on, are not be the same for every country, however in this thesis, a theoretical framework was developed to be used as a template for the use of future companies that are interested in the FDI process. Moreover, for those companies interested on FDI in developing countries, particularly in Mexico and Vietnam; this thesis also provides a categorization of factors, the barriers and opportunities that companies could face when they are realizing FDI in those countries.

With the help of a Swedish company that has activities in more than 140 countries, the authors developed a cross-case analysis that will help the reader to connect the theoretical framework with reality, and further, to identify the similarities and the differences of the way the Swedish company develops its FDI process in Mexico and Vietnam.
The authors observed that one key success factor when foreign companies invest into developing countries lies in a long-term relationship with local firms and government. For instance, Vietnam and Mexico are both relationship-focused countries, they prefer a strong commitment with their partners. Setting up a representative office in the host country would be a good solution, like Ericsson in Vietnam, since it shows the long-term commitment of the company with the host country, and it is easier to expand the operations in the host market in the future.

Another key success factor when foreign companies invest into developing countries is to find a proper local partner. As stated in the problem discussion, a foreign company has a psychic distance in the host country in terms of culture, language, and political environment. When a foreign company cooperates with a proper local partner who has the knowledge of the political system, business environment, legal framework, etc; a foreign company will reduce this psychic distance.

Finally, as developing countries consider FDI as an important strategy of their nation to develop their economy due to the huge potential in local human resources, raw materials, local capital, and so on. In the case of Mexico and Vietnam, they implemented a number of reforms in terms of investment policies, infrastructure in order to attract more foreign investors, in consequence the authors believe that especially in this particular time, it is important for foreign companies to consider those developing countries when planning their FDI. It is also important to mention here that employing local staff, making infrastructure investments and supporting governmental projects, especially development and R&D projects, might improve the credibility of the foreign investor in the host country. This credibility can be a determinant which provides an opportunity for companies to build relationships both with government and local suppliers which will affect the sustainability of the organization in the country that the company invests in.
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Appendix

Interview questionnaire

FDI in developing countries:
The case of Ericsson in Mexico and Vietnam

General Information about the interviewee:

Country:
Official Name of the company:
Name of the interviewee:
Position in the company:
E-mail address:

1. What makes Mexico/Vietnam for Ericsson an interesting country in terms of FDI?

2. From your companies perspective is it reliable to realize more investment in this country in the next 10 years? Do you expect Economical/Political crisis that could set back your investment here?

3. Has your investment been profitable in Mexico/Vietnam during the last 5 years?

4. What is the most difficult situation you have faced here, regarding Political, Cultural environments (including language and religion), Geographic location, Home government policies?

5. What it is necessary to change in Mexico/Vietnam regarding policies (such as taxes, import-export policies), social and cultural environment?

6. Is your company been benefited by the Free Trade Agreements that Mexico/Vietnam has signed? Please explain your answer, being specific.

7. Do you consider Mexico/Vietnam as a country with the necessary infrastructure (technology, communications, transport) according to the industry in which your company competes?

8. Do you consider Mexico/Vietnam as a country that has high quality human capital in terms of education?

9. Do you consider Mexico/Vietnam as a country that has the characteristics of a cheap labor country from your company’s perspective?
10. Do you think the suppliers in Mexico/Vietnam fill the quality requirements necessary for your company? Or it is necessary for your company to import materials that fill the requirements?

11. Is Mexico/Vietnam your target market or do you use Mexico/Vietnam as a platform to export your products and services to neighbor countries?

12. Following the expansion of fixed broadband offering, in which Ericsson will integrate fixed and mobile networks, through IP infrastructure, IMS, media gateways and so on for the next years on a world wide level, do you consider Ericsson Mexico/Vietnam will grow in terms of sales and investment, in the next 10 years?

13. Which are the bigger threats that you see for Ericsson Mexico/Vietnam in the next ten years?

14. Which are the opportunities you see for Ericsson Mexico/Vietnam in the next ten years?