The Foreign Market Entry Process of Multinational Enterprises into Infrastructure Assets: The Case of Italian Ports

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The candidate confirms that the work submitted is his own and that appropriate credit has been given where reference has been made to the work of others.

To my family

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ABSTRACT

Despite international business scholars having long studied MNE-host country bargaining, they assume that the negotiation for FDI happens between the MNE and a central monolithic environment. Bargaining scholars have accordingly argued for the necessity to update the most used theoretical perspective, the so-called obsolescing bargaining framework. In this thesis, I argue for the need to start by positioning a theory of the firm within this framework that allows for multi-actor and multi-level bargaining dynamics. Internalisation theory's assumption that the firm is the result of optimal managerial maximisation does not shed light on the influence that actors at different governance levels have on the process of internalisation. Accordingly, I propose to build on the Coasean property rights framework, where the firm is conceived as a bundle of rights. By bridging the bargaining power literature with the property rights perspective, I examine how and why host-country actors at different governance levels influence foreign direct investment. Using a comparative case study approach, I interrogate four attempts by Chinese firms to negotiate access to Italian ports. In particular, I show that for a port investment to occur, there has to be an alignment between the various actors of the property rights nexus regarding the allocation of rights. Investors need to understand actors' bargaining positions and property rights across multiple levels and space and be mindful of changes over time when negotiating an infrastructure investment. Host-country governments need to have an explicit port infrastructure strategy to avoid wasting resources in lengthy negotiations and useless infrastructure projects.

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CHAPTER 1

INTRODUCTION

1.1 The nature of (port) infrastructure industries

There is no general agreement on what we mean by infrastructure. Yet, in its broadest sense, the term connotes physical facilities, institutions, and organisational structures, or the social and economic foundations that underpin the functioning of societies (UNCTAD, 2008). Social infrastructure (e.g., health and education) is distinguished from economic infrastructures. This thesis focuses on the latter. Economic infrastructures support the economic activities of firms and are fundamental to their competitiveness and promote economic development (UNCTAD, 2008). Infrastructure[1] comprises many industries, namely electricity, telecommunications, gas, water and sewage, airports, roads, railways, and seaports (UNCTAD, 2008). Establishment, maintenance, and operations are the main activities that characterise the infrastructure industry (UNCTAD, 2008). Infrastructure investments are often characterised by high risk (Doh and Ramamurti, 2003).

Figure 1 presents a classification of the infrastructure industry adopted by the 2008 World Investment Report by UNCTAD. Infrastructure industries are capital intensive, location-specific, and involve sunk costs for investors and governments. Societies consider the access to infrastructure assets as a social and political issue and are often considered to be public goods. However, the publicness (i.e., non-rivalry and non-excludability character) depends on the specific country's governance and natural endowment. Taking the example of ports, these are often not freely available to all citizens as fees are required, and their constrained capacity can often limit utilisation. The reason ports (and other infrastructures) are deemed to be public goods is for the externalities they produce besides the direct private benefits of users. Public

[1] In the rest of the thesis, infrastructure means economic infrastructure.

involvement in port activities vary across countries from fully public to fully private ownership and control.

Figure 1. Infrastructure industry and related activities

<table>
<tr><th colspan="2" rowspan="3">Infrastructure</th><th rowspan="3">Supplier industries and activities</th><th colspan="3">Infrastructure sectors</th></tr>
<tr><th colspan="2">Infrastructure industries</th><th rowspan="2">Services relying directly on infrastructure</th></tr>
<tr><th>Facility operation and maintenance</th><th>Infrastructure services</th></tr>
<tr><td rowspan="5">Transport</td><td>Seaports</td><td>...</td><td>Marine cargo handling (4491)</td><td>Towing and tugboat services (4492)</td><td>Deep sea transportation of freight (441–442)</td></tr>
<tr><td>Railroads</td><td>Railway track equipment (part of 3531)</td><td>Railroads, line-haul operating (4011)</td><td>Railroad switching and terminal establishments (4013)</td><td>Local and suburban transit (4111)</td></tr>
<tr><td>Roads and highways</td><td rowspan="2">Heavy construction other than building (16, exc. 1623)</td><td>Terminal and joint terminal maintenance (423)</td><td>Terminal and service facilities for motor vehicle (417)</td><td>Motor freight transportation and warehousing (421–422)</td></tr>
<tr><td>Airports</td><td colspan="2">Airports, flying fields, and airport terminals (458)</td><td rowspan="2">Air transportation (451–452)</td></tr>
<tr><td>Other</td><td>Parts of heavy construction, not elsewhere classified (1629)</td><td>...</td><td>Parts of miscellaneous services incidental to transportation (4785)</td></tr>
<tr><td colspan="2" rowspan="2">Telecommunications</td><td>Telephone and telegraph apparatus (3661)</td><td colspan="2">Telephone communications (481)</td><td rowspan="2">Radio broadcasting stations (4832), Television broadcasting stations (4833)</td></tr>
<tr><td>Telephone interconnect systems (7385)</td><td colspan="2">Telegraph and other message communications (482)</td></tr>
<tr><td colspan="2">Water</td><td rowspan="5">Water, sewer, pipeline, and communications and power line construction (1623)</td><td colspan="2">Water supply (494)</td><td rowspan="2">Irrigation systems (497)</td></tr>
<tr><td colspan="2">Sanitary services (495)</td></tr>
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</table>

Source: UNCTAD, 2008

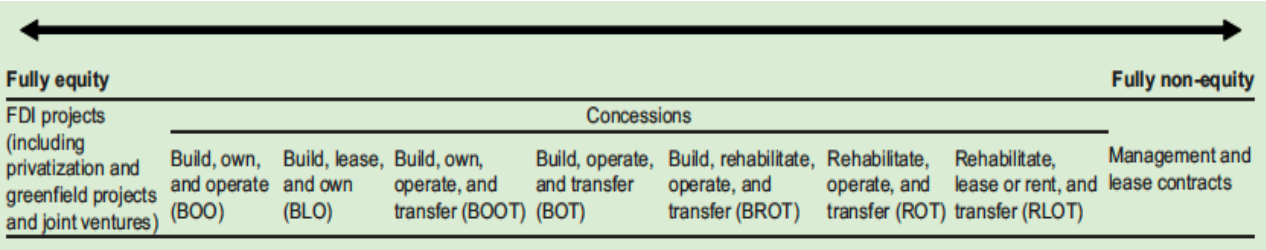
The context of this dissertation is on Italian ports, and hence I will focus on the Landlord type of port governance. Although the characteristics of this type of governance will be better explained in the method chapter (Chapter 4), it suffices to know that in the Landlord type of governance, the government is the owner of the berth, which is usually transferred to private actors via long-term concession contracts. During the concession period, private actors are typically required to make investments agreed with the government or local port authority and pay fines if this is not done. What is hence essential to highlight is the public-private nature of

the interactions that underpin the investment and operational dynamics within Landlord ports and the interdependencies between different actors to allow the infrastructure to function. The importance that infrastructure assets have for economic development has led governments to keep these industries under public ownership and control.

1.2 Entry via concessions in infrastructure assets

MNEs can access infrastructure assets through a variety of equity and non-equity modes. Figure 2 sheds light on the nature of the governance instruments used to access infrastructures. Depending on the governance of the specific infrastructure sub-sector, private actors can become complete owners of the infrastructure (FDI); access infrastructure via a hybrid governance structure (FDI and concession contract) where the ultimate owner remains the host country government; and lastly, management and lease contracts where investments are not required.

Figure 2. Private involvements in infrastructure industries



Source. UNCTAD, 2008

The focus of the present dissertation on Italian ports focuses the attention on concessions that represent a mix of equity and public-private contracts. The Italian government holds property rights over the infrastructure for the entire period of the concession but cannot operate it. Accordingly, different governance modes can be chosen depending on whether MNEs enter to

build new infrastructure or rehabilitate (if necessary) and operate existing ones. Chapter 4 will explain the different types of concession contracts mentioned in Figure 2.

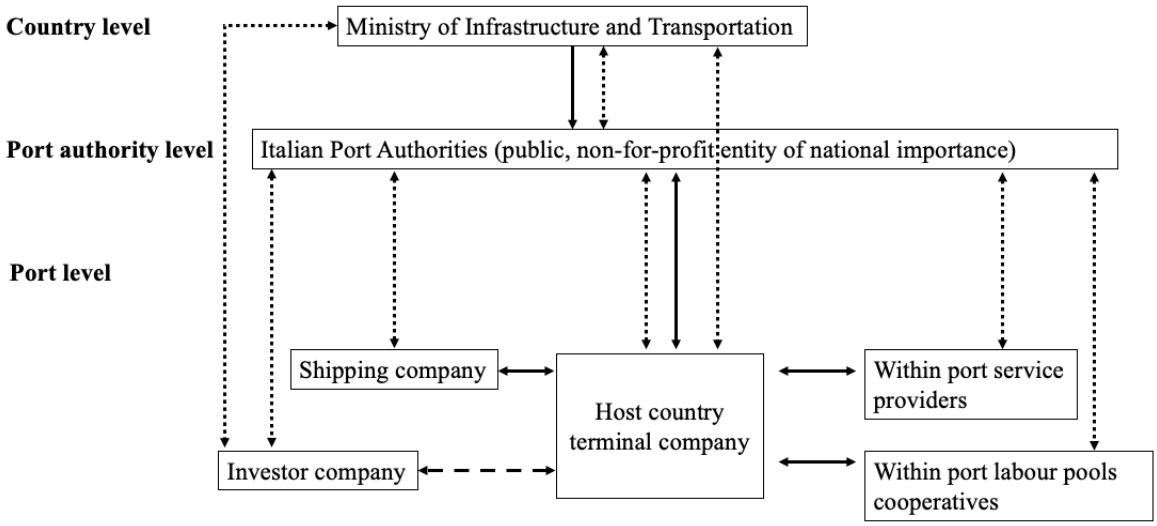
1.3. The research problem

In January 2021, the Piattaforma Logistica Trieste S.r.l. (PLT) – a private Italian company operating within the Trieste port, which developed a new multi-purpose terminal – has finalised the sale of 50,01% of its equity to Hamburger Hafen und Logistik AG (HHLA) – a German company owned (69%) by the Hanseatic City of Hamburg. Among the various contenders for the new infrastructure, China Merchants Group – a state-owned Chinese MNEs world leader in port terminal management – was thought to be the new majority owner. After more than two years of negotiations, China Merchants failed to acquire PLT, then sold to HHLA. According to a PLT's manager directly involved in the negotiation, China Merchants was offering a better deal and could have provided a broader and more solid container terminal network as it manages over 50 million TEUs[2] Per year around the world. However, PLT's preferred to accept HHLA's deal as *"the activation of the Golden Power rule[3] could have delayed or prevented us from operating the terminal"* (Field notes, 02/2021). Despite the negotiation being one between two private companies, the then Italian Minister of Economic Development Stefano Pattuanelli said: *"The investments and infrastructures done by Chinese companies could have brought some preoccupations and could worry our American allies…the agreement with HHLA is surely a signal of vicinity to the Atlantic Pact, the strategic alliance with the US"* (Start Magazine, 30/09/2020). The words of the Italian Minister of Economic Development highlight the indirect influence of the international obligations Italy has on the allocation of its infrastructure assets. To the indirect relationship at the international level, through preliminary

[2] Twenty-foot equivalent (TEU) is the size of the containers used mainly by container shipping vessels.
[3] The Golden Power Rule is an EU policy endorsed at the country level which requires countries to activate a central government screening when strategic assets – that are declared by the central government as such – are potentially being acquired by foreign investors

interviews with port experts and operators and the reading of the Italian port governance rules, I discovered a complex nexus of relationships and regulations that can influence the entry of investors into Italian port terminals at different levels. In figure 3, I represented a stylised configuration of the relationships that make up the potential nexus of negotiations and existing contractual relationships that might influence a likely investor company's acquisition of an Italian port container terminal company.

Figure 3. A stylised example of the Italian port organisation after the 2016 Italian port organisation reform



Source: Author.

Notes: Solid lines: contractual relationships; dotted lines: informal relationships; dashed lines: potential equity relationship.

As anticipated in section 1.1, ports in Italy are owned by the central government (infrastructures are coordinated at the country level by the Ministry of Infrastructure and Transportation – MIT) and managed at the local level by port system authorities (PSAs). Container terminal companies operate via concession contracts negotiated with the PSA and manage the terminal through contracts with its customers (shipping companies) and suppliers, such as labour

cooperatives that provide workers. *De jure*, the Italian port governance system allows the HCTC to change its ownership configuration by only communicating it to the PSA. However, the various actors of the nexus are interested in the allocation of the asset as they might lose part of their expected income if the new investor has no interest in effectively managing the terminal. Public infrastructures are of vital importance for a country's economic development and growth, and thus the assignment of these assets to an investor(s) must be carefully undertaken. In particular, it becomes crucial to understand how infrastructures are negotiated by highlighting the mechanisms that would lead to a determinate allocation.

1.4 Research questions

Although bargaining scholars within the international business (IB) literature have for long studied the relationship between MNEs and host countries over FDI (Fagre and Wells, 1982; Kobrin, 1987; Lecraw, 1984; Vachani, 1995), they have assumed that the negotiation happens between a central monolithic government and that the resulting ownership configuration of the investment represents the governance mechanism that allows the two parties to appropriate the benefits from the investment effectively. This resonates with the limited infrastructure literature in IB (Doh, Teegen and Mudambi, 2004; Jiang, Peng, Yang and Mutlu, 2015). More recently, scholars (i.e., Yan and Gray, 1994; Brouthers and Bamossy, 1997) have tried to shed light on how MNEs negotiate governance mechanisms other than ownership to allow MNEs to achieve effective control over strategic objectives. However, in line with earlier bargaining literature, they have assumed that the governance mechanisms within the dyads would confer effective control over strategic objectives whose achievement involves the interaction with third-party actors. Recent bargaining models have tried to cope with these problems by developing multi-level (Ramamurti, 2001) and multi-actor models (Eden, Lenway and Schuler, 2005; Nebus and Rufin, 2010; Müllner and Puck, 2018), but the activities of actors outside the

dyad and the influence of the institutional environment on the negotiation of governance mechanisms and strategic objectives leading to MNE foreign entry have been overlooked. I argue that to develop a bargaining framework that allows for a multi-actor and multi-level analysis, we need to start from a theory of the firm that does not assume that ownership always confers the highest level of control and that does consider the firm as the outcome of different economic, social and political interests. IB scholars have argued for the non-equivalence of ownership and control (Buckley, 2009), and have developed models to account for host country actors' influence on the MNE governance configuration (Hennart, 2009). However, they have not paid enough attention to the process that leads to the division of rights toward internalisation among actors at different governance levels. I argue that this can be achieved by building upon the Coasean (1960) property rights framework, where the firm is conceived as a bundle of rights to assets that non-legal owners can effectively control. Given that Coase (1960) only marginally developed this framework and that subsequent property rights literature (Alchian, 1965, Libecap, 1993) remained married to the rational-maximiser agent within constraints, I will employ four longitudinal case studies of MNEs' attempted entry into Italian port infrastructure to inductively put forward a new property right framework to FDI by asking the following two research questions:

1) How do the various actors to a bargain attempt to capture and protect rights to assets in the process of MNE entry?
2) Why do certain rights allocation processes fail and others succeed in the MNE entry process?

1.5 Research context

To answer the above questions, I will compare four case studies of Chinese MNEs' successful and unsuccessful entry into Italian port terminals between 2010 and 2020. Given its system-based character (Brown, Passarella, and Robertson, 2014; UNCTAD, 2008), the infrastructure

industry represents an interesting setting to study MNEs' entry and the influence of actors at different levels of governance. Figure 1 shows the interaction between actors at different governance levels that might be interested in the terminal's allocation. Terminals represent crucial infrastructures for ports, and their operations have implications for all those actors that provide ancillary functions. In other words, each actor's operation influences the system's effectiveness. The public ownership of port infrastructure in Italy makes the central government and local agencies essential players in port terminals' allocation and functioning.

I purposely chose cases of Chinese MNEs as I was looking for revelatory cases that would stress the importance of the influence of actors at different governance levels during the foreign entry negotiation process. In particular, in 2013, the Chinese government launched the Belt and Road Initiative (BRI). The BRI is a policy that aims to develop transportation infrastructures within and between countries to support international economic cooperation and trade. The development and control of ports represent important objectives under the BRI. In 2019, the Italian government was in the process of negotiating a Memorandum of Understanding (MoU) with China to become officially part of the BRI. Ports were part of this process of negotiation. Some Chinese MNEs were already operating in Italian ports in 2019, and others were in the process of negotiating access. Given my interest in exploring and explaining the activities of actors at different governance levels in the process of FDI negotiation, I deemed cases of Chinese MNEs under the BRI policy particularly revelatory. To address the importance of the institutional environment, I accordingly chose successful and unsuccessful cases of Chinese MNEs' entry into Italian port terminals, spanning between 2010–2020. This time frame allows us to compare negotiations in different phases of BRI. In Chapter 4, I will provide an in-depth explanation of the research context of the thesis, and I will address the transferability of the results to other negotiation processes toward FDI within and without the infrastructure industry and BRI context in Chapter 7.

1.6 Thesis structure

In Chapter 2, I will present a review of the bargaining literature in IB by explaining its main assumptions and limitations. Chapter 3 will review the Coasean background characterising internalisation theory in IB and insert it within a property rights framework. In Chapter 4, I will explain the methodology of the thesis. Chapters 5 and 6 present the analysis of the cases. Chapter 7 will discuss the cases, the theoretical contributions, and the methods' limits and suggest future research opportunities.

CHAPTER 2

MNE ENTRY AND INFRASTRUCTURE ASSETS: BARGAINING WITH HOST COUNTRY ACTORS

2.1 The early obsolescing bargaining literature

IB scholars have used bargaining power perspectives to explain MNEs' foreign activities and interactions with host-country actors (Boddewyn, 2005, 2016; Grosse, 2005). Scholars in this tradition have built upon Vernon's (1971) Obsolescing Bargaining Model (OBM). The model explains the ex-ante and ex-post relationship between the MNE and the host government. During the negotiation phase, MNEs, especially in the extractive sector, usually get a favourable contract when entering a host country. Yet, from the moment that the signatures have dried on the document, powerful forces go to work that quickly render the agreements obsolete in the eyes of the government (Vernon, 1971). Renegotiation will hence be undertaken. Accordingly, the host government accretes bargaining power as the MNE is now captive and can be subject to changes in contracts and policies that favour the host country.

IB scholars have used several proxies for firm level (e.g., technological resources, product differentiation, export intensity), government (e.g., level of development) and industry level (e.g., degree of competition) characteristics as antecedents of MNE-host government bargaining power to determine the ownership division between the two actors (Fagre and Wells, 1982; Kobrin, 1987; Lecraw, 1984; Moran, 1974; Vachani, 1995). Fragre and Wells (1982) acknowledge that between ownership, control, and economic benefits, ownership is the least important; it represents, according to the authors, an outcome testable in larger-scale studies. Accordingly, correlations were tested between the level of technology of the parents, the degree of product differentiation; the access provided to export markets; the amount of capital; the diversity of the firm's product line; and the level of ownership. The authors also added industry-level variables such as the degree of competition and argued that the higher the

competition, the weaker the bargaining power of the MNE. Despite finding positive correlations between the variables, Fagre and Wells (1982) do very little in uncovering the mechanisms behind the initial negotiations that led to FDI. Lecraw's (1984) study partly replicates that of Fagre and Wells (1982) but argues for the necessity to understand better the relationship between ownership and control as MNEs might be able to control the operations of their subsidiary without majority ownership. Lecraw (1984) advances the concept of "effective control" as "the degree of control over the critical success variables retained within the TNC compared to the control lost to those outside the TNC, such as local partners or the host government" (Lecraw, 1984, p.37). For instance, on a scale from 1 to 10, where 10 is complete control, the MNE attributes a 4 to the actual control of output volumes. However, when asked to rate the importance of controlling this activity, MNEs, on average, assign a 9. Other variables such as technology transfer, output quality and output pricing present lower control levels than those deemed necessary by MNEs. "Effective control" is also correlated to the subsidiary success, indicating a very strong positive relationship. Yet, Lecraw's (1984) study remains silent about how effective control is achieved by the MNE and the means to achieve it. In other words, control is assumed to be determined within the MNE-host government relationship and predicted by several firms and government characteristics. However, in the instance of achieving output quality, the role of external actors might be crucial.

Kobrin (1987) starts accounting for the potential constraints that can influence the dyadic relationship between the host government and the MNE. The framework comprises three dimensions that determine the relative bargaining power of the two parties. The first dimension is given by the relative importance the MNE and the host government attribute to each other resources. This dimension would determine the potential power of each party. Put it simply, if one of the two actors has more alternatives from where to get the resources the other actor has

to offer, it will have higher potential bargaining power. The second dimension of the framework translates the potential power into actual power, namely the constraints that prevent potential power - given by the resources the two parties have - to be transformed into actual power. Constraints are represented by the political dynamics of the host or home country but also by the structure of the industry that should provide the MNE with the inputs for production. The third and last dimension is represented by the ability of the actors to limit each other's behaviours (e.g., coercion). By taking a variance approach, Kobrin (1987) does "not attempt to model the entire process or to capture all the nuances of the interaction between a firm and a host country over time" (p.619). His empirical analysis does not account for his second mechanism, namely the potential actions of other external actors that have an interest in allocating the asset. Lastly, Kobrin's (1987) outcome remains the ownership level obtained by the two parties. According to the author, many are the issues at the table, and it is difficult to say whether ownership outcomes are differences in preferences or bargaining power (Kobrin, 1987).

Notwithstanding these limitations, ownership is deemed an essential variable, and it is used as the bargaining outcome and the governance mechanism that would provide the expected returns (Kobrin, 1987). Vachani (1995) takes a longitudinal approach in studying changes in ownership proportions (i.e., obsolescing power) between the MNE and the host government in manufacturing industries in India. Over time, MNEs seem to be losing ownership to the host government. In line with the above literature, the reasons why MNEs might be willing to cede part of their ownership are not enquired. Accordingly, it is challenging to ascertain whether the obsolescing bargaining took place. In other words, and as previously argued, effective control might be achieved with other means than ownership configurations.

2.2 Filling up the obsolescing bargain

Grosse and Behrman (1992) proposed a bargaining model as a general theory of IB where multilateral negotiations over the distribution of benefits and costs happen between firms and the host government. According to the authors, "A theory of international business should explain how the issue of government concerned with TNC [transnational corporation] activities are defined, how they are negotiated, what trade-offs are involved, how differences are resolved, what adjustments are made over time and why" (Grosse and Behrman, 1992, p.97). The negotiation outcome is a joint maximisation between MNE and government objectives that resonate with early bargaining models in economics (e.g., Kindleberger, 1969; Penrose, 1960). The main components of Behrman and Grosse's (1992) –framework - which resonates with those of Kobrin (1987) - are: 1) the relative resources available to each party; 2) the relative importance of the situation to each party, namely the presence of alternative sources of the other party's resources; and 3) the degree of similarity of interests between the foreign firm and the government of the host country. The firm is the central unit of analysis. It is conceived as an "international contractor" to encompass all the different international business governance forms, including the relationship with the government. Government's activities are through policies and intergovernmental agreements can influence the organisation of the MNE (Grosse and Behrman, 1992).

The framework presents several limitations discussed within the standard obsolescing bargaining model. Despite examining bargaining as a multilateral distribution of costs and benefits between firms and governments, the theoretical mechanisms that determine power remain at the dyadic level and are of little help in explaining how various actors try to appropriate the expected benefit from the investment. Take the first component – the relative resources. It is unlikely that the relative resources considered by an MNE to invest in are under the control of the central government. For instance, in the case of ports (the context of the study

of the dissertation), labour providers are essential for terminal operations. Because of ebbs and flows in port activity, terminal operators demand labour from port labour providers. This resource would represent an important factor considered by MNEs when investing in ports. However, these private companies control their resources and are often involved in negotiations with MNEs. Hence, it becomes difficult to account ex-ante for the resources possessed by the central government without directly accounting for the actors that control them. Grosse (1996) claims that we can isolate the relationship between firms and governments by looking at the impact of other actors through the policymaking process. However, MNEs interact with other actors through the policymaking process and through economic relationships. Accordingly, it becomes clear how the study of the negotiation of the investment and why they fail or not must account for how several actors try to appropriate effective control over key activities that determine their expected returns.

More recently, scholars have started to shed light on the negotiation behind FDI by accounting for the different host country actors involved and how and what the various actors do when negotiating. Yan and Gray (1994) take a firm-level perspective to study IJV negotiation between US and Chinese companies. They aim to examine the relationships between bargaining power, control distribution, and performance over time by adopting comparative case studies. Yan and Gray's (1994) findings show the non-equivalence of ownership and control. Results show how negotiation for equity division happens before that for management control and how the former represents a source of bargaining power in negotiating the latter.

By taking both partners' perspectives, the study shows how management control is not unilaterally chosen by one partner – usually the MNE – but is subjected to negotiations. Management control - defined as "the process by which an organisation influences its subunits and members to behave in ways that lead to the attainment of organisational objectives" (p.1481) – and captured by a) the per cent of board membership, b) nomination of crucial

personnel; c) similarity of management systems to parents'; d) perceived level of overall control; e) overall pattern of management control; was found to influence performance perceptions of the two partners differently even in cases where control was not evenly distributed. The authors explain these results by pointing out how additional formal and informal mechanisms (e.g., contractual clauses and trust) of control toward strategic objectives (i.e., multidimensional performance measures) were used that were not discussed by previous literature that has informed the use of control mechanisms mentioned above. Despite these advancements in filling up the bargaining envelope, Yan and Gray's (1994) study presents some limitations. The claim to investigate the negotiation of control mechanisms is not achieved within the article. More precisely, despite management control mechanisms being said to present important mechanisms that lead to performance outcomes, these are not theoretically connected to the bargaining antecedents or performance outcomes. In other words, the framework should be able to address how the achievement of performance objectives would be allowed by the implementation of control mechanisms that are bargained between the actors. Yan and Gray (1994) highlight the importance of accounting for the bargaining process and what leads to changes in power positions over the negotiation of governance mechanisms as one of the article's conclusions. I argue that the strategic objectives (i.e., performance) that differ between the US (i.e., profit, market share, growth, local sourcing, learning and credibility with the Chinese government) and Chinese firms (i.e., technology, export, growth, management, import-substitution, up-stream technology and profit) but also among firms of the two groups in terms of importance, have to be considered in the bargaining dynamics. Accordingly, governance mechanisms and strategic objectives will be bargained simultaneously as a means-ends relationship.

Moreover, in line with the studies previously reviewed, Yan and Gray (1994) do not account for the interdependence between governance mechanisms when accounting for companies'

achievement of performance objectives. Take, for instance, local sourcing (one of Yan and Gray's performance objectives). It is unlikely that the achievement of local sourcing is determined only by the internal control mechanisms stated above. Lecraw (1984) argued that to obtain effective control, one needs to account for the actors that can influence the obtainment of the related strategic objective and hence pay attention to the interdependency between governance mechanisms. Lastly, Yan and Gray's (1994) study does not present instances of initial negotiations that are the focus of study of the present dissertation.

The role of stakeholders that influence effective control outside the firm-firm bargaining dynamics is analysed by Brouthers and Bamossy (1997) in the instance of IJV's initial negotiation between MNEs and SOEs in Eastern Europe. In particular, the host central government is taken under examination. The authors build upon previous bargaining literature (Kobrin, 1987) and divide the negotiation process into three phases (pre-negotiation, negotiation and post-negotiation) to account for how the host government influences each phase. The outcome of the negotiation is IJV management control "as it allows one firm to direct the activities of the IJV and thereby achieve its objectives" (Brouthers and Bamossy, 1997, p.291). Accordingly, the authors do provide ex-ante management control mechanisms, namely: a) staffing HR policies; b) venture manager; c) equity split; d) board control; e) other control (e.g., contractual control). The same limitations listed for Yan and Gray (1994) apply to Brouthers and Bamossy's (1997) study. However, unlike Yan and Gray (1994), the authors subsequently account for the strategies used by the central government to obtain the control outcomes. For instance, the authors notice that the central government forced the SOE to cede more control to the MNE in several cases. However, the authors do not investigate why that would be the case. According to the author, the mere request from the government to SOEs to cede control is considered a strategic move made by the government. Yet, as scholars outside IB have noticed (Penrose, 1960, 1976), these moves must be understood and are often made

because the government and the SOE cannot lead the ex-post operations and would be too costly to undertake them.

2.3 The multiplicity of levels and actors within the MNE-host country actors bargaining for FDI

Ramamurti (2001) updated Vernon's (1971, 1981) classic one-tier bargaining model. In Ramamurti's model, the MNE's home country government bargains with the host country government with the support of international organisations (e.g., World Bank and IMF) to create a favourable environment for the MNE. The two tiers model derives from a change in the international landscape in the 90s where developing countries were more prone to liberalisation. In other words, Ramamurti (2001) adds a governance level to that of the obsolescing model, namely the home-host country level, where developed countries bargain with home developing countries over FDI policies. The negotiation might be direct or indirect. International organisations influence the negotiation of governance mechanisms (e.g., bilateral agreements) directly or through the influence of the global institutional environment. This new level does change the balance of power in tier 2, where MNEs bargain with host countries. Host developing countries were competing in a more competitive landscape where other developing countries have lowered their FDI screening mechanisms and entry requirements. In this context, MNEs were capable of playing host countries against each other and getting more favourable deals (Ramamurti, 2001). Ramamurti's (2001) model adds a critical governance level. In line with the above models, it keeps a dyadic analysis in its second tier without accounting for how the different actors might benefit or lose from the investment. The study of how and why a foreign direct investment happens should be seen holistically.

By keeping the central tenets of the OBM framework while updating it with critical insights from the liability of foreignness, transaction costs economics, and the resource-based view

literature, Eden, Lenway and Schuler (2005) developed the political bargaining model (PBM). The authors aim to move the attention away from the previous and exclusive focus on "entry" and "obsolescing" toward a processual understanding of the MNE-state relationships as "iterative political bargains negotiated between MNEs and governments over a wide variety of government policies at the industry level" (Eden et al., 2005, p. 254). Eden and colleagues (2005) rightly point out that the focus on ownership cannot entirely explain the negotiation between the government and the MNE. The update made by the authors is about the three critical dimensions of the model: similarity of goals and relative stakes, relative resources, and relative constraints. To the MNE goals mainly explained within the IB literature, i.e., market seeking, resource seeking, efficiency-seeking, or strategic asset seeking, Eden et al. (2005) add the knowledge-seeking dimension brought about by the emerging country MNEs (EMNEs) literature and the impact of the liability of foreignness and the connected quest for legitimacy. Concerning the host country objectives, they distinguish between four groups of countries (i.e., developed, transition, emerging and developing countries) in order to enhance previous literature that has mainly been focused on developing countries' contexts. The explicit role of corruption and its influence on MNEs' entry was added.

Regarding the similarity of MNE and host country objectives, Eden et al. (2005) argue that they should not be seen as exclusively conflictual. As in previous models, the relative stakes indicate the availability of alternatives to each party. The second component, namely, the relative resources and constraints, has been updated via resource-based view theory and transaction costs economics, respectively. MNEs and host country resources align with the IB lexicon and are called firms-specific advantages (FSAs) and country-specific advantages (CSAs). The former indicates the MNE's bundle of tangible and intangible assets, while the latter represents the characteristics of the host country, such as cheap labour, availability of raw material etc. The valuation of the resources that the other negotiating party does denotes

the relative stakes that each party has in the resources of the other party and the potential bargaining power. Economic and political factors constrain the latter. MNEs' constraints are their previous governance choices that constrain future ones (Argyres and Liebeskind, 1999). Host countries are instead said to be constrained by existing bargains with other MNEs, nongovernmental organisations and labour organisations. To sum up, according to the PBM, MNEs and nation-states bargain over government policies. According to their relative resources and stakes that determine their potential power, they will bargain under the economic and political constraints that each party faces to determine actual power and hence the winner of the negotiation.

Despite these advancements, in line with Behrman and Grosse (1992), Eden et al. (2005) treat the activities of actors outside the MNE-government relationship only as constraints. This limitation is again given because the negotiation is seen as dyadic between the MNE and the central government. Secondly, the authors claim to move away from the focus on "entry" and "obsolescing" to accommodate continuous change over policies. I argue that "entry" can be the focus – as a bargaining model should be able to explain any negotiation – and change in policies cannot be the sole focus. Contrary, "entry" and policy changes can be analysed simultaneously to observe how MNEs and other actors adapt to these potential changes. To account for this, we need a model able to accommodate MNE-state relationships and those negotiations that take place with economic and other political actors at different host-country governance levels. Recently, scholars have employed multi-actor perspectives. Nebus and Rufin (2010) used network theory to predict which actors would be able to influence the overall bargaining outcome and “win” the negotiation. Despite the model being multi-level and multi-actor, it has a limitation common to network analysis. It assumes that scholars (or the agents within the network) know ex-ante who are the actors in the bargaining. Besides, in line with previous models, it assumes that actors can determine their positions of power by overlooking the

dynamic nature of the actors' involvement and the strategies employed to advance their positions of power. This dynamic aspect is very relevant to understanding the MNE entry negotiation for FDI.

More recently, Müllner and Puck (2018) developed a framework where MNEs and host country governments influence their sunk costs and access to alternative locations to maintain the power balance in their favour by shedding light on the strategies MNEs can use. In line with the above articles, Müllner and Puck (2018) assume a dyadic power balance between the MNE and the host government that is only indirectly influenced by the activities of various actors at different governance levels. However, when a firm invests in, for instance, an existing port infrastructure, it is likely to use local labour and access different types of suppliers. It will try to get a concession contract from the local government. In turn, these actors are interested in the ownership of the infrastructure as it represents the asset through which they can obtain their benefits. Thus, the bargaining perspective (Table 1 represents a summary of the central bargaining perspectives discussed above) should include all the actors who try to capture or protect returns from the investment and look at how this is done in the process that leads to potential FDI. In what follows, I will look at the IB infrastructure specific literature related to MNE entry and negotiation.

Table 1. Bargaining models in IB

Authors	Name	Determinants of Power	Outcome	Limitations
Kobrin 1987	Classical bargaining perspective	- Relative demand for resources - Constraints that prevent potential power from being implemented - Ability of either party to limit the behaviour of the other party	Ownership configuration	- Dyadic framework - Does not account for the dynamicity of the negotiation - Power exogenously determined → Actors strategies are not contemplated
Behrman and Grosse 1992	Bargaining theory of the MNE	- Relative resources - Relative stakes - Similarity of interests 1	Not specified	-
Ramamurti, 2001	Two-tier Bargaining Model	- MNEs' home country and Supranational Institutions (e.g., World Bank and IMF) as source of bargaining power for	Investment agreement	- Despite multi-level and multi-actor, MNEs will only negotiate with host country governments once the first stage has been accomplished and implemented - Does not account for the dynamicity of the negotiation - Host country government as monolithic
Eden et al., 2005	Political bargaining model	- Similarity of goals and relative stakes - Relative resources - Relative constraints	Policy	- Does not account for the dynamicity of the negotiation - Host country government as monolithic
Nebus and Rufin 2010	Network Bargaining Power	- Political - Economic - Legal	Overall Power influence	- Assumes that scholars know which are the actors that take part in the bargaining - Does not account for the dynamicity of the negotiation - Host country government as monolithic
Müllner and Puck 2018	Obsolescing Bargaining + Sovereignty at Bay	- Sunk Cost - Alternatives	Power Balance	- Does not account for the dynamicity of the negotiation - Only MNEs' strategies to increase their alternative investment possibilities or reduce their sunk costs or increase host government sunk costs and reduce host government alternative investments

Source. Author

2.4 MNE entry process in the infrastructure assets

Despite the importance of MNEs in the execution of infrastructure assets (UNCTAD, 2008), relatively less attention has been given by IB scholars to the way MNEs access them (Welch, Benito and Petersen, 2018; Luise, Buckley, Voss, Plakoyiannaki and Barbieri, 2021; Lundan and Leymann, 2022; Patala, Juntunen, Lundan and Ritvala 2021). Available research has focused on the determinants of MNE-host government ownership shares (Doh, Teegen & Mudambi 2004; Jiang, Peng, Yang & Multu, 2015) and related performance (Jiang et al., 2015). This literature resonates with the early bargaining literature addressed in section 2.2 in that it adopts variance approaches to the study of MNE-host government distribution of ownership. However, they assume multi-level analysis in the explanation of the ownership configurations. Doh and colleagues' (2004) study simultaneously focuses on how country, industry, firm and project determinants influence ownership (i.e., private vs public ownership) of public-private initiatives related to telecommunication projects in emerging countries. The authors point out the importance of the concession process behind the infrastructure allocation. However, the focus is limited to the "initial project structure" (i.e., % of private and public ownership of the project). According to the author, the level of private or public ownership is the governance mechanism that would allow the two parties to achieve their expected benefits. Doh et al. (2004) argue that host governments use ownership to protect consumers in divestitures.

In contrast, MNEs use ownership in greenfield projects to maximise their return on investment by protecting key technologies. In divestitures, the authors argue that because telecom firms emphasise return on equity (ROE) and return on investment (ROI) rather than enhanced customer service, the host state might want to retain higher ownership to ensure customer protection. On the other hand, in the case of greenfield projects, the authors assume that these investments include unique resources and asset-specific technologies and hence MNEs will gain higher equity. It seems not clear why a host country government should care about

customer protection only in case of divestiture and not in the case of greenfield. Despite the ownership variable might be seen as a critical variable to determine the ROI of the investment, many more are the relationships in an investment project that can influence the net benefit the MNE can appropriate (Casson, 1995). In other words, the effective control over the appropriation of infrastructure assets' benefits is far from guaranteed by the percentage of ownership. One can think of the concession contracts behind the investments that regulate the relationship between the MNE and the government but also the willingness of the host government to leave the management to the MNE as host country officials might not be capable enough to effectively operate the company ex-post (potentially even the ex-ante negotiation). This goes against the focus of the entry mode literature and early bargaining literature, where the process of entry is only assumed. The non-equivalence of ownership and control is apparent from the literatures on the global value chain (GVC) (Buckley, Strange, Timmer & de Vries 2020, Kano, 2018), the global factory (Buckley 2009), and other approaches to the modern networked multinational, including "the embedded firm" (Johanson, Forsgren & Holm, 2005). Many papers, including Hennart (2009), examine the relationship between the (multinational) firm and the domestic assets associated with new governance configurations. However, the bundling of assets that involves a redistribution of control is only assumed.

Ownership can be shared, and property rights to the same asset owned by different contracting parties are interdependent. Taking a "system view" of internalisation Casson (1995) argues that "the change on ownership of a single plant is not the relatively simple matter that it may at first appear" because we move from a single internalisation decision involving a solitary linkage to "a multiple internalisation decision involving the simultaneous internalisation of several linkages" (p.38). Accordingly, several actors will act upon the internalisation process (Casson, 1995). In line with previous bargaining literature, the bargaining process is only assumed despite Doh et al. (2004) conceiving the MNE-host country relationship in bargaining terms.

Yet, the determination of the entry and related governance configuration of infrastructure assets between the various actors often entails lengthy negotiations, where the MNE and local actors enter a bargaining process related to the distribution of potential benefits from the investment that entails the involvement of actors at different governance levels (Luise et al., 2021).

Jiang et al.'s (2015) study presents a similar approach to Doh et al. (2004). The authors argue that the study finds MNE-host government bargaining over investment agreements. Yet, the process is only indirectly assumed. Jang et al. (2015) pay substantial attention to the role of the institutional political environment as a determinant of FDI. As is the case for Doh et al.'s study (2004), the institutional environment is assumed to be exogenous and negatively impacts the activities of MNEs. However, Garcia-Canal and Guillen (2008) show that MNEs might favour policy instability as it allows them to get favourable policies and contracts upon their entry. This implies that to explain whether FDI happens, we should adopt a processual view that accounts for the bargaining relationships between actors at several levels and how they attempt to achieve control over critical strategic objectives.

2.5 From concession contract to concession bargaining process

By arguing for the need to study MNE foreign entry as a package of different governance modes (Benito, Petersen and Welch, 2009; Welch, Benito and Petersen, 2018), scholars belonging to different strands of management literature have more recently looked at "project operations" (Cova, Ghauri and Salle, 2002). Project operations can be defined as a "complex transaction covering package products, service and work, specifically designed to create capital assets that produce benefits for a buyer over an extended period" (Cova, Ghauri and Salle, 2002, p.3). However, this literature, primarily based on project management and marketing, has taken the MNE perspective in studying MNE entry (Welch, Benito and Petersen, 2018).

To access infrastructure assets, MNEs have to consider a multiplicity of actors that govern these interactions in an interdependent way. For instance, in the case of new infrastructure projects, the MNE needs to find local or international construction companies often and coordinate with them to participate in the tender process. At the same time, the tender is issued by the local agencies and often, there is competition from rival entering firms or incumbent firms. Depending on the host country's rules at different stages, the MNE also has to interact with suppliers (usually locals) to operate the infrastructure. All these stages are relevant and influence whether FDI will be undertaken or not.

Although not within the infrastructure context, Fagre and Wells's (1975) study is one of the few studies that simultaneously take a longitudinal approach to MNE concession contracts and FDI. The authors' work on copper concession contracts negotiations in developing countries highlights the need to take a processual approach to study the concession negotiation and avoid framing the concession process as a zero-sum game where parties negotiate for the division of a fixed set of rewards. The authors claim the need to "bring an element of realism to a subject that has long been clouded by mythology and misunderstanding. The common illusions are myriad: host country belief that maximum concession income will materialise without maximum concession supervision; investing company belief that it can carry on business-as-usual in the face of changes in the host country and the international forum; host country faith in the panacea of internalisation; investing company of concession agreements that provide from equity or other participation by the host country; lawyers' jousting with *pacta sunt servanda* vs *rebus sic stantibus*, and lawyers' discussions of "economic development agreements" that may have little to do with economic development" (Fagre and Wells, 1975, p.2). Fagre and Wells (1975) mainly claim for the need to simultaneously account for the economic, political and social factors that influence the concession process as they "have

become more potent than legal factors in determining the viability and shape of concession arrangements" (p.23).

Fagre and Wells (1975) develop a bargaining framework that accounts for: "1) the structure and evolution of the particular industry concerned; 2) the position and interests of a particular firm within the industry; 3) the economic, political, bureaucratic and social forces at work in the host country." (p.7). Moreover, Fagre and Wells (1975) argue for the need to account for "4) the relative negotiating and administrative skills of each party" (p.7). After proposing the framework, Fagre and Wells (1975) discuss in extreme detail the content of the concession contract and its evolution but do not present any dynamics related to their negotiation. In other words, we are left wondering what each actor involved in the negotiation would like to achieve and how this would be achieved.

Scholars within the port literature have recently started paying more attention to the concession process. Most importantly, how the allocation of rights must be understood outside the concession contract (Psaraftis and Pallis, 2012). Most of the work presented within the port literature is made up of descriptions of concession phases by highlighting the diversity of practices around the world, but most importantly, within landlord ports (Pallis, Notteboom and De Langen, 2015; Nottemboom and Verhoeven, 2010). Notteboom, Verhoeven and Fontanet (2012) survey the concession procedures around EU ports to discuss best practices. The article highlights how the concession process depends on the rules of the specific countries and that awarding policies should constantly evolve due to changing market dynamics. Parola, Tei and Ferrari (2012) highlight the importance of studying the concession within its context. By adopting case studies from different Italian ports, the authors show how concession rules differ among port authorities and how rules related to the awarding procedure are not stated by the Italian legislator and hence are left to the discretion of the port authority. However, limited

research has paid attention to how these governance mechanisms are negotiated within the concession process and what influences their adoption.

Siemonsma, Van Nus, and Uyttendaele (2012) provide one of the first theoretical frameworks to inform on the use of a specific awarding procedure, namely competitive dialogue. The authors point out the need to specify and understand the allocation of rights between the investor and the port authority as there are no general rules on this and to take both actors' perspectives. Siemonsma and colleagues (2012) evaluate the use of the *competitive dialogue* procedure by assuming the actors would formulate their expectations according to the net present value (NPV) of future cash flows that a port project might generate. The authors account theoretically and from their experience in port investments for potential transaction costs – informed by Williamson's (1985) transaction cost framework – and contract value to determine whether competitive bidding should be used, as it creates more value than a standard restricted tender procedure. The study's theoretical account makes it difficult to evaluate the author's conclusion. Even at the theoretical level, the study presents limitations. In line with previous literature, the investigation remains at the dyadic level and does not account for the influence of other port actors on the negotiation process. Accordingly, although the subdivision of rights and responsibilities is usually assumed to happen at the dyadic level in the concession process, one needs to enquire whether this is the case.

Moreover, it is also important to enquire how the potential inclusion in the negotiation of other actors might, for instance, increase transaction costs and decrease value according to Siemonsma et al.'s (2012) framework. Moreover, the diversity of institutional frameworks that countries present increases the difficulty of generalising the results presented. It would also be essential to study the concession process within the country's rules and understand how actors would be able to contract around the law, if at all.

The importance of concession process negotiation and the influence of third actors during the concession process is highlighted by Psaraftis and Pallis (2012) in their study of the five-year negotiation process of the concession of the Piraeus container terminal Cosco Pacific. The article shows how the concession contract process entails a more complex distribution of rights than the dyadic representation that characterises previous studies. In particular, country-level actors were not only involved in the concession negotiation but were also developing specific policies aimed at adjusting the port rules. An exciting example which represents the explicit bargaining nature of the concession process is related to the Piraeus port authority's willingness to let Cosco change labour practices – by, for instance, not stating in the concession process any retraining practices – as to put a stop to the inefficient public tradition. In parallel, the authors show how cargo handlers' unions opposed the concession due to expected loss of income related to expected changes in labour practices were Cosco Pacific controlling the terminal. While the Greek Parliament in 2009 ratified the concession contract, labour unions and the prefecture of Piraeus appealed to the Supreme Court to have the entire tendering and awarding procedure questioned. This point clearly shows how procedures such as the competitive bidding or dialogue mentioned above that leave more space to port authorities might not be as effective as argued by scholars within the port literature. In this line, the inclusion of stakeholders – different from the investor and the port authority - into the concession process might have to be considered. This point sheds light on the distinction between *de facto* and *de jure* control over property rights, highlighted by the Psaraftis and Pallis (2012) when discussing the example of labour practices. The authors highlight how "the awarding of the terminal implied the de facto potential of reforming existing practices" (Psaraftis and Pallis, 2012, p.36). The authors mean that despite the central government having *de jure* right to change labour rules, it had not been able to do so over the years. The government saw the entry by Cosco Pacific as a means to *de facto* achieve that goal.

Taken together, the review provided above highlights the fact that to date, the theory and the empirical studies have assumed that the bargain happens between the MNE and the host central government. When scholars have attempted to fill the bargaining envelop, they have accounted for the governance mechanisms at the dyadic level by assuming that these would enable the firm to achieve effective control over certain strategic objectives. I, however, argued that the achievement of effective control should be understood by accounting for the actors that have an interest and can influence the process and hence the governance mechanisms to obtain effective control. This can be done via the negotiation of the governance mechanisms and by actively changing or strategising around the rules of the game. Lastly, this should be studied as a process that leads or not to MNE entry by accounting for how actors act upon the achievement of their expected effective control.

CHAPTER 3

MNE FOREIGN MARKET ENTRY PROCESS: DISCOVERY, RECOMBINING AND MAINTAINING PROPERTY RIGHTS

3.1 Revisiting the Coasean Theory of the Firm: Accounting for External Actors

Coase examined the economics of firms, industries, and markets that "used to be called Value and Distribution and now usually termed price theory or micro-economics" (Coase, 1988, p.2). Coase describes his approach as examining "the institutional structure of production" (Coase 1994, p3). The seminal piece by Coase (1937) explains why firms exist and the range of activities that they undertake. Coase (1937) says that "in order to carry out a market transaction, it is necessary to discover who it is that one wishes to deal with, to inform people that one wishes to deal and on what terms, to conduct negotiations leading up to a bargain, to draw up the contract, to undertake the inspection needed to make sure that the terms of the contract are being observed, and so on" (Coase, 1988a, p.6). According to Coase (1988a), "the existence of transaction costs will lead those who wish to trade to engage in practices which bring about a reduction of transaction costs whenever the loss suffered in other ways from the adoption of those practices is less than the transaction costs saved" (p.7). Basically, adopt transaction costs avoiding practices (e.g., the firm or other practices to save on TC) whenever the costs suffered from using these practices are less than the transaction costs saved. Transaction costs saved are the benefit, whereas the costs of using alternative practices (such as the market) are the costs. Accordingly, Coase (1937) says that the firm is, to him – "perhaps the most important adaptation to the existence of transaction costs." (Coase, 1988a, p.7). Coase's focus on the firm – despite highlighting the presence of other practices led Buckley and Casson (1976) to focus on the market versus firm dichotomy and to explain the division of economic activities between the two. The firm is optimal when the transaction costs saved from not using the market are

greater than the management costs of using the firm. Buckley and Casson (1976) associate management costs with Coase's (1937) "loss suffered in other ways from the adoption of those practices" (e.g., the firm) (Coase, 1988a, p.7), but they underplay the importance of the transaction costs (i.e., with external actors) that the firm needs to incur in the internalisation process. Coase (1937) did not account for this either. In an article titled "The Nature of the Firm: Influence", Coase (1988b) makes it clear that although in his 1937 article he made the "argument about long-term contracts not in their role as an alternative to coordination within the firm but as something which could bring the firm into existence" (p.40), this argument did not confirm what he was observing in real-world firms. In other words, he observed that firms were dealing with long term contracts and, even though the contracts were incomplete, they were able to resolve many of the problems that incompleteness poses. Coase (1988b) also added that “Even though the costs of contracting increase more than the costs of vertical integration as assets become more specific and quasi rents increase, vertical integration will not displace the long-term contract unless the costs of contracting become greater than the costs of vertical integration – and this might never happen for any value of quasi rents actually found” (p.43). Finally, he added other reasons why the asset specificity argument made him sceptical. In his investigations, he saw that despite business people telling him that they were careful in the diversification of their clients, the importance of this risk was, however, not noted in practice. Long-term contracts were "commonly accompanied by informal arrangements not governed by contract, and that this approach seems to work suggests to me that the propensity for opportunistic behaviour is usually effectively checked by the need to take account of the effect of the firm's actions on future business." (p.44). Coase added the need to investigate "the factors that would make the costs of organising lower for some firms than other … If one is to explain the institutional structure of production in the system as a whole, it is necessary to uncover the reasons why the cost of organising particular activities differs among firms.".

Overlooking the costs of forming the firm (i.e., potential transaction costs with external actors that have effective control) might be why contracting costs will often be less than the costs of vertical integration. If the process of forming the firm and hence obtaining FDI might be influenced by external actors, one has to find a way to account for this to obtain relevant explanations of firm existence.

By a careful reading of internalisation theory (Buckley and Casson, 1976)[4] one can see that Buckley and Casson (1976) mention that "Against the benefits of internalisation must be set the costs. It can be argued that under some circumstances, an internal market will have higher resource costs and higher communication costs than a corresponding external market, and will be more prone to political interferences" (p.41). However, this and other potential external costs have not been addressed in the process of internalisation. There seems hence to be an assumption of the superiority of the firm over the market that can be acknowledged by the fact that "Internalisation is a general principle that explains the existence of the firm as an organisational type that coordinates activities more efficiently than can its principal alternative – the market" (Buckley, 2018). The process of internalisation is seen by Coase (1937) as the minimisation of transaction costs that is achieved by a "moving equilibrium" where "a firm will tend to expand until the costs of organising an extra transaction within the firm become equal to the costs of carrying out the same transaction by means of an exchange on the open market or the costs of organising in another firm" (Coase, 1937, p.55). This principle resonates with Buckley and Casson's (1976) internalisation theory equilibrating principle that leads to the formation of the MNE where "rational agents will internalise markets when the expected benefits exceed the expected costs. The profit-seeking managers of a firm will internalise intermediate product markets up to the margin where the benefits and costs of internalisation

[4] Rugman (1981) mainly cites Casson (1979) when referring to the underpinning of internalisation theory. Hence, I will only refer to Buckley and Casson (1976) by being aware that Rugman's (1981) early version of internalisation theory builds upon the theoretical mechanisms of Buckley and Casson's (1976) that are given a more significant treatment in Casson (1979).

are equalised. Within this margin, firms will derive an economic rent from exploiting the internalisation option, equal to the excess of the benefit over the costs" (Buckley and Casson, 2009, p1567). I believe this principle has led IB scholars not to observe the process of achieving effective control among actors at different governance levels in the process toward FDI.

3.2 From an optimal moving equilibrium to a system process of rights allocation

When Coase (1959) advised the USA to use the bidding process to allocate radio frequencies, he tried to understand what a bidder would consider to make its offer. This is because it is difficult to find a price unless the actor knows which use rights have already been allocated and who might use the frequency or adjacent ones (Coase, 1959). In the Problem of Social Costs, Coase (1960) considered assets as bundles of rights to perform certain actions instead of physical units. This helps us understand the allocative process leading to welfare, increasing "constellation of rights" (Coase, 1988c, p.12). Coase's (1988) property right theory has an evident principle: "If rights to perform certain actions can be bought and sold, they will tend to be acquired by those for whom they are most valuable either for production or enjoyment. In this process, rights will be acquired, subdivided, and combined to allow those actions to be carried out which bring about that outcome which has the greatest value on the market" (p.12). In other words, in this process, a new constellation of rights would emerge if the value produced by this constellation is less than the transaction costs of achieving this new constellation. This principle takes the unit of analysis present in Coase (1937) to the system level.

Coase’s (1960) central point is the law system's importance in the rights allocation process. Coase's (1960) starting point was what came to be called the Coase Theorem. The theorem argues that in the absence of transaction costs, and whatever is the court's decision regarding the allocation of rights in a dispute between two actors where one causes damages to the other, the final allocation of rights will bring the highest total product. Coase (1994) argued that the

Coase Theorem was just the baseline framework to show that public intervention, which was claimed necessary by price theory scholars such as Arthur Pigou, was not necessary when conceived in conjunction with the price theory zero-transaction costs assumption. In fact, Coase's (1960) aim was to show that in an economic system with transaction costs, the role of the law and the court becomes fundamental as agents will not be able to reach agreements that would bring the highest production possible.

The question that he then poses is under what conditions efficiency is affected by the legal rules that determine economic agents' rights and liabilities. In other words, one needs to understand how the very same rules that should help reduce transaction costs would indeed be the very problem that leads to transaction costs. This might be a further and essential example of the costs of internalisation. The fact that the firm might not obtain is related to the fact that the law – that according to Coase should provide certainty –, which regulates corporations, was written by assuming that firms would work in a competitive market. This step has important implications for efficiency analysis. According to Coase (1994, p.12), "It makes little sense for economists to discuss the exchange process without specifying the institutional setting within which the trading takes place since this affects the incentives to produce and the costs of transacting". The legal system becomes crucial because what actors exchange in the market are the rights to perform specific actions, not physical entities (Coase, 1960).

The legal system establishes the rights possessed by individuals. "While we can imagine in the hypothetical world of zero transaction costs that the party to an exchange would negotiate to change any provision of the law which prevents them from taking whatever steps are required to increase the value production, in the real world of positive transaction costs such procedure would be extremely costly and would make unprofitable, even where it was allowed, a great deal of such contracting around the law.” (Coase, 1994, p.11). The main point is that the law becomes key when transaction costs are present. In other words, when transaction costs are

present, it will be more difficult for actors to establish clauses that are not provided by the law. Accordingly, following the law will be the likely outcome. Hence, if the law says who has the right to do what, and the allocation that follows is not suitable, it becomes challenging to do business and obtain FDI. It is clear how the distribution of rights becomes essential and must be seen systemically by accounting for the governance between firms and the rules within which they operate. In fact, according to Coase (1994), "It is obviously desirable that rights should be assigned to those who can use them most productively and with incentives that lead them to do so. It is also desirable that to discover (and maintain) such a distribution of rights, the costs of their transference should be low through clarity in the law and by making the legal requirements for such transfer less onerous" (p.11). As argued in Chapter 2, IB scholars have mainly used aggregate types of dimensions to determine the impact of the institutional environment on MNE entry. However, when assuming the exchange of rights, the reading of the law and the firms' actions toward and around it is crucial to be studied to understand the MNE foreign entry process and its operations.

At this point, one might think that Coase's (1960) focus on total production still resonates with the self-equilibrating dynamic presented in Coase (1937), where the manager can maximise the boundaries of the firm at the margin. If that was the case, I argue that the capacity to explain FDI in real-world circumstances is limited. Internalisation theory (Coase, 1937; Buckley and Casson, 1976) assumes the formation of the MNE as reproducing the outcomes of individual choices carried out in a “well-functioning market”. However, the actual role of the MNE in the economy may reflect alternative objectives emerging from socioeconomic groups and individuals characterised by different interests and political influence than the rational-utility maximising manager. I believe this contention is very much in line with Coase’s (1992) approach to studying the institutional structure of production, where he claims to study real-world firms, contracts and managers. In a subsequent study, Coase (1984) argues that “Most

economists make assumption that man is a rational utility maximiser. This seems both unnecessary and misleading" (p.231) and consequently argues that bounded rationality does not do a better job in capturing human psychology (Coase, 1993b, p. 98). “If we are managers, or if we are giving advice to managers, we need a theory of firms that encompasses a great deal of detail about their operation”. So, the general principle proposed by Coase's (1960) framework is to observe how the discovery, combination and maintenance of rights within a particular economic system happen within the institutional system. The critical principle is comparing the transaction costs of different social institutions during the discovery, combination and maintenance of rights.

At this stage, the framework provided by Coase (1960) can be defined as a mere relative cost comparability process that might be further developed to provide a theoretical framework to explain the obtainment of FDI. In what follows, I will argue that despite property rights economics having further developed the Coasean framework, it has not been able to develop further the three-stage process proposed by Coase (1960).

3.3 The property rights framework

Alchian (1965) defined property rights as “the rights of individuals to the use of resources…supported by the force of etiquette, social custom, ostracism, and formal legally enacted laws supported by the states, power of violence or punishment” (p.129). This definition leads to the distinction between legal property rights and economic property rights (Barzel, 1997). Economic rights have been defined as “the individual’s ability, in expected terms to consume the good (or the services of the asset) directly or to consume it indirectly through exchange”, while legal rights “are the means to achieve the ends” where the ends are the economic rights themselves (Barzel, 1997, p.3). The key focus of property rights economics is

on the multidimensional nature of ownership (Barzel, 1997; Coase, 1960; Kim and Mahoney, 2005).

An owner of a resource holds the rights to exercise choices over goods and services (use rights) and obtain income (value appropriation rights), but to also alienate the latter rights (transfer rights) (Alchian, 1965; Foss & Foss, 2005; Foss, Klein, Lien, Zellweger & Zenger, 2021). Thus, the economic rights actors have over assets shifts over time because their enforcement depends not only on the legal system – which is costly and contestable – and informal institutions but also on individual means. As put by Barzel (2015), "Suppose Congress grants me ownership over an accurately delineated chunk of the Pacific Ocean. This secures my legal rights, but what good are these rights without (costly) naval protection?" (p.719). In other words, one can be the firm's owner, but that does not mean he will be able to achieve his expected returns if he does not have effective control of its resources, namely, he knows who can influence his use, income and transfer rights. The unclear delineation of property rights is connected to the presence of transaction costs (Coase, 1960) that are defined as "the costs associated with the transfer, capture, and protection of rights" (Barzel, 1997, p.4). The fact that the legal owner might not entirely control rights over an asset means that the costs and benefits related to a decision over the rights of an asset will affect other actors (Milgrom and Roberts, 1992). These costs and benefits represent what Coase (1960) called externalities. Thus, the property rights perspective highlights the interdependencies between production activities that might lead to externalities among actors because property rights over assets are not fully secure or clearly delineated. Accordingly, actors will try to internalise externalities through a "…change in property rights, that enables these effects to bear in (greater degree) on all interacting parties" (Demsetz, 1967, p.348).

Despite the property rights perspective stressing the importance of effective control over rights as what determines how assets will be used, its focus on efficient internalisation of the

externality principle mainly obscures what actors do in the real world. In other words, property rights scholars keep assuming the price mechanisms in the background by proposing solutions to externality problems that do not account for the context in which these processes happen. In fact, despite property rights economics introducing information and transaction costs and the constraints of property rights, it does so within the "neoclassical belt" (Eggerston, 1990; Libecap, 1993). That means that, despite the constraints, actors can design efficient incentive structures. This is related to the assumption of rational utility maximising agents.

Simply put, the rules of the game (North, 1990) are conceived as constraining the activities of actors (unlike the neoclassical approach). However, they do not affect the formation of their preferences. These assumptions align with what I argued above concerning internalisation theory (Buckley and Casson, 1976; Coase, 1937).

I have already demonstrated how Coase (1960) has moved on from these assumptions, despite only proposing a general theoretical framework that requires a comparison of how different social arrangements would influence the allocation and use of factors of production. More recently, Coase (1988) proposed how this can be done. According to him, it is important to study "what forces were operative in bringing about this organisation of industry, and how these forces have been changing over time; what the effects would be of proposal to change, through legal action of various kinds, the forms of industrial organisation (1988a, p.9-58). This approach is very much in line with Coase's (2013) empirical work on why British broadcasting was organised as a monopoly. To answer the question, Coase (2013) takes a multi-level and multi-actor perspective that gives a complete account of the reasons and actors that played a vital role in the organisation of the industry. The study shows how the achievement of different social organisations must be understood by addressing the activities of actors and the influence that forces at different governance levels impose. This type of analysis clarifies the bargaining literature reviewed in Chapter 2 that was argued to need a proper theoretical structure to explain

the negotiation behind MNE foreign market entry process that was assumed to happen between the MNE and the host government.

The processual system view proposed by Coase (1960, 1988a) invites scholars to account for an analysis of the discovery, recombination and maintenance process of property rights by taking the perspectives of the various actors involved regarding the social organisations adopted (including the institutional system – especially the law) that would make up the system. Only in this way, one can implement a complete comparative perspective of the social organisations. In his 1950 study of the organisational process of British broadcasting, he took the perspectives of the multiple actors involved to inform the organisation of the industry. Accordingly, and by a careful reading of its empirical material (e.g., Coase, 2013; 1959; 1974), the perceptions of actors take a central role in the way the system's organisation comes about. In other words, Coase was interested in understanding the logic of arguments that would lead the actors in the system to, for instance, organise British broadcasting as a monopoly. "At the beginning of this chapter, I said that my aim was not to conclude whether a monopoly was desirable but to consider whether the arguments for a monopoly were so overwhelming as to make it inconceivable that any alternative arrangement could be better. I have shown that technical arguments are incorrect, the arguments on the grounds of finance unproven and those on grounds of efficiency inconclusive. But, of course, the really important argument has been that a monopoly was required in order that there should be a unified programme policy. This argument is powerful and on its assumptions, it is no doubt logical. Its main disadvantage is that to accept its assumptions it is necessary first to adopt a totalitarian philosophy or at any rate something verging on it" (Coase, 2013, p.191). This is how Coase (2013) illustrates the diversity of arguments brought by several actors in the system. It is clear how arguments in favour of a certain system organisation are socially constructed rather than constructed by markets. However, despite Coase (2013) asking "How is it that broadcasting in Great Britain

came to be organised on a monopoly basis?" (p.1), he did not account for the *why* question to create theoretical mechanisms behind the description of the multi-actor negotiation. In other words, despite his interest in accurate actors' perspectives, there should be general mechanisms that determine the outcome of the negotiations that led to the organisation of British broadcasting as a monopoly.

Given this lack of theoretical mechanisms, I will next move to the empirical section of the thesis and try to answer the two broad objectives of the thesis, which are *how*, in the bargaining process, FDI actors at different levels of analysis vie for effective control of property rights (i.e., rights to use, control and transfer assets) and *why* certain processes fail and other succeed. I will explore the process by studying attempted Chinese MNEs' entry into Italian ports. In particular, two of the four cases are attempts of entry into non-existing port terminals, whereas the other two are MNEs' attempted entry into already operating terminals. The context within which the cases unfold is that of the Belt and Road Initiative.

3.4 MNEs bargaining for port infrastructures within the Belt and Road context

Before moving to the cases, I will provide a tentative processual analysis by applying the above theoretical framework to the case of Italian ports to develop the argument further in this particular context before I assess (in the Discussion section) how the findings relate to other contexts. The case studies are instances of Chinese MNEs' entry into Italian ports. Even though I will devote a section in Chapter 4 regarding BRI, I will at this stage only say that in 2013 the Chinese government launched this developmental policy to improve, among others, the connectivity and infrastructure provisions among countries. I will accordingly ground my brief explanation in this section within this context. I will also address the functioning of the Italian port governance regarding FDI in the research context section below. It is sufficient to say that ports in Italy are owned by the central government and managed at the local level by port system authorities (PSAs). Terminal companies operate via concession contracts negotiated

with the PSA and manage the terminal through a series of contracts with customers (shipping companies) and service providers such as labour cooperatives.

Take the example of a PSA that seeks a private investor to develop and operate its terminals. The laws of the Italian port system offer the PSA several options on how to develop the infrastructure. Common across these options is that the PSA is given the mandate to negotiate with potential investors the allocation of property rights. Yet, while the PSA might find an investor for the project, it cannot conclude the negotiations alone. As the ultimate owner of the ports, the central government has to approve the allocation of property rights. In the case of the development of new infrastructure, this is required as part of the formal approval process. In the case of developing existing infrastructure, the central government can intervene through the 'Golden Power' rule. The 'Golden Power' rule allows the government to review any transportation-related investments and establish whether it considers them to be harmful or threatening "to the fundamental interests of Italy relating to the security and operation of networks and systems, to the continuity of supplies and the preservation of high-tech know-how" (Foscari, Graffi, Immordino, Seganfreddo, Storchi & Tosi, 2020). The government might be encouraged by competitors or shifts in the political landscape to employ its powers to stall an investment. Barzel (1997) argues that property rights over resources are unlikely to be ever fully delineated and stable. Instead, he argues, there is a constant need for actors to ensure that they capture and protect their rights appropriately as the institutional and competitive landscape evolves. The development or optimisation of a terminal might alter the distribution of rights to existing actors who will, in turn, try to protect better and capture their rights. Competing terminal operators in the same port or competing national and international ports might try to protect their existing use and income rights through lobbying against the new investor. Therefore, it is important for any potential investor and local actors to understand how the current distribution of rights within the host country and potentially beyond can influence an

investment project. Knowing the relevant actors and understanding their objectives and levers can inform the investor's steps to undertake to realise their investment (Beeson, 2018). This also includes understanding if and how actors at different governance levels aim to capture, protect, and distribute rights.

The ability of actors to protect and capture their rights is historically and institutionally contingent (Sened, 1997; Foss & Foss, 2015; Kim and Mahoney, 2005). In the instance of applying the "Golden Power Rule", the political environment might influence how this is applied. The competition between China and USA, and more recently also with Europe, has brought BRI and Chinese MNEs investment under intense scrutiny (Huotari, 2021). In the context of port infrastructure, the Italian government could be pressured by historical political obligations in the implementation of the rule. Further, at the national level, the central government might release a country-specific port policy for BRI investments that favours some specific ports over others. Unfavoured ports might seek to protect their rights of being allowed to negotiate with Chinese investors. BRI might represent a means for China to favour the internationalisation of its companies. However, its implementation has to be understood within the host country's political landscape; and its international geopolitical landscape, but this is beyond the scope of the current paper (Li, Van Assche, Li & Qian, 2021). IB scholars have used political ratings or the degree of political stability of the host country to represent the influence of the host country's political environment over foreign market entry (Delios & Henisz, 2003; Henisz & Zelner, 2010; Holburn & Zelner, 2010). However, the political and geopolitical dynamics behind the implementation of host and foreign policies, such as the BRI, in a host country remain unexplored.

CHAPTER 4

CONTEXT, RESEARCH DESIGN AND METHODS

4.1 The EU port governance

Before addressing the specific regulation of the Italian legislation regarding the access to port infrastructure, in this section, I will explain how the European Union port regulation has evolved over the years. As the case studies presented in chapters 5 and 6 have a longitudinal nature, it is essential to be able to take a longitudinal account of the EU, national and local laws to provide the necessary contextual details. Through the "Port Reform Toolkit"[5] The transport division of the World Bank has provided a classification of worldwide port governance models. The choice of governance system shapes the types of actors involved in port operations, which activities are kept in the private or public sphere and the choice of financing strategies, among others. Table 2 summarises the main models worldwide and the type of ownership for the different complementary assets that make up the port ecosystem.

Infrastructure represents the port berth where other movable and non-movable superstructures are installed to enable port operations. Port labour is often supplied to the port terminal as ebbs and flows condition trade. Other functions are usually directly (e.g.,) or indirectly (e.g., service to terminal users) related to terminal operations. The specific governance of different countries in the ownership and control of the infrastructure and the governance of the direct and indirect linkages that allow the operation of a terminal requires knowing the rules of the game that characterise each country. The context of this dissertation is Italy, and hence I will predominantly relate to the Landlord tradition – in its Italian declination. The port authority acts as a regulatory body and landlord in the Landlord Model. Private enterprises instead carry out port operations. According to the PPIAF, in the landlord port model*, "infrastructure is*

[5] Website: *http://www.ppiaf.org/sites/ppiaf.org/files/documents/toolkits/Portoolkit/Toolkit/index.html*.

leased to private operating companies or industries such as refineries, tank terminals, and chemical plants. The lease to be paid to the port authority is usually a fixed sum per square meter per year, typically indexed to some measure of inflation. The level of the lease amount is related to the initial preparation and construction costs (for example, land reclamation and quay wall construction). The private port operators provide and maintain their superstructure, including buildings (offices, sheds, warehouses, container freight stations, and workshops). They also purchase and install their equipment on the terminal grounds as their business requires. In landlord ports, dock labour is employed by private terminal operators, although in some ports part of the labour may be provided through a port wide labour pool system" (World Bank, 2007, p.83)

Table 2. Port Governance Systems

RESPONSIBILITIES	**SERVICE**	**TOOL**	**LANDLORD**	**PRIVATE**
INFRASTRUCTURE	PUBLIC	PUBLIC	PUBLIC	PRIVATE
SUPERSTRUCTURE	PUBLIC	PUBLIC	PRIVATE	PRIVATE
PORT LABOUR	PUBLIC	PRIVATE	PRIVATE	PRIVATE
OTHER FUNCTIONS	MAJORITY PUBLIC	MIXED	MIXED	MAJORITY PRIVATE
Country Examples	Ukraine and Israel	South Africa	France, Italy, Spain, Belgium, Germany, The Netherlands	New Zealand, Australia and the United Kingdom

Source: Author elaboration on World Bank Port Reform Tool Kit

Despite this classification, national-level rules make each system peculiar. For instance, the Italian port system presents features that characterise the "Latin Tradition" (Parola et al., 2012). This type of governance, which can also be found in France and Spain, gives the central

government more significant influence in the planning of port activities and the possibility for the PSAs to facilitate and coordinate logistic connections between the port and the hinterland (Parola et al., 2012).

4.2 General characteristics of the port concession

The World Bank (2007) highlights how the port concession is the instrument of asset allocation most commonly found within the Landlord tradition and defines the port concession as «*a contract in which a government transfers operating rights to private enterprise, which then engages in an activity contingent on government approval and subject to the terms of the contract. The contract may include the rehabilitation or construction of infrastructure by the concessionaire. These characteristics distinguish concessions from management contracts on one end of the reform spectrum and comprehensive port privatisation on the other*». Moreover, «*concessions, by permitting governments to retain ultimate ownership of the portland and responsibility for licensing port operations and construction activities, further enable governments to safeguard public interests. At the same time, they relieve governments of substantial operational risks and financial burdens*.[6] Taking the instance of an already existing terminal, choices about the commodity to be handled are usually made at this stage with the rules of the game related to the awarding process and concession contract (Pallis and Notteboom, 2008). Before entering the selection phase, port authorities might have a pre-qualification phase where the number of potential candidates is reduced by screening their experience and financial strengths (Notteboom et al., 2022). The entrant selection is usually

[6] In particular, the World Bank highlights that «*in concession agreements, governments are still widely involved in port management, mainly through public landlord port authorities. At the same time, the role of private enterprise in the sector will continue to grow (…). For landlord ports, public bodies will retain the ultimate ownership of assets (especially land). Still, they will transfer a major part of the financial and operational risks to the private sector. Governments will act mainly as regulators and land developers, while private firms will assume the responsibility for port operations. A concession is the main legal instrument used to achieve this realignment of public and private sector roles and responsibilities*».

based on technical and financial requirements, a marketing plan, operational and management detail, employment impact, and environmental and organisational plan.

The World Bank (2007) also highlights that port concessions can take two different forms: lease contracts where "*an operator enters into a long-term lease on the portland and usually is responsible for superstructure and equipment*."[7] (p.112), or as a concession contract where "*the operator covers investment costs and assumes all commercial risks".* Still, these two forms present common traits, namely a) both transfer specific rights to the contractor; b) they have a specific and defined length (10/50 years); c) they are delimited from a geographical standpoint; e) they directly or indirectly entail the transfer of operative and financial risk to the contractor.

To distinguish the concession contract from other instruments, the port literature has defined the concession contract as "*a grant by a government or port authority to a (private) operator for providing specific port services, such as terminal operations or nautical services (e.g. pilotage and towage)*" (Notteboom, Pallis, and Rodrigue, p.203) by also specifying that "*the key features of a private concession are that the basic terminal infrastructure remains in public ownership, whilst terminal operations are controlled by a separate entity which private companies at least partly own. The operator is given the right to use the public assets for a specific period and operates with a large degree of commercial freedom (defined in the initial contract). In many, but not all, cases, the operator also has the right (and often the obligation) to invest in terminal*". (Notteboom, 2006; p.437-455)

There are different types of concession depending upon whether the berth already exists or not (so-called "*greenfield*"). According to Notteboom (2006), the most employed are:

- *Build-Lease-Operate (BLO)*: The port authority "*leases the construction and*

[7] It distinguishes between two types of lease contracts: the *flat rate* or *shared revenue lease.*

operation of the whole port or part of it to a private company through a long-term concession. The private company constructs the terminals/berths/ other facilities. In turn, the port authority controls the rights throughout the concession period and receives a lease payment annually" (p.439);

- *Build-Operate-Transfer (BOT)*: The port authority "*grants a concession or a franchise to a private company to finance and build or modernise a specific port facility. The private company is entitled to operate the facilities and obtain revenue from specified operations or the full port for a designated period. The private sector takes all commercial risks during the concession. At the end of the concession period, the government retakes ownership of the improved assets. Arrangements between the government and the private operator are set out in a concession contract that may or may not include regulatory provisions"* (p.440);
- *Rehabilitate-Operate-Transfer (ROT)*: "*a concession to a private company to finance and rehabilitate or modernise a specific terminal or an entire port. This company is entitled to operate and obtain revenue from the rehabilitated port for a specific period. The private company takes all commercial risks, and at the end of the concession period, the government retakes ownership of the improved asset*" (p.440);
- *Build-Rehabilitate-Operate-Transfer (BROT)*: it entails the release of a "*concession to a private company to finance and rehabilitate or modernise a specific terminal or an entire port. This company is entitled to operate and obtain revenue from the rehabilitated port for a specific period. The private company takes all commercial risks, and at the end of the concession period, the government retakes ownership of the improved asset*" (p.440);
- *Build-Operate-Share-Transfer (BOST)*: it realises when "*a concession or a franchise to a private company to finance and build or modernise a specific port/terminal for*

a designated period. The revenue obtained from terminal operations is shared with a designated public authority throughout the concession period. The government/public authority should assure a specific quantity of throughput for revenue. The commercial risks are shared among the government and the concessionaire. At the end of the concession period, the government retakes ownership of the improved asset" (p.440).

Additionally to these instruments, one can also find public-private joint ventures where a where the port authority and the concessionaire build the infrastructure together.

4.3 The Italian port governance

"Gulfs and bays are subjected to the sovereignty of the State whose coasts are part of the Italian Republic" (Italian Naval Code), port areas are property of the State (n. 84/1994), and port system authorities (PSAs) are public bodies that must decide how to allocate these areas strategically. Therefore, foreign investors in Italian ports have to engage with and manoeuvre into a broader field of stakeholders beyond just the locality in which they seek to invest. They have to involve three levels of organisations: the national government, the responsible PSA, the port, and its local stakeholders in the investment project. These levels are intertwined, and they are engaged in supporting the local and national governments to achieve their socio-economic objectives.

At the national level, this refers to the Ministry of Infrastructure and Transportation (MIT), which establishes the overarching framework under which port system authorities operate and manage the ports under their supervision. The recent reform of the governance of the Italian port system (legislative decree 196/2016[8]) aimed at improving the competitiveness of the

[8] The legislative decree 169/2016 has substituted the law 84/1994.

system by considering the dynamics in the maritime industry and brought it in line with the European Union Regulation of 2013 (Regulation No 1315/2013) concerning the Trans-European Transport Network (TEN-T). While the transnational and European levels are not the focus of the current investigation, it is essential to point out that infrastructure developments in Italy and investment decisions in individual ports are embedded in a supra-national regulatory framework and policy objectives. It follows from this that the Ministry is entitled to engage in economic diplomacy with other countries and conclude, for example, a memorandum of understanding (MOU) with China concerning Italy's support of the Belt and Road Initiative (BRI).

Operations and services of ports are delegated from the Ministry to one of the 15 port system authorities (PSAs) that were established in 2016, reduced from previously 24 PSAs. PSAs compete against each other and have the power to authorise the usage of the port and award concessions for commercial and industrial activities to investors. The Port Regulatory Master Plan ("Piano Regolatore Portuale" (PRP)) defines investments and development opportunities, and, after the 2016 reform, the PRP is approved by the Region. It is subject to agreement firstly with the municipality and secondly with the MIT, whose decision is taken after the opinion expressed by the "conference of PSAs' presidents. The functions and practices covered by Italian PSAs are characteristic of the so-called "landlord" port governance model that attributes only planning and management duties to PSAs (World Bank, 2001).

Investors and PSAs have different options for an investment opportunity depending on whether the port area (e.g., a terminal) has been developed. If the site has not been developed yet, then either the PSA can promote the development of the new area to potential investors, or investors can propose to the port authority the building of a new berth and then start building the infrastructure. The investor can build the infrastructure through a public-private partnership (PPP) with the PSA. Suppose, instead, the terminal has already been constructed. The investor

might invest in a free terminal by stipulating a new concession agreement, or it can enter into an equity joint venture with the existing concessionaire. In the latter case, port authorities usually have to agree to the change despite the law (articles 2498 and 2504-bis of the Italian Civil Code) establishing *ex lege* the continuation of all preexisting legal relationships, including the concession relationship in ownership.

The difficulty for the central government to translate the content of the 2015 Strategic National Plan into law connotes the presence of strong local port communities interested in the port's activities. Figure 1 represents a stylised illustration of the main actors within the Italian port system. It highlights the different types of relationships (i.e., equity, contractual or informal relationships) that constitute the pot system. All actors are locally and nationally represented through their respective associations that lobby and assist their members in finding business opportunities during contractual negotiations. As the arrows in Figure 1 indicate, these actors have different relationships with terminal companies and PSAs. According to the investment stage, the various associations might or might not be present or be of a different nature. Ports often employ many workers, can enhance production and trade, attract foreign production, and promote broader economic development. These characteristics of ports often lead to public involvement in their construction, operations and management.

4.4 The container sector

The focus of the study is on infrastructure investments for container terminal operations. Ports handle different types of goods (e.g., dry bulk, liquid bulk, Ro-Ro) for which different kinds of infrastructures are needed. The relationships between terminal operators, shipping lines and ports – which denotes the interrelationship between the port and shipping industries - differ according to the different types of goods handled (UNCTAD, 2018). The container sub-sector has undergone the most significant changes in the last 20 years (Baccelli & Senn, 2014).

Starting in the late 1990s, the container shipping industry has gone through a process of mergers and acquisitions (M&A) and alliances which were necessary for improving the pace of the service for MNEs, a significant customer of container carriers, and to reach economies of scale (UNCTAD, 2018). Concentration was hampered by the 2008 financial crisis (UNCTAD, 2019). By 2018, the three main alliances (OCEAN Alliance, THE Alliance and 2M) moved 95% of the container flows between East Asia and Europe (UNCTAD, 2019). A last significant trend characterising the container shipping industry is that of vessel upsizing. To achieve economies of scale, ships went from carrying around 8,000 twenty-foot equivalent units (TEUs) in 2004 to almost 24,000 TEUs in the Ultra Large Container Ship (ULCS) class in 2020 (UNCTAD, 2019).

Taken together, these trends have strengthened the bargaining power of container carriers vis-à-vis container operators and seaports when negotiating ports of call (UNCTAD, 2018). In other words, carriers can increase the competition between ports and obtain more favourable tariffs. Moreover, vessel upsizing requires ports and terminal operators to alter their infrastructures (UNCTAD, 2018). Among others, excavation of seabeds, crane and berth upgrading and hinterland re-organisations are needed for seaports to accommodate ships up to the ULCS class. In order to accommodate these investments, container carriers have started to integrate container operations (Baccelli & Senn, 2014).

4.5 The Belt and Road Initiative and port infrastructure projects

The case studies presented in Chapters 5 and 6 are attempts of Chinese MNEs to enter Italian ports. The process of negotiations happened within an institutional context led by the development by the Chinese government of the so-called Belt and Road Initiative (BRI). The concept behind the BRI was first announced by the Chinese President Xi Jinping in 2013 under the labels “Silk Road Economic Belt” and the “21st Century Maritime Silk Road”, and

formalised in 2015. A core objective of the BRI is the development of transportation infrastructure within and between countries to support international economic cooperation and trade. Transportation infrastructure is vital to the world economy but faces an estimated annual investment shortfall of US$0.35-0.37 trillion (OECD, 2018). The BRI was partially created to address this gap. The BRI and China's 13th 'five-year' plan (2016-20) have encouraged Chinese port and terminal operators to invest overseas, which "seems to be strongly embedded within geo-economic and geopolitical policies of the Chinese government" (Notteboom & Yang, 2017: 198). These investments complement and support 38 bilateral and regional maritime trade agreements with 47 BRI countries (Office of the Leading Group for Promoting the Belt and Road Initiative, 2019).

Chinese investments in overseas ports started before BRI and shortly after the announcement of the 'go global' policy when Cosco Shipping Ports acquired in 2001 a majority share in the Port of Long Beach, USA (Chen et al., 2019; Voss et al., 2009). Since then, Chinese activities in overseas ports have grown significantly. Huo et al. (2019) recorded 39 Chinese investments in overseas ports across 26 countries between 2003 and 2017. Liu et al. (2020) stated that Chinese firms had been involved in constructing 62 ports and ownership and/or operation of 54 ports since 2000. The main actors are the central state-owned enterprises Cosco Shipping Ports and China Merchants Port, who own/operate 12 and 13 overseas ports, respectively (Huo et al., 2019), and the China Communication Construction Company, which has been involved in the construction of 30 overseas ports (Liu et al., 2020).

4.6 Research design

To analyse how the bargaining process involving Chinese MNEs entry unfolds and to assess the influence of BRI on the effort of the various actors of the nexus, I adopt a Comparative (multiple) Case Study (CCS) approach (Bartlett and Vavrus, 2017) with numerous embedded

units of analysis. The decisions are located at three different levels of analysis that correspond to the port, the port authority and the country level. Table 3 illustrates the scope of the three groups and the focus of our data collection for each of them. At the country level, actors can influence the distribution of rights by changing or maintaining institutions and policies. Within the port context, the central government might enact reforms to the port system by, for instance, forming a new approach for concessions. At the Port Authority Level, the various port authorities have to endorse the policy. Depending on the nature of the regulation, port authorities might be required to internalise the concession policy as demanded by the central government, or they might have space to adapt it to the necessity of the specific port authority. For instance, not all port authorities have strategic geographical positions within container routes, and hence their bargaining power vis-à-vis terminal MNEs might be below. Accordingly, port officials might require having flexible concession regulations that can accommodate the requests of MNEs to have their terminals functioning effectively. This process can lead to bargaining between the central government, port authorities, and other local agencies. Lastly, at the Port Level, the terminal that might potentially acquire an existing terminal company enters into negotiation with the current holder of the concession contract and with other stakeholders that would provide ancillary services for the functioning of the terminal. Accordingly, different contracts make up the governance structure at the Port Level. Levels are not impermeable silos. Actors at different governance levels might directly or indirectly influence what happens within lower or above levels. In fact, I compare vertically and horizontally (Bartlett and Vavrus, 2017) the units of analysis and their evolution within these three levels. A vertical comparison is a beneficial approach as this allows me to embrace the different levels of analysis in an interdependent manner and hence to account for MNEs' entry processes as determined by the activities of other actors at different governance levels. Horizontal comparison, instead, allows for comparing the various units across the selected

cases. The CCS approach is aligned with my interest in developing and extending theory via the use of the context within which the bargaining processes unfold (Plakoyiannaki et al., 2019).

I focus on the period 2010-2020, which includes the organisational overhaul of Italian ports in 2016, the launch of the BRI in 2015 and Italy's subsequent endorsement of the BRI in 2019 (via a memorandum of understanding (MoU) to support Chinese investment projects in Italy). The choice of the port sector and that of Italy are motivated by the fact that some Italian ports have been part of the commercial contained in the MoU and by the fact that I have been academically involved in the teaching of the subject of ports and logistics at an Italian University which has facilitated the understanding of the context and data access.

Table 3. Multi-level structure of Italian port governance

Policy/investment level	**Governance mechanism**	**Focus**	**Investment implications**	**Policy implications**
Country	Policies and institutional setup	Policy and country strategy concerning logistic nodes, compliance with EU regulation, and country-level economic diplomacy	Provides an overarching framework for investments in Italian ports	The ultimate owner of ports and arbiter
Port Authority	Policies and internal regulations	Planning, coordination, regulation, promotion, and control of port operations and services	Key central point for contract system	Primary governance entity of individual port
Port/investment:	Negotiated governance plan and contracts	Negotiation over the governance structure of the infrastructure investment	Agreement between local stakeholders and the investor	Localised operationalisation of governance

Source: Authors.

Case selection. As I was looking for revelatory cases, I purposefully selected four Chinese investments in Italian port container terminals located in four different regions and operating under various port authorities (Fletcher & Plakoyiannaki, 2011; Piekkari & Welch, 2011). The four cases represent almost the totality of Chinese investments or negotiations for investments in the Italian port container terminals.

I divided the 4 cases into two different chapters as they represent instances of developing non-existing infrastructures (Chapter 5) and cases of entry into existing operating terminals (Chapter 6). Within the former, the first case is that of the Venice Offshore Onshore Port System (VOOP) (the case of Venice) promoted by the Venice Port Authority. The VOOP is an off-shore container terminal platform intended to prevent the problem of sea-beds excavation within the Venice lagoon to host large container carriers. The platform would be connected to an on-shore container terminal via semi-automated small barges. The project started between 2009 and 2010 and was put on hold by the Italian Government in 2016. It was planned to be a Design-Build-Finance-Operate (DBFO) type of PPP with a total cost of €2.1 billion. The second case is that of the port of Taranto (the case of Taranto), where China Communication Construction Company (CCCC) put on hold the negotiation for building a new container terminal and a logistic area. In Chapter 6, I study the case of Cosco Shipping Ports and Qingdao Port International in the Port of Vado Ligure.[9] In 2016 (the case of Genoa) the two companies acquired 49% and 9.9%, respectively, of the equity that A.P. Moller-Maersk held in APM Terminals Vado Ligure S.p.A. The latter was a temporary company association created in 2009 for executing the project financing for the design and construction of the Vado Gateway – a container terminal. The last case is the negotiations between China Merchants Ports and CCCC,

[9] Before the 2016 Italian Port Reform, the port of Vado Ligure was under the jurisdiction of the Savona Port Authority. In 2016, the latter's jurisdiction was passed to the Genoa Port System Authority.

respectively, with Piattaforma Logistica Trieste S.r.l. to acquire a multipurpose terminal within the Port of Trieste (the case of Trieste). This case is an instance of failed Chinese entry. Figures 4 to 7 present a timeline of each case's key events and the main political changes within Italy.

Data collection and analysis. For the case studies, I rely on semi-structured interviews with officials from port authorities, ports, terminals, labour unions, investor groups and sector specialists. They are complemented by archival data such as contractual agreements, port regulations, and regional, national, and European policies (a total of 324 pages). I triangulated the data from these multiple sources to cope with it being collected retrospectively (Poole et al., 2000). Table 4 summarises the interviews I carried out. Interviews started in 2019 with Italian and international shipping and port consultants and Italian lawyers to better understand the shipping and port industry dynamics. At the end of 2019, I started interviewing various port actors within the three different cases. I conducted a total of 46 interviewees between September 2019 and March 2021 and identified and approached interviewees through convenience and snowball sampling.

I approached potential interviewees via email to introduce them to the project and share the participant information sheet. Once an interview was secured and scheduled, it was conducted in-person (16 interviews) or via Zoom video conferencing due to Covid-19 restrictions (30 interviews). Scholars have recently shown the effectiveness of videoconferencing, especially Zoom, for conducting interviews (Archibald, Ambagtsheer, Casey & Lawless, 2019). I recorded and transcribed all interviews ad verbatim. According to the University of Leeds research ethics guidelines, I anonymised transcripts and identifiers and deleted the original audio recordings.[10].

[10] The thesis project was approved (approval code: AREA 19-033 The University of Leeds Business) by the University of Leeds Environment and Social Sciences Joint Faculty Research Ethics Committee.

The analysis of a process study is based on events and temporal patterns (Langley, 1999). Accordingly, I first compiled the stories of the various investments which I discussed with the interviewees. Once the histories of the various cases were ready, I traced the main critical events at the three levels of analysis. I accordingly tried to understand how the multiple actors at the different levels of analysis could protect or capture property rights over asset attributes and how the implementation of the BRI policy affected the various efforts.

Table 4. Data sources

Port	Type of organisation	Level in the organisation	Length of interview	Type of interview
The Case of Venice	Port System Authority	Ex-official	1 hour 35 minutes	Videoconference
	Port System Authority	Ex-official (follow-up interview)	1 hour 17 minutes	In-person
	Port System Authority	Official	1 hour 12 minutes	In-person
	Port Terminal Company	Managing director	1 hour 45 minutes	Videoconference
	Port Terminal Company	Managing director (follow-up interview)	1 hour 12 minutes	Videoconference
	Port Terminal Company	Managing director	1 hour	Videoconference
	Forwarder	Chief executive officer	50 minutes	In-person
	Maritime Agent	Managing director	1 hour 5 minutes	In-person
	Maritime Agent	Managing director (follow-up interview)	1 hour 15 minutes	Videoconference
	Industrial association representative	Regional manager	45 minutes	In-person
	Industrial association representative	Regional Manager (follow-up interview)	1 hour 50 minutes	Videoconference
The Case of Genoa	Port System Authority	Official	1 hour 27 minutes	In-person
	Port System Authority	Ex-official	1 hour 3 minutes	Videoconference
	Port System Authority	Ex-official (follow-up interview)	1 hour 25 minutes	Videoconference

	Port Terminal Company	Managing director	45 minutes	In-person
	Port Terminal Company	Managing director (follow-up interview)	25 minutes	In-person
	Port Terminal Company	Managing director	1 hour 33 minutes	Videoconference
	Port Terminal Company	Managing director (follow-up interview)	1 hour 15 minutes	Videoconference
	Port Terminal Company	Managing director (second follow-up)	38 minutes	Videoconference
	Industrial association representative	Regional director	2 hour 15 minutes	In-person
	Labour association	Regional director	1 hour 45 minutes	Videoconference
	Labour association	Regional director (follow-up interview)	1 hour 23 minutes	Videoconference
	Labour association	Regional director (follow-up interview)	1 hour 04 minutes	Videoconference
The Case of Trieste 460	Port System Authority	Official	1 hour 45 minutes	Videoconference
	Port System Authority	Official (follow-up interview)	55 minutes	Videoconference
	Port System Authority	Official (second follow-up interview)	33 minutes	Videoconference
	Port System Authority	Official	1 hour 3 minutes	Videoconference
	Port System Authority	Official	45 minutes	Videoconference
	Port Terminal Company	President	55 minutes	In-person
	Port Terminal Company	President (follow-up interview)	1 hour 21 minutes	In-person

	Port Terminal Company	President (second follow-up interview)	23 minutes	In-person
The Case of Taranto 370	Port System Authority	Official	1 hour 45 minutes	Videoconference
	Port System Authority	Official (follow-up interview)	1 hour 35 minutes	Videoconference
	Port System Authority	Official (second follow-up interview)	1 hour 2 minutes	Videoconference
	Port Terminal Company	Managing director	53 minutes	Videoconference
	Labour association	Regional director	55 minutes	Videoconference
External Actors 890 7	Shipping and ports consulting company	Director	47 minutes	Videoconference
	Shipping and ports consulting company	Senior analyst	1 hour 35 minutes	Videoconference
	Shipping and ports consulting company	Senior analyst (follow-up interview)	1 hour 58 minutes	Videoconference
	Shipping and ports consulting company	Head of infrastructure	2 hour 5 minutes	In-person
	Shipping and ports consulting company	Head of infrastructure (follow-up interview)	1 hour 22 minutes	Videoconference
	Law company	Maritime lawyer	2 hour 10 minutes	In-person
	Law company	Maritime lawyer	36 minutes	In-person
	Port System Authority	Official	34 minutes	Videoconference
	Port System Authority	Head of infrastructure projects	1 hour 40 minutes	Videoconference
	National industrial representative	National President	2 hours 3 minutes	Videoconference

Source: Author.

CHAPTER 5

INITIATING A NEW PORT INFRASTRUCTURE PROJECT: THE CASE OF CCCC INVOLVEMENT IN THE VENICE ON-SHORE OFF-SHORE PLATFORM (VOOP) AND THE TARANTO PORT[11]

5.1 The Case of Venice

Project Initiation (2010 – 2013)

PSA Level. The Venice Onshore Offshore Platform (VOOP) was conceived and initiated by the Venice PSA around the end of 2009 and the beginning of 2010. Local agents saw the Port of Venice and its location in the North Adriatic Sea as strategic for entering goods from East Asia into the Central European market. In particular, the development of the VOOP could save five navigation days compared to Northern European ports (e.g., Antwerp and Rotterdam). The project was conceived to enable the Port of Venice to host large container carriers and compete with Northern European ports.

Finding a Private Investor (2014 – 2017)

PSA Level. The focus of the Venice PSA was on finding a private investor who would partially finance the new infrastructure. The central government would have financed the structure with a contribution of around €1 billion on the condition that a private investor would cover the remaining sum (Port of Venice, 2014). The Italian government endorsed the project and included it as a "to-be prioritised infrastructure" in the national economic policy document (Documento di Economia e Finanza) of 2013. At the end of 2014, the preliminary project was

[11] The present cases build upon cases employed in a recent publication: https://link.springer.com/article/10.1057/s42214-021-00122-9

approved by the Veneto region[12] and the Ministry of Environment. However, according to the then President of the Venice PSA:

> *"When at the end of 2014 I went to Singapore to understand whether Port Singapore Authority that was already operating in our port was interested in being the potential private promoter of the project financing, I was only assisted by the Ministry of Foreign Affairs and not by the Ministry of Infrastructure and Transportation. This clearly showed that the government was not interested in the project".* (Field Notes, August, 2020).

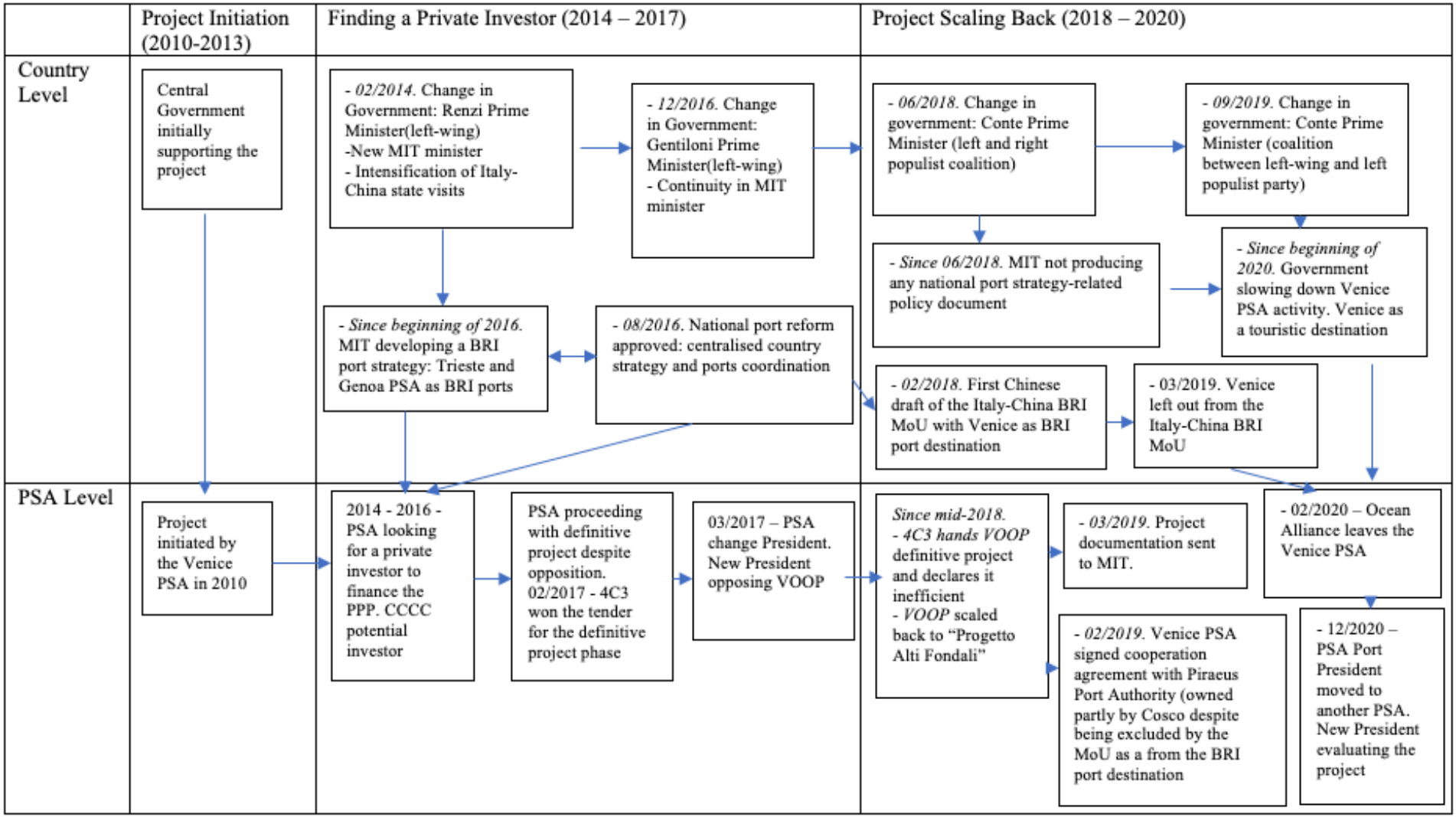
The de jure procedure for infrastructure projects requires the Ministry of Infrastructure and Transportation (MIT) to send the preliminary project within 180 days to the Italian Economic Planning Committee (CIPE) for final approval to start the definitive project phase before construction. Although the MIT was delaying the transmission of the project to CIPE, in May 2015, the then President of the Port of Venice, Paolo Costa, released an interview announcing that China Communication Construction Company (CCCC) – a Chinese SOE world leader in transportation infrastructure, dredging and heavy machinery manufacturing business – would finance the project (Quarati, 2015). According to an ex-official of the Venice PSA: *"They* [CCCC] *did not have any problem becoming the private part of the project financing. They told us that they had €60bn of investment worldwide and it would not have been a problem to finance the project"* (Field notes, October, 2020).

However, the problem for the Venice PSA was that of convincing the MIT about the importance of the project to proceed with the de jure passages to reach the final project phase. By August 2016, the preliminary project was still with the MIT, exceeding the typical evaluation period by 18 months. The Venice PSA sent an official request (parliamentary

[12] Venice is the flag town of the Veneto region.

interrogation – n. 3-03080) to the MIT to investigate why the threshold of 180 days the MIT had de jure before sending the preliminary project to CIPE was not observed. According to the interrogation, this practice increased the investment risk and prevented potential investors from participating in the PPP. Regardless of the MIT's inaction, the Venice PSA decided to carry on with the tender for the definitive project, which can still be put through even though the preliminary task was yet not approved by CIPE – essential to start the construction phase, however. The consortium 4C3, composed of two small Italian engineering firms and CCCC, won in September 2016 the bid for the execution of the definitive project and signed a contract worth €4 million in February 2017. In March 2017, however, the President of the Venice PSA changed, and the VOOP was opposed by the new President (Antico, 2017).

Figure 4. The Case of Venice



Source: Author

National Level. At the national level, the introduction of the VOOP was opposed by competing Italian ports and regional politicians. The Venice PSA was facing competition, in particular, from the Trieste PSA and the Friuli-Venezia Giulia region[13] located like the Venice PSA in the North Adriatic Sea and from the North Tyrrhenian port system. Trieste PSA and the regional and local government of the Friuli-Venezia Giulia region openly opposed VOOP. The then president of the Friuli-Venezia Giulia region, Debora Serracchiani, stated in an interview: *"I see it* [the VOOP] *not only as a pharaonic project but also very useless as far as the North Adriatic port dynamics are concerned"* (Wox news, citing Debora Serracchiani, October 2014). The leading industry association expressed the competition with the Tyrrhenian port system. An ex-official of the port of Venice told us: "*The Italian Port system was mainly born in the Liguria region and especially in Genoa. Key people in Rome are often from the area. They have a say in what happens, and they have been taking care of the sector since its inception. The North Adriatic cannot be ahead of Genoa*" (Field notes, August, 2020).

In December 2016, Gentiloni replaced Renzi as Prime Minister of Italy and became the fourth Prime Minister in the space of five years. Yet, the MIT minister remained in place. This led to continuity in the decision not to finance the VOOP and to create a BRI country strategy with Trieste and Genoa PSAs as BRI port investment destinations. Regarding BRI, the then MIT President Graziano Delrio declared: "*Our port of Genoa and Trieste are ready*" (Il Piccolo, citing Graziano Del Rio, March 2017). The BRI strategy was being developed within a broader national port governance reform (law decree, 169/2016) which entered into force in August 2016 and centralised the coordination of the PSAs' activities and fostered increasing Italy-China relationships (Fardella & Prodi, 2017). Despite the Chinese were signalling Venice as the arrival terminal of the BRI, the then MIT president highlighted how this was only a

[13] Trieste is the capital of the Friuli-Venezia Giulia region.

historical inheritance and that *"the Italian port system must be seen as one. The port reform had this aim: reunite all PSAs under a unique central direction"* (Ansa, 2017).

The case illustrates how the *de jure* rights[14] the PSA had over the development of the infrastructure did not represent the totality of rights to be protected. Italian competing ports were indeed able to oppose the project via political activity. At the same time, the MIT itself was using its power position demanded by the central government by not respecting the *de jure* infrastructure assets procedure. The Venice PSA was, in fact, spending resources by trying to protect its rights through the parliamentary interrogation besides those that the country had spent for the different phases of the project. The objective of the 2016 governance reform was precisely that of coordinating port activities by reducing, among others, the number of PSAs from 24 to 15 for better coordination.

The Venice PSA out of the Italy-China MoU (2018 – 2020)

PSA Level. Besides the opposition of the VOOP by the new President of the Venice PSA, in May 2018, 4C3 declared VOOP as inefficient due to weather conditions. In parallel, CCCC presented to the Venice PSA a preliminary project for the "Progetto Alti Fondali" – the project would bring the off-shore part just outside the lagune to avoid cargo disruption – which the new President requested. Besides, in November 2018, the Venice PSA drew an agreement with Cosco Shipping for a new container line connecting Venice to the Piraeus port and a commercial MoU with the Piraeus Port in February 2019 to strengthen the relations and cargo flows between the two ports. Although the documentation for the new project was sent to the MIT in the middle of 2019, the Venice PSA started having problems with the central government regarding the excavation of the port seabed. In fact, in January 2020, a direct line

[14] Before the 2016 national port governance reform, the de jure rights were contained by the law n.84/1994.

between Asia and Venice was cancelled[15] because of the port accessibility. A local politician of the Venice municipality pointed out that: “

> *the Partito Democratico[16] and the 5-Star Movement want to focus on the City, but in reality, they behave differently … A proactive government would help the local authorities to make the Venice industrial area and the port take off, instead every month, they the hinder the undertaking of activities required for us to compete* (Trevisan, 2020)

The central government excluded Venice as a final BRI destination. Still, they also had a clear industrial strategy to make Venice more active in tourism instead of industrial activities such as new container terminals. At the end of 2020, the President of the Venice PSA was moved to another PSA, and the new president is now evaluating what to do with "Progetto Alti Fondali".

National Level. From an interview with an ex-official of the Port of Venice, I was told that: *"when in February 2018 the Chinese sent the central government the first draft of the Italy-China MoU, the Chinese put Venice as one of the BRI port investment destinations"* (Field notes, August, 2020). However, the Italian central government was able to follow its strategy. In March 2019, only the Trieste and Genoa PSAs were included within the Italy-China MoU despite the effort at the PSA level to improve the commercial relations between the two countries. Figure 4 represents the unfolding of the events over time and at the various governance levels. The body of the case will explain how the multiple actors have tried to protect or capture their property rights over the potential investment.

[15] The Ocean Alliance – one of the three main container liner alliances of the maritime industry made by Cma Cgm, Cosco Shipping Lines, Evergreen Line e Oocl – had a constant liner service between Venice and Asia.

[16] In September 2019, the central government changed. The Partito Democratico replaced La Lega in the leading coalition with the 5-star movement.

5.2 The Case of Taranto

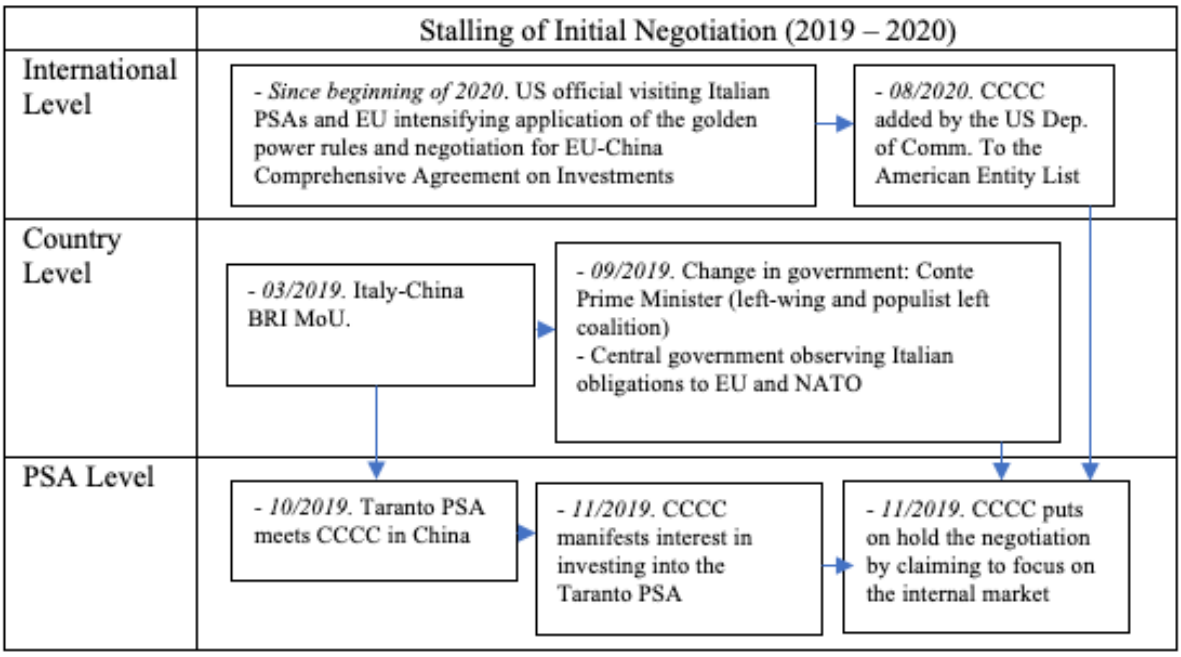
Stalling of Initial Negotiations (2019 – 2020)

PSA Level. CCCC's interest in realising a new container terminal and a logistic area within the Taranto port started in the middle of 2019. Unlike Genoa and Trieste, the Taranto PSA was not included in the BRI MoU that Italy and China signed in March 2019. Meetings between CCCC and the port started in China when Intesa Sanpaolo, an Italian bank, organised a mission in October 2019 to promote Italian Special Economic Zones to potential Chinese investors. According to a Taranto's PSA official: "*we both presented our organisations, and shortly after the mission, we received the manifestation of interest from CCCC*" (Field notes, September, 2020).

National Level. In November 2019, the Taranto PSA forwarded CCCC's expression of interest to the central government, where the Ministry of Foreign Affairs and International Cooperation had created a "control room" to manage relationships with foreign investors in the middle of 2017. The PSA met CCCC in Rome together with the Italian Prime Minister, the Ministry of Foreign Affairs and International Cooperation and the MIT. According to a Taranto PSA official: *"at the reunion in Rome, there were also industrial representatives and other public and private representative associations which favoured the exchange of opinions about the investment"* (Field Notes, September, 2020). CCCC had to prepare some propositions for the PSA and the Italian Government that highlighted the economic value of their proposed project to the country. An official from the Taranto PSA stressed that: *"we made clear to them since the beginning that we were not interested in building white elephants, but we were looking for someone interested in managing the infrastructure. CCCC could bring low value-added under this view"* (Field Notes, August, 2020). CCCC was having difficulties finding a partner interested in managing the infrastructure: *"Cosco and China Merchants could have been*

interesting partners, yet it seems they were not aligned in their intentions" (Taranto PSA port Official, Field Notes, September, 2020). According to an official of the Taranto PSA: *"In the last video call we had with them, we have been told that, although they have an interest in the port, they have decided to dedicate themselves to the internal market and to stop foreign investments"* (Field Notes, August, 2020).

Figure 5. The Case of Taranto



Source: Author

International and Geopolitical Level. My initial conceptualisation focused on a three-layered governance structure. Yet, the case of Trieste challenges this perspective and indicates how geopolitics plays a vital role by adding another governance layer to the bargaining that has to be managed by both the host country and the investor before an investment can take place. Divergent political and economic interests within Italy, within the EU and with key global partners (such as the USA) are also highlighted by an official of the Taranto PSA:

"*We know they elaborated a document, but it was never sent officially due to lockdown [Covid-19-related lockdown]. Yet, we also know the US has been a problem as CCCC was added at the end of August 2020* [Wed 26/08] *by the US Department of Commerce to the American Entity List. The Americans are paying a visit to the majority of Italian ports.*

The rights for the Taranto PSA and the potential investor to enter the port have been influenced by actors at the international level. As highlighted in the Trieste case, the change in government in September 2019 brought the Italian central government to observe its international obligations to the EU and NATO. Besides the US activity, the EU was speeding up the negotiation of the EU-China Comprehensive Agreement on Investment (an agreement was reached in December 2020) to give the EU a unique voice in negotiations with China. In line with the Case of Taranto, Figure 5 shows the unfolding of events for the Case of Taranto.

CHAPTER 6

BUYING INTO EXISTING CONCESSIONS: THE CASES OF CHINA MERCHANTS IN THE TRIESTE PORT AND OF COSCO SHIPPING PORTS AND QINGDAO PORT INTERNATIONAL IN THE GENOA PORT[17]

6.1 The Case of Trieste

Failed Negotiation (2017-2018)

The interest of China Merchants Holdings (CM) in acquiring the Piattaforma Logistica S.r.l. (PLT) – a local Italian company which was constructing a multipurpose terminal within the Trieste PSA – started in 2016 and materialised soon after with a manifestation of interest by CM. The negotiation started in 2017 and went on for two whole years until the end of 2018.

Port Level. When the negotiation between the CM and PLT started, PLT was still completing the terminal's construction. This aspect was the most critical for CM, which was worried about acquiring an asset that might never be completed. According to a PLT's senior manager: *"We found high professionality from CM, but at the same time they were worried by the fact that it was their first investment in Italy. There was a member of the team that worked for APM Terminals* [The Genoa Case] *who was convinced that infrastructure projects in Italy cannot be completed"* (Field notes, March, 2021). On one side, PLT was looking for an investor who would not only enter while the terminal was still under construction but which would also be interested in further developing the infrastructure after its completion. The terminal under construction was, in fact, the base for a further investment that the local owners and the Trieste

[17] The present cases build upon cases employed in a recent publication: https://link.springer.com/article/10.1057/s42214-021-00122-9

PSA were keen to develop. On the other, CM did not want to complete the acquisition until construction would be completed, and they were not willing to give assurances about further developing the infrastructure. By the end of 2018, PLT and CM were able to draw a term sheet.

PSA Level. The terminal's construction was governed by a PPP contract with the PSA, which states the various stages of the construction process and assigns specific rights of control to the various actors. However, particular attributes of the terminal might remain in the public domain and are captured by other actors within the port nexus who are interested in the terminal's attributes. CM's perception was that of the impossibility of safely controlling all the rights to the characteristics of the airport – in particular, the possibility of using the terminal at a specific date. Hence, although the PPP contract would legally protect the investor, CM's expectation of operating the asset was affected by the perception that the Italian political environment would influence the control over the terminal.

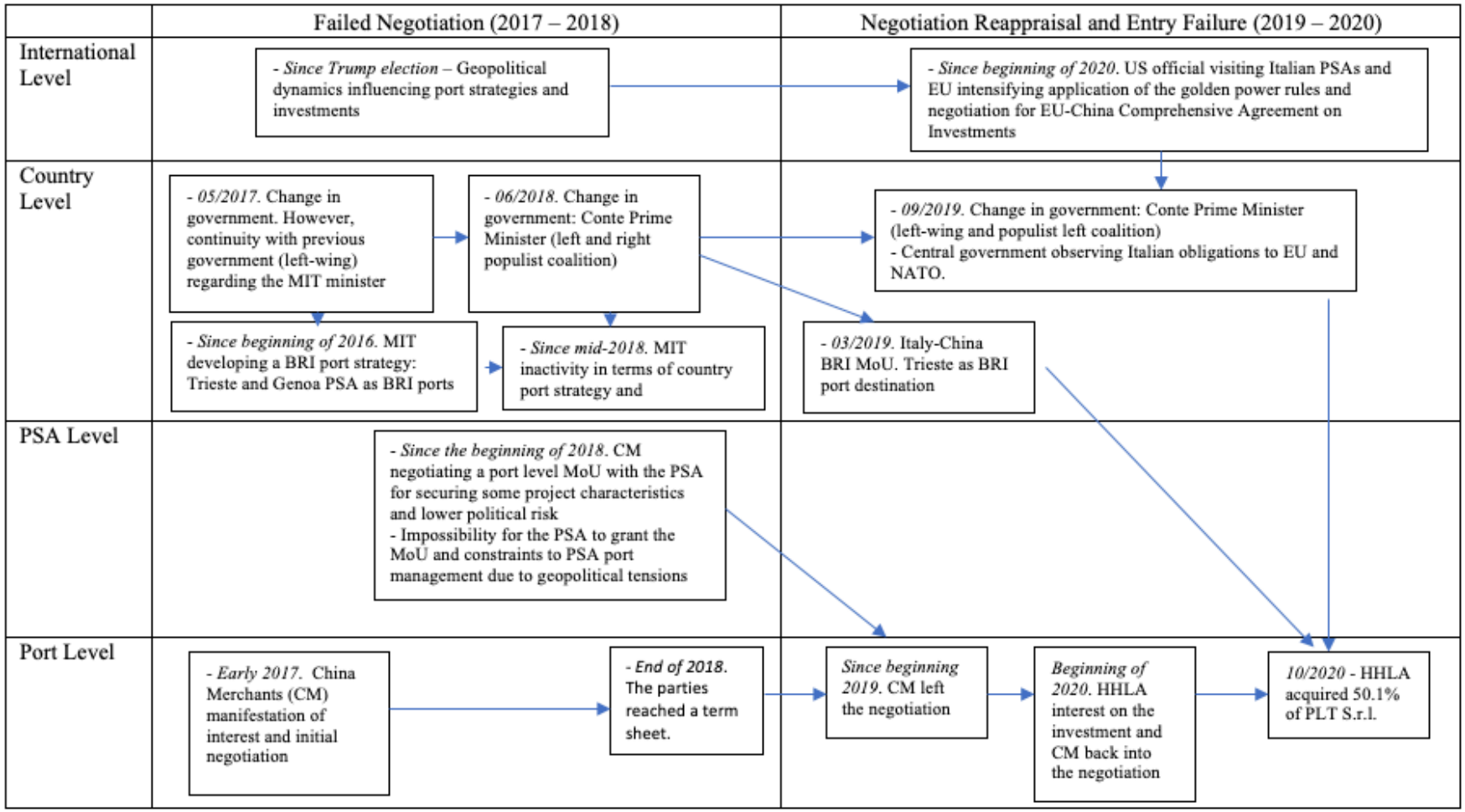
To manage better the economic rights over the infrastructure attributes (e.g., the possibility for CM to have a specific starting date for the terminal operations), CM did negotiate with the PSA about the possibility of bringing the investment under a memorandum of understanding. However, this was not possible for the PSA. On the contrary, the PSA's president involved the central government in the negotiation (i.e., the MIT and the Ministry of Foreign Affairs (MFA)). According to an official from the Trieste PSA:

> *"When they are required to abide by the rules, they might get cold. They believed that any informal agreement would be binding and that because in China, they are considered public entities, they should be treated as such when they invest abroad. We, however, use public tenders for any investor"* (Filed notes, August, 2020).

National Level

As mentioned in the Genoa case, the Italian central government chose Trieste and Genoa PSAs as the BRI investment location. Under the Gentiloni Government in early 2018, the first draft of the Italy and China MoU was drafted by China CCCC was the leading investor in the agreement for the proposed investments within the Genoa and Trieste PSAs. This further accounts for the arrival of CCCC at the port of Trieste and the potential stall of the negotiation between CM and PLT. In line with the above cases, Figure 6 shows the timeline of events for the Case of Trieste.

Figure 6. The Case of Trieste



Source: Author

International and Geopolitical Level. The international and geopolitical levels did play an essential role from the start of the negotiation. According to the PSAs' President: *"Since the election of Donald Trump and its anti-China movement, logistics started going hand in hand with geopolitics. When dealing with the Chinese, I have to pass from the central government"* (Field Notes, August 2020). Despite the PSA having *de jure* rights over the control of the PSA, the fact that the central government might block the investment for political reasons encouraged the PSA to involve the government in the negotiation. The PSA couldn't move with the freedom given the nature of the geopolitical environment, which in turn influenced the effort of CM in trying to capture and secure the rights over the infrastructure. The multi-level and multi-actor governance structure influenced these first two years of negotiations. The perceived risk of the Italian political environment prevented CM from being able to capture the rights to control the terminal.

Negotiation Reappraisal and Entry Failure (2019-2020)

Port Level. After the negotiation stalled in 2018, CM disappeared for the entire 2019.

The pre-agreement signed between PLT and CM expired in 2019, leading PLT to accept other manifestations of interests. PLT received that of Hamburger Hafen und Logistik AG (HHLA) – a German MNE specialising in container logistics. In 2020 China Merchants discovered the existence of the negotiations with HHLA. According to PLT's senior manager: *"we told them that the pre-agreement could not be considered valid and that conditions can now change as we have more interests in the infrastructure"* (Field Notes, February, 2021). Despite the counteroffer made by CM in September 2020, PLT chose HHLA as the investor. PLT justified the choice: *"CM has always had a pure business interest. Politics never played a role for CM over the negotiation. Politics came in later. Unfortunately, the fact that we had to get approval from the central government via the golden power rule played a role in choosing HHLA"* (Field

Notes, February, 2021). The Golden Power (special power) rule, issued by the European Parliament and the European Council and endorsed by EU countries, gives the Italian central government the possibility (special power) to veto the acquisition of strategic assets of national importance by foreign investors. Whereas before 2020, the rule could only be applied to extra EU companies, since 2020, the Italian government has adopted (law-decrete n.23 April, 2020) the European Commission's communication (26/03/2020) to extend the application of the rule to intra-EU FDI. However, according to PLT's President, unlike in the case of HHLA, the potential entrant of CM could have been blocked by the central government. In this phase of the negotiation, PLT's rights to transfer the asset and for CM to acquire it has been influenced by the fact that rights to the terminal's attributes – in this case, the geopolitical tension it would have provided had a Chinese investor acquired it – are controlled by the Italian central government.

National Level. In June 2018, the populist coalition of the *Five Star Movement* and *La Lega* came into power and led Italy to the signing in March 2019 of the Italy-China BRI MoU. According to the then Italian Prime Minister Giuseppe Conte, the MoU *"is purely an economic agreement that does not create any de jure obligation and perfectly aligns with the EU strategy"* (Buzzanca, 2019). However, when in October 2020, HHLA acquired 50,1% of PLT. In an interview with an Italian newspaper, the Ministry of Economic Development declared, *"Having the Chinese as investors could have brought some preoccupations and worried our American allies"* (Arnese and Whalsingham, 2020). In September 2019, the central government changed again, and the leading Italian centre-left party (Partito Democratico) replaced *La Lega* and formed a coalition with the *Five Star Movement.* This further change in the central government's lead brought Italy back into its EU and NATO obligations. On this issue, from an interview I had with an official from the port of Trieste more than one year after

the signing of the MoU, I was told that: *"the MoU is an empty document but critical in its meaning. The signing of the MoU is inserting an amount of politics into the port investments and has brought greater attention from US and EU regarding what we do"* (Field Notes, August 2020). The signing of the MoU that was intended to foster economic collaboration has had a negative effect on the capacity for PLT to conclude the deal with CM. It would have been difficult for the Italian government to unilaterally enforce the rights over its infrastructures (i.e., port terminals) utilising the Golden Power rule.

International and Geopolitical Level. The difficulty for the Italian government to unilaterally exercise its rights to decide which investors could acquire its infrastructure assets was influenced by its international obligations within the EU and NATO.

6.2 The Case of Genoa

Successful Negotiation (2016)

In parallel to the scaling back of the VOOP project, Cosco Shipping Ports and Qingdao Port International acquired 40% and 9.9%, respectively, of the APM Terminals Vado Ligure S.p.A. (APM) within the Vado Ligure Port[18] in October 2016. APM is the joint venture which has designed and is currently building the Vado Gateway container terminal. When Cosco and Qingdao partially acquired APM, the project was already under construction. Figure 7 shows the main events of the Case of Genoa.

PSA Level. Since the beginning of 2016, the Italian government has been implementing the national port reform and was reforming its port strategy, which entered into force in September

[18] The Port of Vado Ligure was allocated under the jurisdiction of the Genoa PSA during the 2016 reform. Previously it was managed and controlled by the Port of Savona.

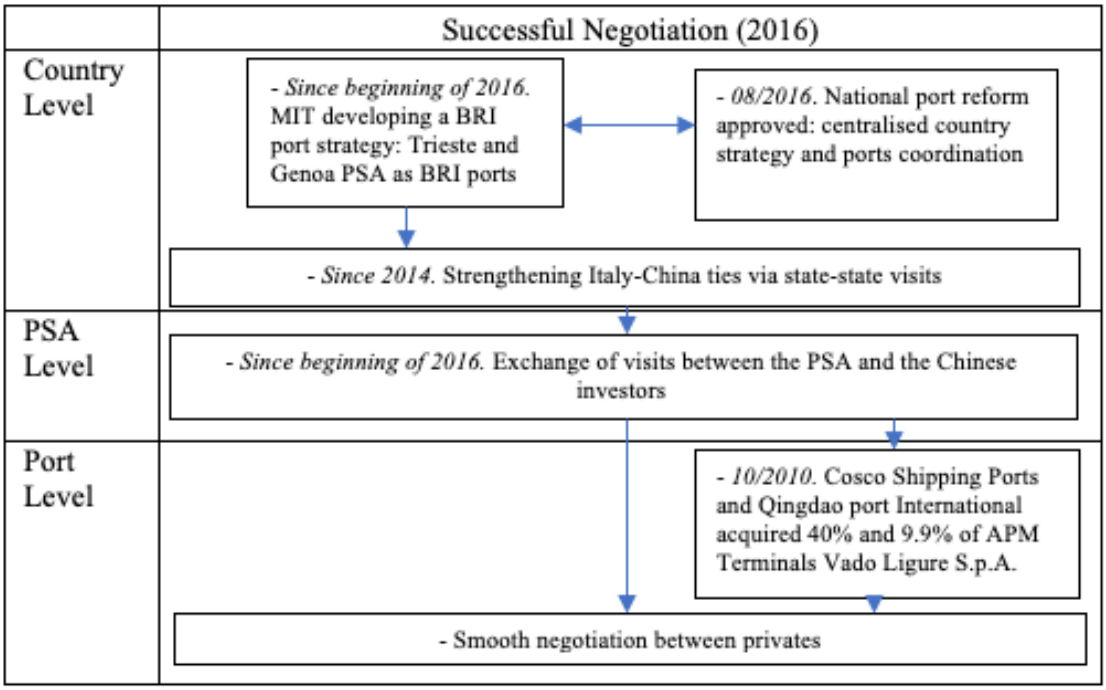
2016. Unlike other PSAs, which were unified immediately, Savona and Genoa were integrated in January 2017. When Cosco and Qingdao invested in 2016, they asked senior managers of the Savona PSA for reassurances that the port's administration would remain the same, denoting a particular concern with the political uncertainty in Italy. The Italian port rules require communication of a new shareholder arrangement for an existing concession holder to the PSA. The acquisition by Cosco and Qingdao was anticipated by a period of meetings between the private investors and the PSA. These talks started around the beginning of 2016, according to an ex-senior manager of Savona PSA:

> *"There was not really a negotiation with us. We went to China, and they came here several times. They were clear regarding their objectives. What they asked were assurances regarding the timeline of the project's construction. After what had happened in Naples[19] They wanted to be sure about the feasibility of the investment. They were worried about the "contamination" of the Italian politics" (ex-official of the Port of Savona Field notes, May, 2020).*

Meetings were held at Assoporti – an Italian Port representative association - in which the then President of the Savona PA had the opportunity to exchange opinions with other PSA's presidents regarding the strategic intent of the new investors. The project financing contract was the only contractual relationship between the Savona PSA and APM when Cosco and Qingdao acquired APM. One manager of the Genoa PSA pointed out that: *"the project financing contract related to the design and construction of the terminal was not altered when the two companies joined the project"* (Field notes, April, 2020).

[19] In 2000 Cosco Shipping Ports acquired in a JV with MSC 50% of Conateco S.p.A. - a local terminal container company. The JV agreed with the then Naples PSA to develop the terminal further. In 2015 Cosco left Naples, and to date, the terminal development is still ongoing.

Figure 7. The Case of Genoa



Source: Author

National Level. The smooth acquisition was accompanied by a political environment characterised by strengthening ties between China and Italy through state visits and a coordinated national port strategy that declared Genoa and Trieste the BRI investment locations. The BRI was not yet the primary focus of the central government. Prime Minister Renzi said in an interview with Chinese media in September 2016:

> *"I believe we have a lot of possibilities are we to follow the One Belt One Road Initiative, but in my mind, the priority is the decision reached by the Italian Government regarding the Port regulation: this is a great opportunity as Italy is a country bathed by the sea and the conclusion of the road between China and Europe could well be the Italian ports"* (il Sole 24 Ore, 2016).

CHAPTER 7

DISCUSSION AND CONCLUSION

I began the thesis by asking how actors at multiple levels of analysis attempt to capture and protect rights to assets in the process of MNE entry and why specific processes fail and others succeed. To answer this question, I brought together bargaining theory (Vernon, 1971) and property rights theory (Coase, 1960; Barzel, 1997). Unlike bargaining theory, which adopts a legalistic definition of ownership where the owner's rights over an asset are legally defined and perfectly enforced, the property rights perspective adds the concept of economic property rights to an asset attribute to that of legal rights. Rights to asset attributes are not perfectly defined and enforced and can be captured by the various actors of the port nexus. By building upon this theoretical framework, the thesis developed a bargaining processual perspective made up of the different capture and protection efforts of the various actors of the port nexus.

In particular, I show that for a BRI investment to occur, there has to be an alignment between the various actors of the nexus regarding the allocation of property rights. The case of Genoa represents the only successful entry for Chinese MNEs within the Italian port system since the BRI was launched. The entry was made possible thanks to the absence of rights captured by the actors of the port nexus during the bargaining process. At the port level, the existing terminal operator was able to smoothly transfer the rights of the current terminal company, whose main asset was the container terminal under construction. At the time of entry, the PPP contract between APM Terminals S.p.A., the Savona PSA and the MIT was unaltered, delineating a perceived ability by the investor and the other actors of the nexus to proceed smoothly with the construction of the infrastructure. The promotion activity of the PSA mitigated the initial perceived risk by the Chinese investor. The ability of the various parties to control the asset attributes was favoured by a country-level political environment that was aligned in terms of having the Genoa PSA as a BRI port investment destination.

As distinct from the Genoa case, the three other cases represent instances of failed negotiations. The case of Venice sheds light on the difficulty that the Venice PSA faced in developing a new infrastructure and for CCCC to become the investor. The rights of the Venice PSA to promote a new infrastructure were captured initially by the effort of competing ports and subsequently by the MIT country port governance and BRI country strategy, which declared the Trieste and Genoa PSAs as the main BRI ports. The effort by the Chinese government to influence the integration of the Venice PSA within the Italy-China MoU was resisted by the Italian central government, which seems to be reorienting the industrial strategy behind the activities of the Venice PSA. The cases of Trieste and Taranto shed light on an additional governance level – the international level – for which BRI investors and host country actors have to account. Initially, and in line with the case of Genoa, the bargaining dynamics of the case of Trieste highlight the difficulty for China Merchants in perceiving the ability to secure the various attributes of the infrastructure. However, after the signing of the BRI MoU, the difficulties for both PLT and China Merchants to successfully close the negotiation were represented by the capture activity of the central government through the implementation of the Golden Power rule. The return of Partito Democratico (left-wing) in the government coalition brought Italy closer to its NATO and EU obligations that were exercising power through US officials visiting Italian PSAs and the EU intensifying negotiations for the Comprehensive Agreement on Investments with China. Similarly, the case of Taranto highlights the influence of the country's political environment and the geopolitical environment, which influenced CCCC's decision to put on hold the negotiation for a potential new infrastructure. Table 4 compares the four cases and highlights the main critical events that have led to the negotiation outcomes.

Table 4. Case study comparison

	The Case of Venice	The Case of Genoa	The Case of Trieste	The case of Taranto
Type of investment	New PPP (Design-Build-Finance-Operate (DBFO) to build a new container terminal. The Venice PSA initiated it, which individuated CCCC as the potential private investor.	Potential entry into an existing PPP. Ongoing construction of a container terminal in the port of Vado Ligure followed by a 50-years concession contract upon project finalisation. (M&A)	Potential entry into an existing concession. Ongoing construction of a multipurpose terminal. (M&A)	Potential construction of a new container terminal or logistic area
Chinese investor	CCCC as a potential private investor for the PPP	Cosco Shipping Ports and Qingdao Port International	China Merchants Group and CCCC	CCCC
Negotiation time frame	2010 – 2020	2015 – 2016	2017 – 2020	2019 – 2020
Port Level	No data	Smooth transfer of rights between parties.	Private negotiation is influenced by investor perception of political risk over rights appropriation	No data
PSA Level	Negotiation between PSA and the Italian Central Government. PSA is seeking a private investor.	PSA helps in lowering perceived risk by Chinese investors via informal state visits.	PSA is unable to deal with Chinese investors directly.	Negotiation between PSA and Chinese MNE.
National Level	Competing national ports opposing the project; National port BRI strategy left Venice out of Italy-China BRI strategy and MoU; National political instability over the negotiation period.	Genoa declared by the central government as a final BRI destination; Stable political environment over the negotiation period.	Trieste declared by the central government as a final BRI destination; National political instability over the negotiation period; Inability of central government to freely enforce golden power rule over the investment; Italy-China MoU brought instability.	No change in central government over the negotiation period, but different government from the one which signed the Italy-China MoU in March 2019; Italy-China MoU indirectly influenced the negotiation.
International and Geopolitical Level	Geopolitics not yet influencing port investments.	Geopolitics not yet influencing port investments.	Geopolitics started influencing port investments – US officials visiting Italian ports; New FDI regulation (March 2019) by EU and acceleration of EU-China Comprehensive Agreement on Investments.	Geopolitics started influencing port investments – US officials visiting Italian ports and CCCC added by US dep. Of Commerce to the America Entity List; New FDI regulation (March 2019) by EU and acceleration of EU-China Comprehensive Agreement on Investments.

Outcome	Failed project approval by the Italian central government. Project stalling since the beginning of 2016. Venice port excluded from Italy-China BRI MoU.	Successful entry in October 2016. Cosco Shipping Ports and Qingdao Port International acquired 49% and 9.9%, respectively, of the equity that A.P. Moller-Maersk held in APM Terminals Vado Ligure S.p.A.	Failed entry. Hamburger Hafen und Logistik AG new investor.	Negotiation stalling after manifestation of interest since. CCCC communicated to the Taranto PSA the interest in temporarily focusing on the internal market.

Source: Authors.

7.1 Contributions to Theory

The first contribution is to the bargaining power theory. In particular, I developed a processual multi-actor and multi-level perspective that accounts for the different mechanisms of capture and protection of the various actors engaging in the bargaining process over MNE entry. Secondly, I contribute to internalisation theory (Buckley and Casson, 1976) by providing a preliminary attempt to insert it within a broader property rights and bargaining framework. Thirdly, I contribute to the emerging market multinationals (EMNEs) literature and the influence of the home country's institutional environment by responding to recent calls for more thick descriptions and grounded research on Chinese MNEs' internationalisation (Ramamurti &Hilleman, 2018). Scholars have looked at the role of home country policies on the pattern of EMNEs' internationalisation (e.g., Luo, Xue and Han, 2010). However, the case of the implementation of a home country policy in the host country and its influence on the foreign market entry activities of its MNEs was unexplored. Accordingly, I showed how in the case of Italy, the implementation of the BRI policy, and its culmination into an MoU, did not favour the entry of Chinese MNEs. Fourthly, I contribute to the institutional-based view in IB by showing how the difference between *de facto* and *de jure* property rights play an essential role in MNE entry. In particular, within the case of Venice, I showed how government officials might strategise around despite the laws being very clear in the timeline of infrastructure projects approval. Finally, I contribute to the larger BRI literature that, to date, takes a Chinese government and/or business-centric approach (Gong, 2018; Yu, 2017; Sutherland, Anderson, Bailey & Alon, 2020) by also investigating Chinese government objectives (Summers, 2016; Tekdal, 2018) and showing how the implementation of the BRI in the host country can be a trial-and-error process.

7.2 Limitations and future research

While I made an effort to explore and explain how actors bargain over the allocation of rights and why specific processes fail and others succeed, the study has limitations. First, caution is needed in making generalisations given the restriction of empirical data to four retrospective case examinations. The cases are of Chinese MNEs investing in Italian port infrastructures. The context of the BRI stresses a critical characteristic of Chinese FDI, namely that of the influence of the government and its policies. Although the current project showed that Chinese MNEs initiated the negotiations, and the home government came in later, access to firm-level data would be ideal for a better understanding of the home government's role. Firm-level data from MNEs would also be required to understand better why they capture or protect property rights in a specific manner and how different home country institutional environments would influence MNEs' entry processes. More generally, data access to other stakeholders is fundamental to developing further the process of discovery, combining and maintaining property rights during MNEs' foreign market entry. This would represent an important avenue for future research. In particular, more research is needed on the internalisation process of different but simultaneous market imperfections and on how MNEs from other host countries perceive them and, in turn, economise and strategise around them to achieve effective control over critical strategic objectives. Further research is needed on how economising and strategising happen within the institutional environment and how different actors' agentic responses unfold.

Second, even though the context of the Italian port system is distinctive, the results can be transferred to other contexts too. The systemic complementary nature of internalisation was already advanced by Casson (1995) in the manufacturing context. Casson (1995) developed a system view of international business by claiming that MNEs internalise one dyadic relationship that might be required to manage other indirect relationships. Recently, IB scholars

have also started to shed light on the distribution of rights and their interdependencies in digital ecosystems (Chen, Li, Wei, and Yang, 2022) by pointing out the need to enquire about the *de jure* vs *de facto* control of rights. The semi-public nature of ports and the specific governance nature of Landlord ports puts the accent on the role of governments as an essential agent in protecting and capturing rights. The dissertation showed how even public bodies could strategise around institutions by de facto controlling their enforcement. This is undoubtedly important for infrastructure investments but should be investigated for other contexts. Coase (1988a) argued that the economic system's working should be seen in conjunction with the political and legal system. In particular, more research is needed concerning the working of the institutional and legal systems. In Chapter 2, I pointed out how IB scholars evaluate the institutional quality and policy risks with static indexes. The dissertation shed light on the importance of paying attention to the dynamics of strategising around the law and how changes in the institutional environment influence the former. The importance of the institutional and political environment underlying the implementation of the BRI with MNE foreign entry should also be further studied in future research. The dissertation does not establish theoretical connections between the evolution of the geopolitical environment and BRI implementation through FDI in host countries. This provides an excellent future research agenda.

Lastly, in Chapter 3, I showed how the Coasean property rights framework criticised the adoption of a rational or boundedly rational conception of actors' rationality without providing any solution on how to cope with it. I have not provided a solution either. This is a crucial step to be done to develop further the discovery, combining and maintaining process of property rights. IB scholars have considered the influence of actors' embeddedness in institutional frameworks (Meyer, Mudambi and Narula, 2011). However, they have not enquired if institutions still influence actors' agentic activity or if they are entirely free from their embeddedness. Cardinale (2018) has proposed to start looking simultaneously at the "pre-

reflective" and "reflective" actors' engagement with institutions. The combination of the two allows scholars to consider at the same time the taken for grantedness effect of institutions on actors' agency and the rational response to them and observe how this combination orients actors toward specific paths. The formulation would be capable of combining theories that claim rationality or bounded rationality – in the latter, although actors are limited, for instance, by their capacity to calculate outcomes, they still can make accurate choices – with those that claim taken for grantedness and socialisation of outcomes. Cardinale (2018) builds on the concept of past and recent actors' social positions to inform choice. Although I have not been able to provide data on this issue, I had the chance to observe how part of the economising process is influenced by actors' past and present social positions during my data collection. In other words, not all managers in the internalisation process might perceive market imperfections in the same way and, in turn, internalise them equally. For instance, port managers claimed to use specific concession practices because other major ports had used them and used them on other occasions - despite different investments. At the same time, port managers were also trying to economise within these governance choices by adapting concession regulations and contracts to the specific current needs of the port authority. These institutional microfoundations should then be brought to a higher level of aggregation (e.g., the firm). This is very challenging, but, I believe, a very fruitful avenue for future research.

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