Globalisation through FDI
and regional development policy
Simona Iammarino, LSE
“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

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)
# The Geography of UK Cities Connectivity Through FDI

## Total Connections

### London
- **1729** single connections in & out
- **984.8** millions of US 2005 dollars
- **58.9**% of UK total capital

### Manchester
- **218** single connections in & out
- **6,175.6** millions of US 2005 dollars
- **30.9**% of UK total capital

### Edinburgh
- **188** single connections in & out
- **4,862.2** millions of US 2005 dollars
- **25.7**% of UK total capital

### Glasgow
- **171** single connections in & out
- **4,296.9** millions of US 2005 dollars
- **22.7**% of UK total capital

### Birmingham
- **155** single connections in & out
- **3,831.7** millions of US 2005 dollars
- **17.3**% of UK total capital

### Liverpool
- **94** single connections in & out
- **2,882.3** millions of US 2005 dollars
- **10.9**% of UK total capital

### Newcastle
- **93** single connections in & out
- **2,018.8** millions of US 2005 dollars
- **9.5**% of UK total capital

### Cardiff
- **68** single connections in & out
- **1,676.7** millions of US 2005 dollars
- **8.5**% of UK total capital

### Other 7 UK cities combined
- **555** unique connections
- **2170.1**% of UK total capital

### Connections by Macro Area

<table>
<thead>
<tr>
<th>City</th>
<th># of Connections</th>
<th>Connections in &amp; out</th>
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Source: Crescenzi, Comotti, Lammarino, Tagliabue (2019), A Network Analysis of City Connectivity – Weighted k-shell decomposition of Foreign Direct Investments.

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

The other 7 UK cities combined: 555 cities
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 Crombrugghe, 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

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) ≥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
Global FDI 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.
### South & Eastern Ireland

<table>
<thead>
<tr>
<th>Inward FDI Policy</th>
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<th>Timing</th>
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<tbody>
<tr>
<td>Dedicated regional offices for investment attraction: &quot;One-stop-shop&quot; 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).</td>
<td>IDA</td>
<td>1949 -</td>
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</table>

**Tax incentives:** 12.5% Corporate tax, 25% R&D tax credit, zero tax rates for foreign dividends.

**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.

**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.

### Scotland

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<tbody>
<tr>
<td>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.</td>
<td>S-Gov, SE, SDI, HIE</td>
<td>1981 - several areas developed over 35 years</td>
</tr>
</tbody>
</table>

**Regional Selective Assistance Grant:** grant schemes offered when the project aims directly to generate/safeguard employment in particular disadvantaged areas in Scotland ("assisted areas").

**Account management:** assistance for foreign investing companies to ensure they obtain aftercare services.

**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.

### Wales

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</tr>
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<tbody>
<tr>
<td>Inward investment support: support for foreign companies willing to invest in Wales from initial interest to aftercare services.</td>
<td>WDA, IBW, WAG</td>
<td>1975 - 2006 2006 - 2010 2011 -</td>
</tr>
</tbody>
</table>

**Overseas offices:** international presence through offices – mainly located in the US, China and India - promoting Wales as investment location and hunting potential investors.

**Inward investment marketing:** general support and assistance, securing talent/skills, advice on land policy.

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

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<th>Scotland</th>
<th>Wales</th>
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<td><strong>Outward FDI/Internationalisation policy</strong></td>
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<td><strong>Double Taxation Treaties:</strong> 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.</td>
<td><strong>Readiness to internationalise:</strong> 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.</td>
<td><strong>Financial assistance for business acquisition:</strong> financial and business support to domestic firms for local or international acquisitions. Flexible loans and equity.</td>
</tr>
<tr>
<td>Irish Government</td>
<td>SDI</td>
<td>DBW</td>
</tr>
<tr>
<td>Continuously updated, 73 in 2017</td>
<td>2002 - current</td>
<td>2017 - current</td>
</tr>
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<td><strong>Tailored support:</strong> 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.</td>
<td><strong>GlobalScot:</strong> global network of Scottish firms and successful businessmen abroad providing assistance and advice to firms planning to export/invest.</td>
<td><strong>Export Assist Programme:</strong> promotion of and support to internationalisation of businesses in pre-determined industries, with the aim to increase competitiveness in global markets, particularly of SMEs.</td>
</tr>
<tr>
<td>EI</td>
<td>Global Scot, SE</td>
<td>WAG, EU</td>
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<tr>
<td><strong>Enterprise Ireland’s global offices:</strong> access to incubators, local sectoral and market knowledge, and intermediation with buyers/suppliers/partners through 32 offices worldwide. Close collaboration with IDA global offices.</td>
<td><strong>International Strategy Development Programme:</strong> 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.</td>
<td><strong>Trade and internationalisation support teams:</strong> provided by the Welsh Development Agency. After the abolishment in 2006, overall funding for this action was cut by 66%.</td>
</tr>
<tr>
<td>EI</td>
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<td>WDA</td>
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<td><strong>Internationalisation Grant:</strong> financial support to the cost of researching and exploring new international business opportunities. Ceased to exist in 2018.</td>
<td><strong>Specific overseas strategies:</strong> presence and diplomatic collaboration to increase FDI from emerging and established markets, and simultaneously working to increase access to these markets for domestic traders.</td>
<td><strong>Overseas offices:</strong> 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.</td>
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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 focused 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
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.)

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


Half of all the foreign profits of US multinationals were booked in these tax havens in 2016

See Gabriel Zucman: https://twitter.com/gabriel_zucman/status/1039016872916598785
Thank you!

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