



Overseas Subsidiaries Land Where Countrymen Are Present

Europe is hungry for Chinese investment. But where Chinese firms choose to establish their subsidiaries will depend on where their migrants are.

Europe and China are currently negotiating a raft of trade issues, with hopes of increased exports and investments from abroad. It is not necessary to distinguish who wants what; both want to export more and receive more investments. Basically the governments would like to receive more money from the other party, as governments often do.

But one part of this story is new and interesting: Europe is still suffering from an economic crisis and many Chinese firms have reached considerable size, so European nations are eager to become targets of Chinese investment. While the European Union (EU) negotiates on behalf of all, each nation competes with the others.

So where will China's large firms place their subsidiaries? Well, they might behave like other multinational firms, which would be interesting news for Europe. In **research published in *Administrative Science Quarterly***, Exequiel Hernandez, Assistant Professor at The Wharton School, University of Pennsylvania, found that foreign firms entering followed a very clear pattern: they preferred locations in which immigrants from their nation were numerous. It is easy to think of an example. Honda became famous for their early and successful entry into the US, which started in Los Angeles – a city with a large Japanese-American contingent. But this research is more than a set of

examples, it is a clear pattern that can be shown by studying many firm entries.

The pattern makes sense too, because immigrants from the same country are ideal for firms that establish a subsidiary. They understand the origin country, and they understand the new one. They can be employees, contractors, trading partners, teachers: in all roles they benefit the company more. So, the choice of locations with many immigrants is not a simple reaction to liking, it makes sense for the firms. In fact, the research also showed that the new establishments survived better in locations with more immigrants from the same country.

So what does that mean for Europe? Well, one thing that is obvious from looking around is how few Chinese immigrants there are, many fewer than in the US or Canada. And a bit of knowledge of politics is enough to learn that many European nations have political groupings that see immigration as problematic and are trying to seal themselves off. There is variation in how much of this happens, of course. And probably the people campaigning for fewer immigrants are unaware that they may be campaigning against companies and jobs too, not just people who look different from themselves.

[Henrich's blog](#)

Visit **INSEAD Knowledge**
<http://knowledge.insead.edu>

Follow INSEAD Knowledge on [Twitter](#) and [Facebook](#)

Find article at

<https://knowledge.insead.edu/blog/insead-blog/overseas-subsidiaries-land-where-countrymen-are-present-3271>

Download the Knowledge app for free



Visit INSEAD Knowledge
<http://knowledge.insead.edu>