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Host Government Incentives and MNE Strategy for Market Entry: The Case of the CHIPS and Science Act and TSMC's U.S. Market Entry

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How do government incentives attract leading MNEs, and what strategies do these firms adopt to secure key resources for successful entry? The U.S. CHIPS and Science Act of 2022 aims to boost domestic semiconductor production, including through attracting foreign investment. Using TSMC's U.S. entry as a case study, we find that government incentives facilitated entry by lowering the liability of foreignness. However, the MNE's reliance on established management practices, rooted in technological superiority, created difficulties in meeting host-country expectations, particularly in securing skilled labor. This highlights the importance of combining host government incentives with MNEs' strategic flexibility for successful market entry.

INTRODUCTION

Liability of foreignness (LOF) is a foundational concept in IB, "all additional costs a firm operating in a market overseas incurs that a local firm would not incur" (Zaheer, 1995: 342), emphasizing MNEs' challenges of doing business abroad, compared to local firms. Their challenges involve sociopolitical, structural/relational, or institutional factors, such as spatial distance between a home and a host market, unfamiliarity with a host country, lack of networks in a host country, and discrimination/constraint by host-country actors. These challenges, in turn, affect MNEs' acceptance within a host country and access to key resources and knowledge in the local market (Eden & Miller, 2004; Zaheer, 2002). Recent research further develops the contingencies, such as how the liability of foreignness can be attenuated over time and even under which conditions foreignness may be a benefit instead of a liability. Scholars also propose that MNEs respond to challenges by leveraging firm-specific advantages (e.g., superior technology know-how, brand), imitating local firms, promoting innovation, and drawing on learning from previous foreign market experiences (Lu, Ma, & Xie, 2022).

Following this line of research, this study takes an institutionalism lens and explores how a host government's policy initiative can lower the liability of foreignness and how MNEs can leverage the new market opportunity and secure key resources. A recent U.S. industrial policy (CHIPS and Science Act, enacted on August 9, 2022) shows an interesting case of a host government's anticipatory efforts to attract leading MNEs. Through large-scale fiscal incentives (e.g., tax benefits and direct financing) and administrative support, the policy aims to strengthen the domes-

tic semiconductor industry, particularly by expanding chip production capacity. Specifically, we examine TSMC's (Taiwan Semiconductor Manufacturing Company, the world's leading semiconductor manufacturer) first investment in the United States by building the fabrication plant ("foundry") in Arizona under the CHIPS and Science Act. In particular, we focus on how the U.S. government's incentives facilitated TSMC's entry into the U.S. market and how TSMC's initial strategy of applying its established management practices to the U.S. context encountered unforeseen challenges in coordination with local contractors and workers.

Our findings from the case are twofold: First, a host government's institutional support through a new industrial policy significantly alleviates the liability of foreignness by granting legitimacy to TSMC as an appropriate and necessary foreign investor. Also, its various incentives, including direct financing and tax incentives, facilitated the firm's entry. Second, TSMC's initial reliance on its long-standing, trust-based contractor model (effective in Taiwan) faced unanticipated challenges in the U.S. context, particularly in securing skilled local labor. This highlights the complexities of transferring home-grown practices across institutional environments. In the TSMC case, a local labor union organized protests and legal action, and some workers transitioned to other construction projects, including competitors. Consequently, TSMC's production timeline has been delayed by over a year, leading to significant additional costs.

In the following sections, we outline the CHIPS and Science Act and examine TSMC's challenges in establishing operations in the U.S. Based on this analysis, we propose an alternative strategy for MNEs—balancing firm-specific

advantages with adaptation to local practices. Finally, we discuss the practical implications of this approach for both MNEs and policymakers.

CHIPS AND SCIENCE ACT: INSTITUTIONAL SUPPORT TO ATTRACT LEADING MNEs

Institutions play a critical role in economic activities by constraining or enabling opportunities. These institutions encompass cognitive, normative, and regulatory pillars (Scott, 1995). Cognitive institutions shape individuals' perceptions of their environment, influencing beliefs and cultural values. Normative institutions, including social norms and sanctions, define behaviors deemed legitimate. Finally, regulatory institutions, comprising formal rules, establish the boundaries for firms' economic actions (Suchman, 1995). In this regard, regulatory support for industry growth can open new opportunities for firms through financial incentives like tax cuts and subsidies and non-financial resources, such as workforce training and streamlined administrative processes. When the regulatory institutional support includes foreign firms, it reduces their liability of foreignness by lowering legal uncertainty for entering new markets, facilitating resource acquisition, and enhancing market positioning.

The CHIPS and Science Act, enacted on August 9, 2022, serves as an example of lowering regulatory barriers to MNEs' entry. This federal law was designed to support expanding the domestic semiconductor industry. The U.S. government committed \$52.7 billion in funding to strengthen the sector through direct financial support, debt financing, and tax incentives aimed at increasing the construction, expansion, and modernization of semiconductor manufacturing facilities domestically. Additionally, the act includes incentives for leading foreign companies in the manufacturing sector, such as TSMC (\$6.6 billion subsidy from the U.S. federal government and up to \$5 billion in low-cost U.S. government loans) and Samsung (\$4.74 billion subsidy), under the condition of building production sites for advanced chip manufacturing in the U.S. and sharing any excess profits with the U.S. government.

NEW OPPORTUNITIES FOR MNEs

The U.S. government's new industrial policy, the CHIPS and Science Act, facilitated an industry leader, TSMC, to make the first entry into the U.S. in two ways. First, to address foreign firms' difficulties in acquiring tacit knowledge and financing, U.S. government policy provides financial incentives (e.g., tax cuts and debt financing), access to affordable land, and administrative support. For example, in 2024, the U.S. government not only finalized the funding plan to support the construction and equipment installation of the most advanced chips in Arizona but also facilitated fast-track permitting for semiconductor facility construction and operation. This included exemptions from the federal environmental review process under the National Environmental Policy Act (NEPA), participation in the FAST-41

program to streamline federal reviews, and pre-approved compliance pathways. Also, the host government's adoption of standardized environmental questionnaires and activation of the Federal Permitting Improvement Steering Council (FPISC) helped streamline federal coordination and reduce administrative delays, thereby supporting a smoother start to operations in the U.S.

Second, the U.S. government's efforts to attract leading MNEs to build foundries help mitigate their liability of foreignness by enhancing their legitimacy in the host country. Legitimacy refers to "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995: 574). Prior research suggests that regulatory support is a particularly effective means of conferring legitimacy on foreign firms, given its codifiable and non-tacit nature (Kostova & Zaheer, 1999). The CHIPS and Science Act, which was passed as a bipartisan agreement, underscores the inclusion of leading manufacturers like TSMC and Samsung as essential for U.S. industrial growth. The host government's invitation and policy support for TSMC's first U.S. manufacturing site sends a clear signal to local stakeholders. It frames TSMC as a credible economic actor capable of contributing to national priorities such as economic security, supply chain resilience, and technological leadership—thus reinforcing its legitimacy in the U.S. market.

TSMC'S STRATEGIC RESPONSE BASED ON FIRM-SPECIFIC ASSETS

At the outset, TSMC's approach to entering the U.S. under the government's favorable support was to replicate its Taiwanese model in Arizona—relying on its proprietary technology and established management practices for managing skilled labor and contractors. However, this home-market model soon led to challenges in securing and managing the local workforce in two key ways: First, in a home country, TSMC plays the role of construction project manager, relying on long-term partners like Ace Dragon Group and Marketch International Corp. (MIC) for installation and electromechanical work. Such long-term partnership enabled the MNE to simplify the work process with limited formal documentation. Oftentimes, insiders say, "Construction drawings are more like sketches. These co-operating companies have worked with TSMC in Taiwan for so many years, they don't need to look at drawings to know how to make changes" (Huang, 2023). Although TSMC's management practices have been effective in accelerating the development and commercialization of advanced chips in its home country, replicating them in the U.S. created challenges. In particular, coordination with construction personnel proved difficult, as their expectations around documentation and workflow differed from TSMC's established approach. From media interviews and our interview with a TSMC leadership team, we learned that the U.S. workers perceived TSMC's work styles as less organized and unclear. They described "the main contractors didn't provide actual blueprints, just engineer draw-

ings. It felt like a design-as-we-go type of deal. We would get updates constantly and these were big updates to the point where we would have to start pulling things down” (Sainato, 2023). As miscommunications and inefficiencies accumulated, some U.S. workers transitioned to other local construction projects, reflecting broader challenges in workforce retention within the competitive U.S. semiconductor construction landscape.

Second, when TSMC decided to build a foundry in the U.S., a skilled workforce for facility manufacturing and installing the unique equipment for its cutting-edge chip foundry were insufficient in the local market. During the TSMC Q2 2023 earnings call, the Chairman stated, “Our fab in Arizona started construction in April 2021 with an aggressive schedule. We are now entering a critical phase of handling and installing the most advanced and dedicated equipment. However, we are encountering certain challenges as there is an insufficient amount of skilled workers with the specialized expertise required for equipment installation in a semiconductor-grade facility.” In response, TSMC announced plans to send a skilled workforce from Taiwan to the U.S. to help expedite construction. However, this plan immediately sparked a backlash from U.A. Local 469, Arizona’s leading labor union for pipefitters, plumbers, and welders. The union argued that TSMC’s explanation of delays placed disproportionate emphasis on U.S. workers and questioned the rationale for bringing in foreign labor (Huang, 2023). Also, the union filed a petition to block foreign-worker visas.

In sum, TSMC’s experience underscores the difficulties MNEs face when aligning deeply embedded home-market practices with distinct host-country institutional environments, despite its regulatory support. First, despite TSMC’s agreement to partner with local universities to train semiconductor technicians, the shortage of an immediately available workforce highlights a gap in supporting intermediary institutions (e.g., vocational pipelines, public-private training partnerships) needed to meet the unique demands of semiconductor manufacturing. In contrast to Taiwan’s tightly integrated ecosystem, where universities, suppliers, and government agencies co-evolve with firms like TSMC, the U.S. system lacks tailored training programs for semiconductor-specific installation work, particularly in non-traditional tech hubs like Arizona. Second, unlike the U.S. labor market, labor unions have historically played a more limited role in Taiwan, partly shaped by Taiwan’s export-oriented industrialization path. Although democratization and industrial development eventually supported the broader growth of unions, the semiconductor industry remains largely non-unionized due to its highly professionalized, engineer-driven structure and long working hours (Lee, 2006). Later, TSMC shifted toward greater adaptation by both sending Taiwanese workers to the U.S. and bringing U.S.-hired engineers to Taiwan for training to enhance mutual understanding (Liu, 2024). Despite these efforts, our interviews indicate that certain home-grown practices, such as an emphasis on urgency and informal coordination, may face adaptation challenges in the U.S. institutional setting. This reflects a broader challenge that MNEs often face

when adapting organizational practices across institutional environments. While TSMC’s partial adaptation through cross-border training and workforce blending would be a meaningful step, there may still be value in pursuing a more comprehensive and proactive alignment strategy moving forward.

CONCLUSIONS AND PRACTICAL INSIGHTS

Our work contributes to the literature on the liability of foreignness (LOF) by illustrating how host government regulatory incentives can help mitigate MNEs’ challenges. Our findings underscore the critical role of institutional support in attracting global strategic investments. However, while such support can reduce barriers to entry, it does not automatically guarantee smooth local integration or operational success. TSMC’s experience illustrates MNEs’ challenges in aligning established practices with differing institutional environments. This offers a novel angle to the literature by suggesting that the joint effect of institutional support and firm-level strategic responses shapes the reduction of LOF.

This paper also offers several practical implications for both MNEs—particularly those holding leading positions in the global market—and policymakers (see [Figure 1](#)). First, leading MNEs with superior assets (e.g., technology, human capital, brand) may be tempted to replicate the same practices in a host country, particularly when a host government favors the MNEs’ entry. However, our study shows that firm-specific advantages alone may not be sufficient to address the challenges foreign firms encounter. Instead, MNEs need to choose a deliberate strategy by balancing leveraging their specific assets/practices and adapting to a local market. As illustrated in our case study, TSMC later attempted to shift toward adaptation by sending Taiwanese staff to the U.S. and bringing locally hired workers to Taiwan for training. This suggests that adaptation is a time-consuming process that requires sustained commitment and endurance from the MNE when entering a new market.

Second, policymakers in host countries should be aware that the success of industrial policy—particularly in attracting investment from leading MNEs—depends on both formal incentives and the firms’ ability and willingness to adapt to local conditions. This implies two things: (1) When selecting recipients, policymakers should evaluate the firms’ potential economic contributions not solely based on their existing technologies or operations but also on fit with the host environment and flexibility to adapt. (2) Policymakers need to consider more precise, actionable guidance to help bridge the gap between MNEs’ home-based practices and host country expectations. For instance, while the U.S. Department of Commerce has emphasized the importance of building “talent pipelines” (i.e., the development, attraction, and retention of a skilled local workforce) and contributing to community investment as conditions for CHIPS Act funding, more specific guidelines could be provided upfront. This may include clearer expectations around local integration, coordination with federal and local governments, engagement with labor unions, and

broad stakeholder alignment to ensure MNEs can meet policy objectives.

With the recent rise of industrial policies aimed at attracting foreign investment—such as the European Chips Act and Japan’s Action Plan for Attracting Human and Financial Resources from Overseas—our discussion offers timely and relevant insights for both MNEs and policymakers. Our findings highlight the importance of an adaptive approach by MNEs when entering foreign markets under host government support while suggesting caution in relying exclusively on firm-specific assets and home-market business practices. At the same time, policymakers should adopt a more comprehensive approach to executing industrial policies toward foreign firms, complementing regulatory incentives with broader efforts to support MNEs’ strategic alignment and long-term adaptability.

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Figure 1. Recommendations for MNEs’ Market Entry by Navigating Host Government Incentives

1. Evaluate the scope and the conditions of a host government’s incentives (e.g., land grants, direct financing, tax incentives)

2. Assess the availability and alignment of key local resources (e.g., skilled labor, facilities, supply chains)
3. Develop a deliberate strategy to secure key resources
 - Option 1: Leverage home-country resources and existing management practices (e.g., relocating skilled workers, replicating proven processes)
 - Pros: Operational continuity, technical alignment
 - Cons: May face integration challenges with local institutions or norms
 - Option 2: Invest in local capacity while adapting to host-country contexts
 - Pros: Builds support from local stakeholders
 - Cons: May require longer time and up-front investment

→ Our recommendation: For MNEs with strong global positions, host government incentives present meaningful entry opportunities. A balanced approach—leveraging firm-specific strengths while engaging with local systems—can support sustainable integration and long-term success.

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