

**2018 SMARTER Conference on
Smart Specialisation and Territorial Development
Implementation across Global Networks of Regions, Cities and Firms
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**Globalisation through FDI
and regional development policy
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THE LONDON SCHOOL
OF ECONOMICS AND
POLITICAL SCIENCE ■

“Investment policymaking is getting more complex, more divergent and more uncertain.” (UNCTAD, 2017, xi)

What this talk is about

- Unintended negative effect of transformations in the worldwide division of labour brought about by globalisation and technological change: uneven spatial distribution of wealth and rising within-country inequality
- Regional connectivity (here proxied by FDI) still underestimated, suffering from a nation-bias and 'reverse mercantilism' in theory and policy: relationship between spatial inequality and changes in regional structural advantages not fully understood
- 3 European case-studies to discuss some guiding principles for a place-sensitive regional policy eager to integrate connectivity in pursuing local economic development and territorial equity

see lammarino, 2018, *Journal of International Business Policy*, forthcoming

A changed context

- FDI stocks as a % of world's GDP from around 10% in 1990 to around 35% in 2016
- About 2/3 of world FDI stocks now in service industries
- FDI shifts from capital- to technology-intensive manufacturing and knowledge-intensive services, from production activities to R&D, from sectoral to functional specialisation
- MNEs more than 100,000, and affiliates close to 1 million (Javidan & Bowen, 2013): exponential growth in the number fed by SMEs
- Geography of world FDI recipients and investors hugely widened: share of developing and emerging economies over 50% of world total inflows and 40% of outflows in 2014
- But most value creation networks (GPNs, GVAs) primarily across groups of neighbouring economic systems: EU as the largest source and destination of FDI stocks in the world, overall detaining a position of net investor

Literature on the geography of connectivity

- Simultaneous geographical concentration and dispersion of production and innovation activities: partially eased spatial stickiness across national borders, but stronger agglomeration economies within countries (e.g. Ernst & Kim, 2002)
- Vast literature on agglomeration economies and spillover mechanisms largely unconcerned with connectivity through FDI. Dynamics of local specialisation – and change in comparative advantages – rest also on the establishment of extra-local linkages (e.g. Boschma & Iammarino, 2009)
- Influence of ‘cluster-of-origin’ far more important than that of ‘country-of-origin’ in explaining firms’ investment location choices (e.g. Li & Bathelt, 2017; Turkina & Van Assche, 2018)
- Global cities and city-regions, displaying particular combinations of economic and social openness allied with key hard and soft infrastructures and monopoly powers, act as key nodes (e.g. Sassen, 2001, 2009; Taylor, 2004; McCann & Acs, 2010; Guy & Iammarino, 2018)
- Within the same countries, other cities, regions and industrial clusters face tougher international competition and lower (and historically decreasing) nation-state protection: many relatively routinized activities in both manufacturing and services industries either obsolete or fled, destroying jobs and contributing to localised job polarisation (e.g. Driffield et al., 2009; Elia et al., 2009; Gagliardi et al., 2015)
- Places discriminated on the basis of *international interdependencies*: connectivity as one of the most important differentiators of growth trajectories (Scott & Storper, 2003)

Connectivity through FDI: top 6 UK cities by population + capitals of Scotland and Wales

London: 1729 cities
The other 7 UK cities
combined: 555 cities

THE GEOGRAPHY OF UK CITIES CONNECTIVITY THROUGH FDI						
CITY	# OF CONNECTIONS	BY MACRO AREA	TOTAL CAPEX FROM THE UK - OUTWARD FDI	BY MACRO-AREA	TOTAL CAPEX IN THE UK - INWARD FDI	BY MACRO-AREA
London	1729 # of single connections in & out	Africa: 102 Asia & Pacific: 320 Latin America & Caribbean: 79 Middle East: 39 North America: 561 Rest Europe: 71 EU28 & EFTA: 557	438,091.2 millions of US 2005 dollars	Africa: 60,516.4 Asia & Pacific: 170,924 Latin America & Caribbean: 45,424.4 Middle East: 17,116.5 North America: 54,556.5 Rest Europe: 19,968.5 EU28 & EFTA: 69,585	98,757.4 millions of US 2005 dollars	Africa: 659.7 Asia & Pacific: 33,610.6 Latin America & Caribbean: 907.6 Middle East: 6,978.9 North America: 32,998.2 Rest Europe: 1,792.1 EU28 & EFTA: 22,186.2
Manchester	218 # of single connections in & out	Africa: 3 Asia & Pacific: 30 Latin America & Caribbean: 4 Middle East: 4 North America: 82 Rest Europe: 7 EU28 & EFTA: 88	3,893.6 millions of US 2005 dollars	Africa: 12.6 Asia & Pacific: 537.7 Latin America & Caribbean: 68.3 Middle East: 82.4 North America: 263 Rest Europe: 725 EU28 & EFTA: 2,204.6	6,175.6 millions of US 2005 dollars	Africa: 52.7 Asia & Pacific: 407.5 Latin America & Caribbean: 0 Middle East: 308.2 North America: 1,763.6 Rest Europe: 55.7 EU28 & EFTA: 3,587.9
Edinburgh	188 # of single connections in & out	Africa: 1 Asia & Pacific: 31 Latin America & Caribbean: 1 Middle East: 4 North America: 62 Rest Europe: 2 EU28 & EFTA: 87	14,010 millions of US 2005 dollars	Africa: 282.3 Asia & Pacific: 9,883 Latin America & Caribbean: 33.7 Middle East: 636.2 North America: 957.9 Rest Europe: 21.8 EU28 & EFTA: 2,195.86	4,802.2 millions of US 2005 dollars	Africa: 1.9 Asia & Pacific: 1,159.34 Latin America & Caribbean: 0 Middle East: 201.9 North America: 937.6 Rest Europe: 1.9 EU28 & EFTA: 2,499.5
Glasgow	171 # of single connections in & out	Africa: 9 Asia & Pacific: 28 Latin America & Caribbean: 5 Middle East: 5 North America: 75 Rest Europe: 2 EU28 & EFTA: 47	3,244.3 millions of US 2005 dollars	Africa: 837.1 Asia & Pacific: 638.3 Latin America & Caribbean: 24.9 Middle East: 188.6 North America: 1,280.1 Rest Europe: 4.7 EU28 & EFTA: 270.5	4,296.9 millions of US 2005 dollars	Africa: 4.3 Asia & Pacific: 301.2 Latin America & Caribbean: 274.2 Middle East: 172.9 North America: 1,434.8 Rest Europe: 0 EU28 & EFTA: 2,109.5
Birmingham	155 # of single connections in & out	Africa: 2 Asia & Pacific: 34 Latin America & Caribbean: 2 Middle East: 7 North America: 55 Rest Europe: 3 EU28 & EFTA: 52	1,188.9 millions of US 2005 dollars	Africa: 26.1 Asia & Pacific: 396 Latin America & Caribbean: 17.3 Middle East: 72.9 North America: 110.7 Rest Europe: 237 EU28 & EFTA: 328.8	6,821.7 millions of US 2005 dollars	Africa: 0 Asia & Pacific: 1,422.8 Latin America & Caribbean: 10.9 Middle East: 478.4 North America: 2,824.9 Rest Europe: 0 EU28 & EFTA: 2,084.7
Liverpool	84 # of single connections in & out	Africa: 0 Asia & Pacific: 16 Latin America & Caribbean: 1 Middle East: 1 North America: 28 Rest Europe: 0 EU28 & EFTA: 38	588 millions of US 2005 dollars	Africa: 5.24* Asia & Pacific: 251.3 Latin America & Caribbean: 0 Middle East: 4.9 North America: 113 Rest Europe: 3.2 EU28 & EFTA: 210.3	4,822.2 millions of US 2005 dollars	Africa: 0 Asia & Pacific: 1,858.5 Latin America & Caribbean: 11.9 Middle East: 58 North America: 797.5 Rest Europe: 0 EU28 & EFTA: 1,556.3
Newcastle	83 # of single connections in & out	Africa: 3 Asia & Pacific: 12 Latin America & Caribbean: 1 Middle East: 1 North America: 27 Rest Europe: 2 EU28 & EFTA: 31	1,570.5 millions of US 2005 dollars	Africa: 24.5 Asia & Pacific: 241.2 Latin America & Caribbean: 334.4 Middle East: 29 North America: 185.8 Rest Europe: 16.4 EU28 & EFTA: 739.5	2,083.8 millions of US 2005 dollars	Africa: 0 Asia & Pacific: 727.6 Latin America & Caribbean: 8.4 Middle East: 21.3 North America: 736 Rest Europe: 36.6 EU28 & EFTA: 554
Cardiff	68 # of single connections in & out	Africa: 2 Asia & Pacific: 12 Latin America & Caribbean: 0 Middle East: 2 North America: 26 Rest Europe: 1 EU28 & EFTA: 25	1,525.73 millions of US 2005 dollars	Africa: 7.9 Asia & Pacific: 237.3 Latin America & Caribbean: 659.8 Middle East: 4.9 North America: 48.6 Rest Europe: 0 EU28 & EFTA: 567.2	1,637.6 millions of US 2005 dollars	Africa: 6.4 Asia & Pacific: 53.8 Latin America & Caribbean: 0 Middle East: 58 North America: 523.4 Rest Europe: 11.3 EU28 & EFTA: 984.8

The seven cities combined (excluding London) have 550 unique connections
*cities not specified

Source: Crescenzi, Comotti, Iammarino, Tagliabue (2019), A Network Analysis of City Connectivity – Weighted k-shell decomposition of Foreign Direct Investments.

Literature on policy for connectivity

- Relatively small body of research on the role of policy in attracting IFDI (e.g. Brewer, 1993; Oman, 2000; Lowendahl, 2001; Ng & Tuan, 2001) or in promoting 'multinationalisation' of domestic firms through OFDI (e.g. Child & Rodrigues, 2005; Luo et al., 2010; Bannò et al., 2014, 2015)
- Rationale for IFDI policy: 2 main types of market failure: 1. information and coordination asymmetries resulting in insufficient FDI; 2. divergence between MNE private interests and host economies' socio-economic returns (e.g. Brewer, 1993; Lall, 2000; Taylor, 2000; Blomström & Kokko, 2003; De Propris & Driffield, 2006; Bartels & de Crombrughe, 2009)
- Rationale for OFDI policy: gains at the individual firm level (e.g. efficiency, scale and scope of operation, knowledge transfer, R&D) may not compensate for aggregate loss of value added resulting from the offshoring, adversely affecting balance of payments and exports, domestic employment and skills (e.g. Mariotti et al., 2003; Crinò, 2009; Rasiah et al., 2010; Becker et al., 2013; Gagliardi et al., 2015; Castellani & Pieri, 2016)

Trends in policy for connectivity

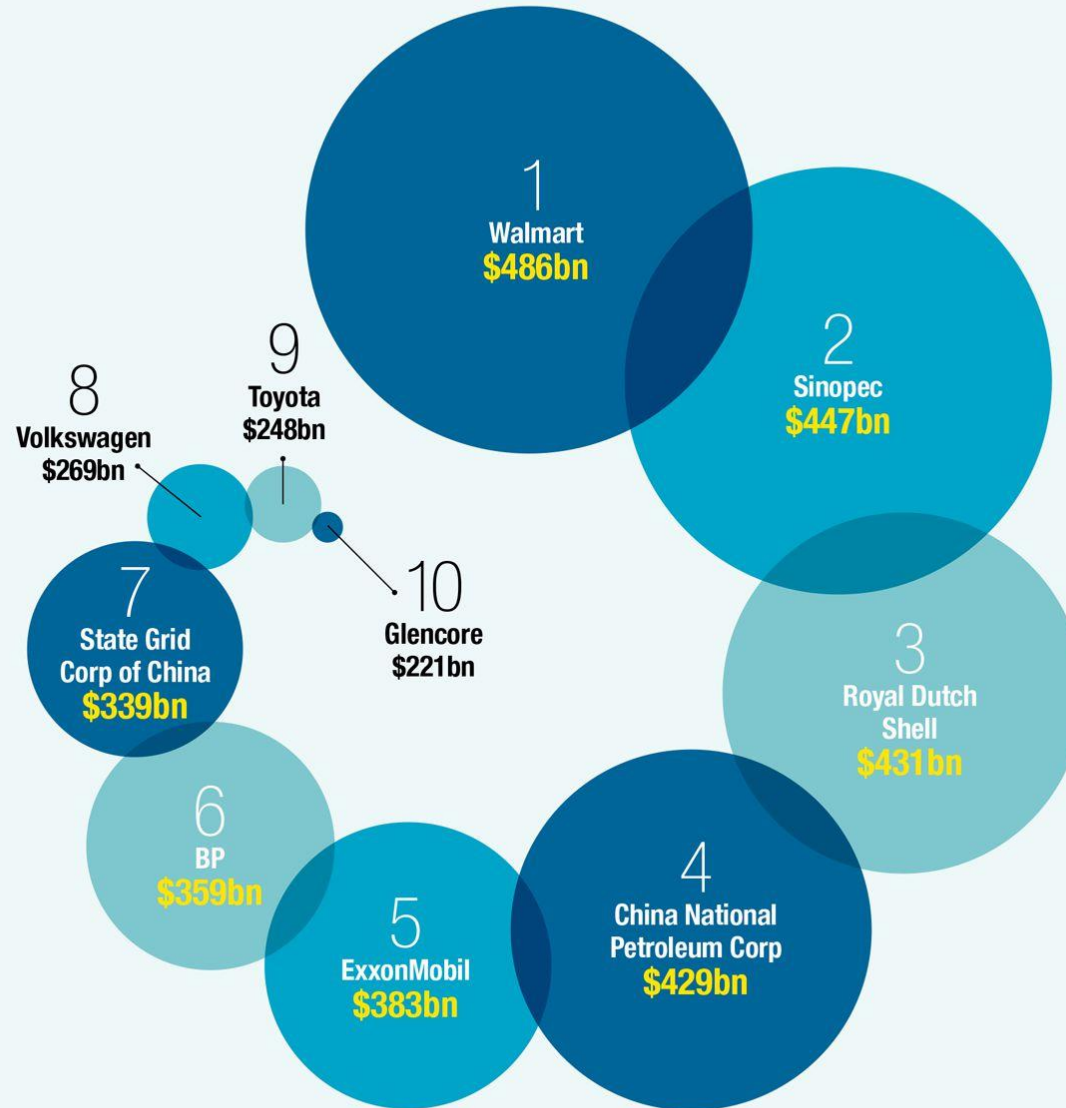
- ‘Reversed mercantilist’ view – i.e. maximisation of inflows with respect to outflows – in advanced economies
- Surge and diversification of government policy instruments to attract foreign-owned companies in their territories by lowering entry barriers and providing a wide range of investment incentives
- Attracting IFDI at the centre of policy attention, often at various territorial levels of governance in a rather indistinct view of location-specific advantages for reaping the benefits of globalisation
- On the OFDI side, location advantages obscured in policy considerations: attention concentrated on privileging export promotion as the main, politically-sustainable, form of active internationalisation
- But the reality tells us a different story: governments DO negotiate with other governments, or with MNEs more powerful than governments....

See: Who runs the world?

Smith, 2015

<https://www.equatem.com/en/article/who-runs-the-world/>

THE TOP 10 GLOBAL CORPORATIONS BY REVENUE (2014)



Source: Fortune

Countries with a smaller GDP than Walmart's annual turnover:

Austria, South Africa, Venezuela, Colombia, Thailand, United Arab Emirates, Denmark, Malaysia, Singapore, Nigeria, Chile, Hong Kong, Egypt, Philippines, Finland, Greece, Israel, Pakistan, Portugal, Iraq, Ireland ... and many more.

Connectivity and regional development

- Uneven positions in the ladder of roles and functions in the international division of labour reflect the European regional development clubs recently identified by the literature and affect economic resilience (Crescenzi & Iammarino, 2017)

The economic development clubs - EU NUTS-2 regions:

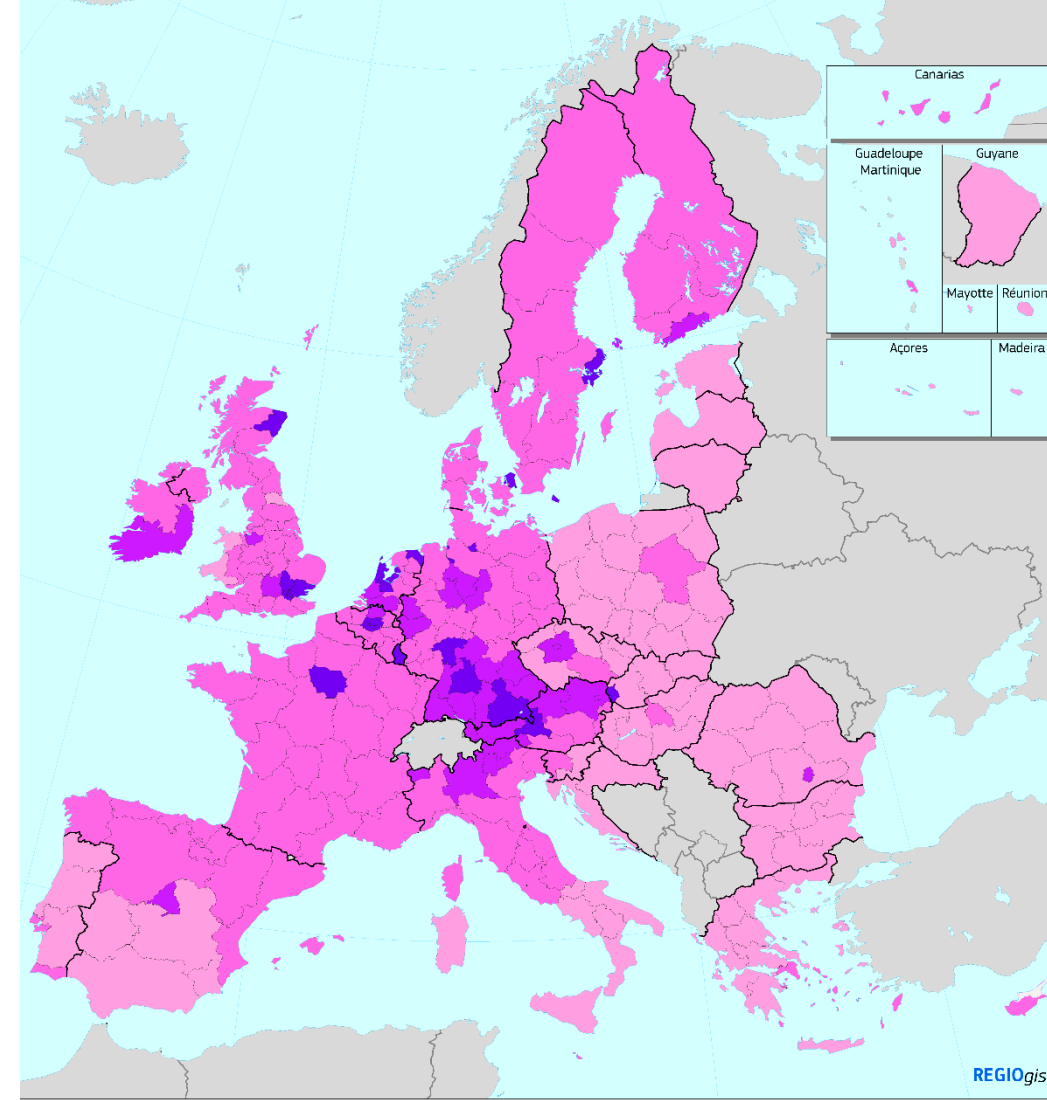
Very high GDPpc (VH) $\geq 150\%$ of EU (or national) average

High GDPpc (H) = 120-149% of EU (or national) average

Medium GDPpc (M) = 75-119% of EU (or national) average

Low GDPpc (L) $< 75\%$ of EU (or national) average

Source: Iammarino, Rodriguez-Pose & Storper, 2018



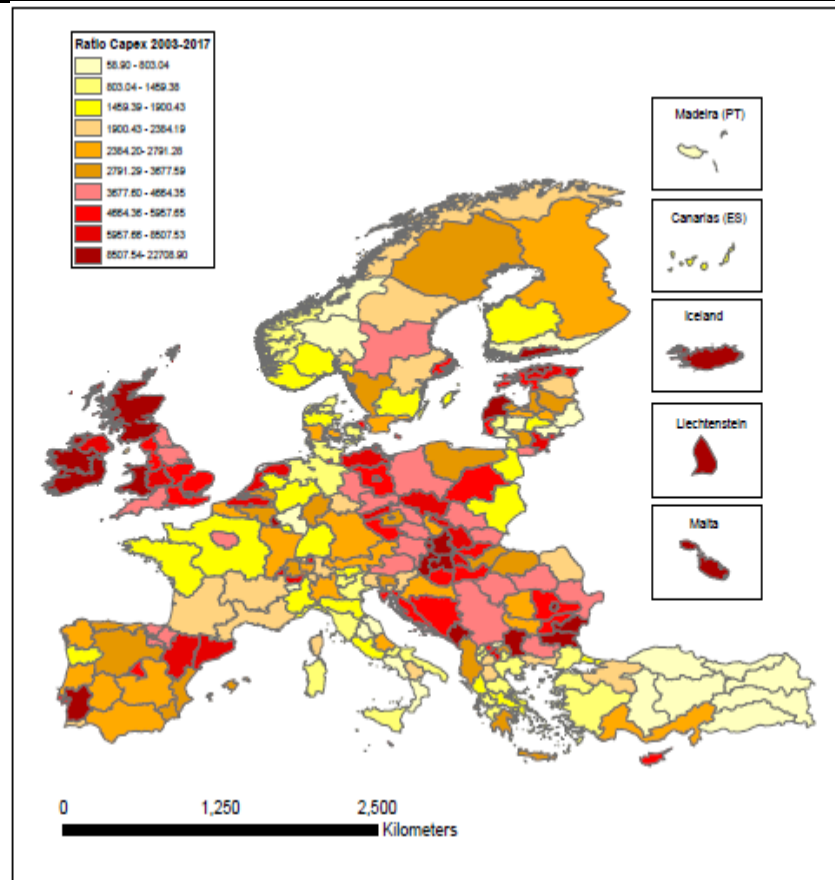
The Economic Development Clubs of European Regions



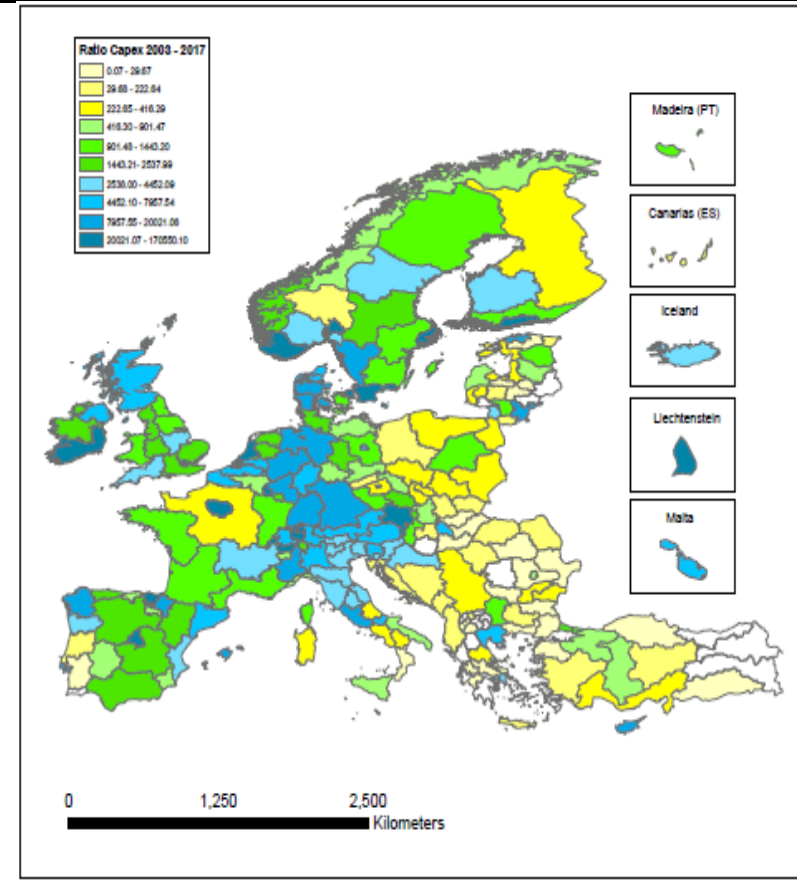
100 500 km

Global IFDI and OFDI in/from European regions (2003-17)

**Map 1 – Inward FDI into the European regions:
cumulative capital expenditure (Capex) 2003-17
normalised by regional population**



**Map 2 – Outward FDI from the European regions:
cumulative capital expenditure (Capex) 2003-17
normalised by regional population**



Source: *fDi Market database and Regions & Cities- Eurostat*
See *Crescenzi and Iammarino (2017)* for further details.

3 case studies: the Celtic tiger regions

- Celtic tiger economies (Danson et al., 2002): S&E Ireland, Scotland and Wales, all with high and long-term FDI attractiveness in the European context
- At the time of joining the European Community in 1973, all low-income areas, with S&E Ireland and Wales roughly similar in terms of GDPpc below the European average, and a wealthier Scotland due to its North-Eastern counties
- 1980-2015 annual GDPpc growth sharply diverged: 1.3% in Wales, 3.1% in S&E Ireland, Scotland in the middle with 1.7%. Today significant differences both between and within the regions, belonging to different development clubs
- Only S&E Ireland among the top investors abroad

Policy Summary IFDI – Selected main policies for Inward FDI by region

South & Eastern Ireland			Scotland			Wales		
Inward FDI Policy	Actor	Timing	Inward FDI Policy	Actor	Timing	Inward FDI Policy	Actor	Timing
Dedicated regional offices for investment attraction: “One-stop-shop”-approach with all support services integrated under one agency, Industrial Development Authority (IDA), with regional and sub-regional offices (for each of the 5 NUTS3 regions).	IDA	1949 -	Enterprise Areas: 4 broad industry/technological areas (Life sciences, Low carbon/renewable North and East, General manufacturing, Growth sectors) with place-industry targets across 16 top locations developed through a variety of tools to stimulate business opportunities, skills, investments and job creation. Various life-cycles for the different areas.	S-Gov, SE, SDI, HIE	1981 - several areas developed over 35 years	Inward investment support: support for foreign companies willing to invest in Wales from initial interest to aftercare services.	WDA, IBW, WAG	1975 - 2006 2006 - 2010 2011 -
Tax incentives: 12.5% Corporate tax, 25% R&D tax credit, zero tax rates for foreign dividends.	Irish Government	1998 - (corp.tax)	Regional Selective Assistance Grant: grant schemes offered when the project aims directly to generate/safeguard employment in particular disadvantaged areas in Scotland (“assisted areas”).	SE, HIE	2000 - current	Overseas offices: international presence through offices – mainly located in the US, China and India - promoting Wales as investment location and hunting potential investors.	WDA, IBW, WAG	1975 - 2006 2006 - 2010 2011 -
Technology Gateways: sector-specific clusters of firms and research institutes providing research facilities, materials, equipment, expertise in advanced technology fields. 10 located in S&E Ireland.	EI, IoT, EU	2008	Account management: assistance for foreign investing companies to ensure they obtain aftercare services.	SE, HIE, SDI	2001	Inward investment marketing: general support and assistance, securing talent/skills, advice on land policy.	WDA, IBW, WAG	2006 - 2010
Skillnets: financial support provided to networks of firms (domestic and foreign) from the same sector or geographical location with similar current and future skill needs; subsidizing training of management, employees and active job-seekers for upskilling and/or critical areas.	Skillnets	1999	Smart: Scotland: financial support for feasibility studies and prospective R&D projects that can have commercial application and potential global market. Targeted particularly on SMEs, university spin-outs or individuals.	SE	1999	Enterprise zones: 8 geographical areas providing specific financial incentives, accelerated planning, sectoral networks, university research linkages, hard and soft infrastructure. The areas are specialised in specific industries.	WAG	2011 -

Policy Summary OFDI - Selected Main Policies for Outward FDI and Internationalisation

Southern and Eastern Ireland			Scotland			Wales		
Outward FDI/ Internationalisation policy	Actor	Timing	Outward FDI/ Internationalisation policy	Actor	Timing	Outward FDI/ Internationalisation policy	Actor	Timing
Double Taxation Treaties: tax and regulatory barriers to FDI flows between countries removed through international agreements, such as double taxation treaties. Agreements concern income tax, corporation tax and capital gains tax.	Irish Government	Continuously updated, 73 in 2017	Readiness to internationalise: modules aimed at firms at different stages of internationalisation. Offers: i) preparation ii) developing international strategy iii) mentoring iv) overseas market support v) exhibitions, visits and learning fieldtrips.	SDI	2002 - current	Financial assistance for business acquisition: financial and business support to domestic firms for local or international acquisitions. Flexible loans and equity.	DBW	2017 - current
Tailored support: support provided by EI tailored to local firms' level of development and needs. This allows for a great diversity and flexibility of the support offered, also in terms of outward investment and active internationalisation.	EI	1998 - current	GlobalScot: global network of Scottish firms and successful businessmen abroad providing assistance and advice to firms planning to export/invest.	Global Scot, SE	2001 – current	Export Assist Programme: promotion of and support to internationalisation of businesses in pre-determined industries, with the aim to increase competitiveness in global markets, particularly of SMEs.	WAG, EU	2009 - 2015
Enterprise Ireland's global offices: access to incubators, local sectoral and market knowledge, and intermediation with buyers/suppliers/partners through 32 offices worldwide. Close collaboration with IDA global offices.	EI	1999 - current	International Strategy Development Programme: aiming to increase the number of Scottish companies globally through the provision of external consultants for 20 days to help developing international strategy and action plan.	SDI	2001 – current	Trade and internationalisation support teams: provided by the Welsh Development Agency. After the abolishment in 2006, overall funding for this action was cut by 66%.	WDA	Until 2006
Internationalisation Grant: financial support to the cost of researching and exploring new international business opportunities. Ceased to exist in 2018.	EI	2004 – 2018	Specific overseas strategies: presence and diplomatic collaboration to increase FDI from emerging and established markets, and simultaneously working to increase access to these markets for domestic traders.	S.Gov, SDI	2006 - current	Overseas offices: multifunctional offices in strategic locations abroad aiming to promote attractiveness (I-FDI); in addition they support Welsh exports, providing market information to domestic firms and promoting tourism.	WDA, IBW, WAG	1975 - 2006 2006 - 2010 2011 -

Main insights from case studies

- In all 3 regions, both ownership and location advantages of firms show distinct geographical profiles, even at the subregional level of city or industrial cluster
- **S&E Ireland:** rather balanced connectivity, highly diversified sectoral and functional portfolio on both IFDI and OFDI, national and subnational policy approaches coordinated and articulated at detailed geographical (NUTS3) and industry-location levels
- **Scotland:** devolved connectivity approach focussed on defined industry/technological areas aimed at enhancing intra-regional sectoral networking, coordinated web of public agencies, industry priorities set in accordance with local relative advantages, strong integration with R&D policy
- In both S&E Ireland and Scotland active internationalisation promotion mostly based on support to export, and pursued at the national level
- Stable and harmonised local institutions in S&E Ireland and Scotland, with clear-cut responsibilities within the respective national frameworks; growing awareness of the priorities of local advantages and spatial equity issues
- **Wales:** same devolution from the UK government as Scotland; it shows how FDI attraction can differ substantially in its implementation across regions, even within the same national boundaries. Fragmented regional institutional context; slacker intra-regional networks; reliance on IFDI maximisation = possibly more, but less quality employment

Connectivity in RIS3

- Beyond a few recent exceptions (e.g. Uyarra et al., 2014; Radosevic & Ciampi Stancova, 2018) – emphasising, in the context of RIS3, the crucial link between active and passive internationalisation and innovation upgrading, and the high dependence of EU regions on interregional GPNs and GVCs – the incorporation of connectivity through FDI (and not only) among the goals of such policy schemes remains a “missing strategy” (Bailey & Driffield, 2007)

Policy principles for connectivity

- ***Territorial differentiation*** within both core and periphery, and across and within regions. The 3 regions historically among the most FDI- attractive and proactive in Europe have shown markedly different evolutionary trajectories and performances, and belong to different development regional clubs
- ***Integration*** between the ‘silos’ of IFDI and OFDI, overcoming once and for all the ‘reversed mercantilism’; attention to sectoral and functional features of IFDI versus OFDI into/from the same region. Support to FDI attractiveness without careful consideration of what is leaving the region is likely to generate incompatibility of policy goals: wrong recipe for sustainable growth and renewal of local competitive advantages, as the case of Wales indicates
- ***Coordination*** of ‘mission oriented’, top-down, science-led approaches, and ‘diffusion-oriented’, bottom-up, capacity-building programmes, as the cases of S&E Ireland and Scotland exemplify well (see next slides)

Governance of connectivity

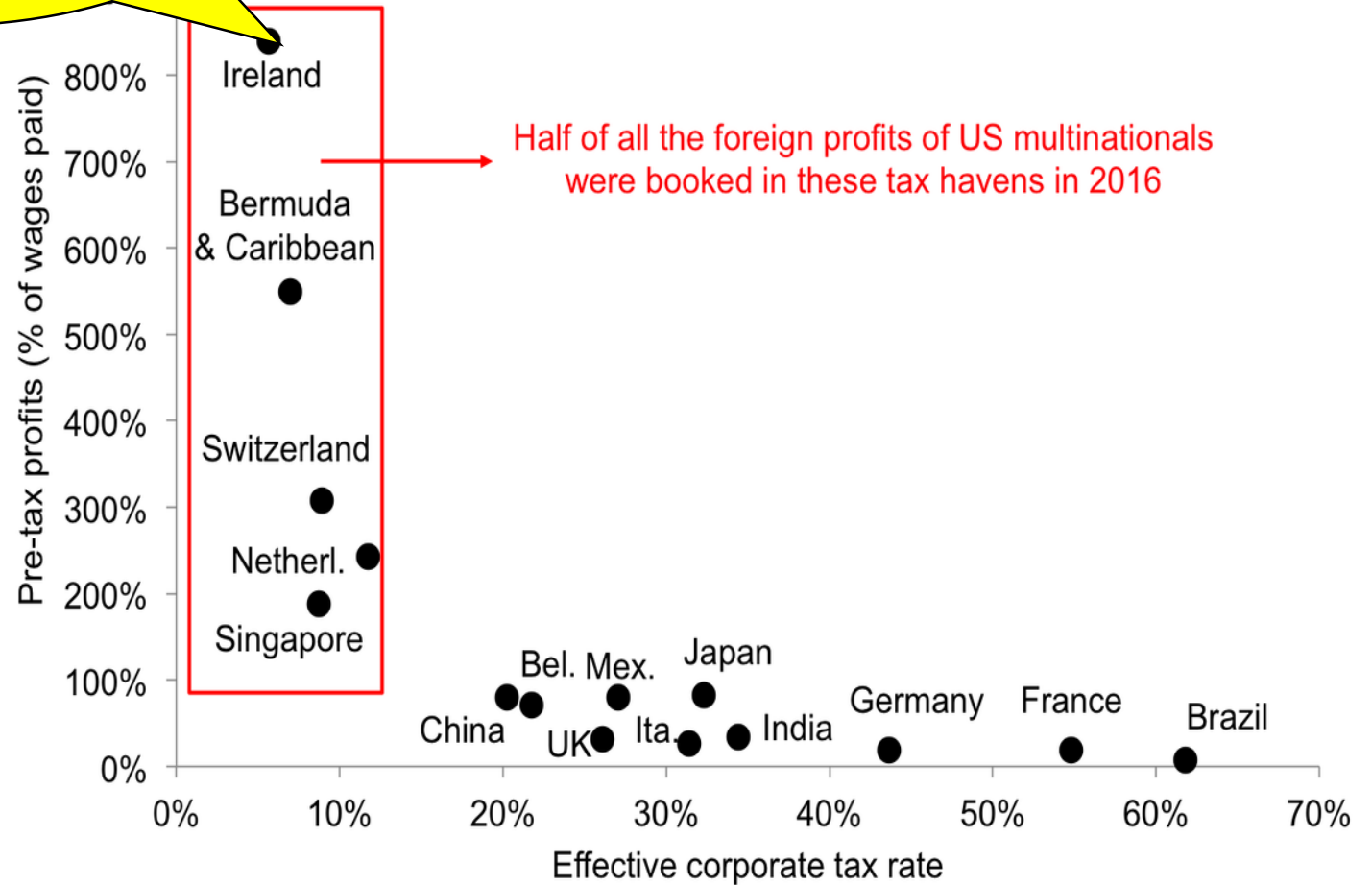
- Reconciling firms' cross-borders organisational networks and space-specific assets and institutional structures – i.e. 'strategic coupling' process driving regional economic development (e.g. Coe et al., 2004; Yeung, 2016) – requires acclaimed, but rarely attained, multi-level governance and coordination of top-down and bottom-up approaches to internationalisation (e.g. Torres & Clegg, 2014; Torres et al., 2016)
- Major **national role for 'looking down'**, as the 3 regional cases clearly signal:
 - National coordination, coupled with the pervasive territorial articulation at the NUTS 3 level targeting intra-regional sectoral networks, is one of the most innovative features of the Irish internationalisation model (e.g. Rios-Morales and Brennan, 2009), though its translation into a best practice for OFDI strategies depends on consolidation (Bailey and Lenihan, 2015)
 - Scotland has a similar model of governance based on defined and coordinated responsibility for strengthening the region's position in GPNs and GVCs and pursuing territorial equity
 - Wales' lack of definition, continuity and synchronisation of accountabilities and tasks across the relevant actors contributes to the progressive erosion of the regional competitive base and ownership advantages of its firms

Governance of co

Oh, oh, what does this mean for regional and individual inequality? Need to start again....

Where do US multinationals book their profits?
(majority-owned affiliates of US multinationals, 2016)

Major role of 'looking up' for nation-states, European and international institutions: provide the necessary conditions for a 'fairer globalisation', or rules of law: address global negative externalities that ought to be corrected through harmonised international regulation (e.g. anti-trust, financial markets, tax regimes, sustainability, corporate social responsibility, human rights, etc. etc.)



Thank you!

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