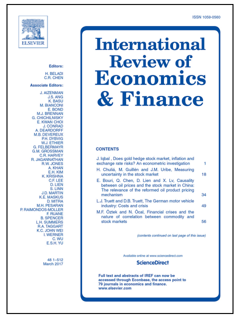

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Greenfield, Merger and Acquisition, or Export? Regulating the Entry of Multinational Enterprises to a Host-Country Market[†]

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Abstract

How should a welfare-maximizing host government regulate the entry of multinational enterprises (MNEs) that compete with local firms for the host-country market? We demonstrate that the optimal entry regulation depends on the size of the host market: The host government chooses to grant cross-border mergers and acquisitions (M&As) when the host market is sufficiently small; otherwise, it chooses direct export. Greenfield investment, on the other hand, will not be granted. Moreover, we show that for the case of M&A, the MNEs would acquire the most efficient local firm.

Keywords: Foreign direct investment (FDI); Export; Merger and Acquisitions (M&As); Greenfield investment; Multinational enterprises (MNEs)

JEL classification: F12, L22

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