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# Multinationals and regional development: some evidence from Europe

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Corte, June 12, 2017



# Multinationals hit the headlines when they arrive in new countries/regions

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## Jaguar Land Rover: Still coming to Slovakia, despite Brexit

British carmaker Jaguar Land Rover will still come to Slovakia despite Brexit, Alexander Wortberg, the company's executive director for the investment in Nitra, said on July 26.



# Multinationals hit the headlines when they leave or threaten they would leave...

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## Brexit: JPMorgan confirms it will move hundreds of banking jobs from UK to EU

Firm has to 'be ready for day one, when negotiations finish', Daniel Pinto, head investment banking said

Ben Chapman | Wednesday 3 May 2017 10:24 BST | [38](#) comments

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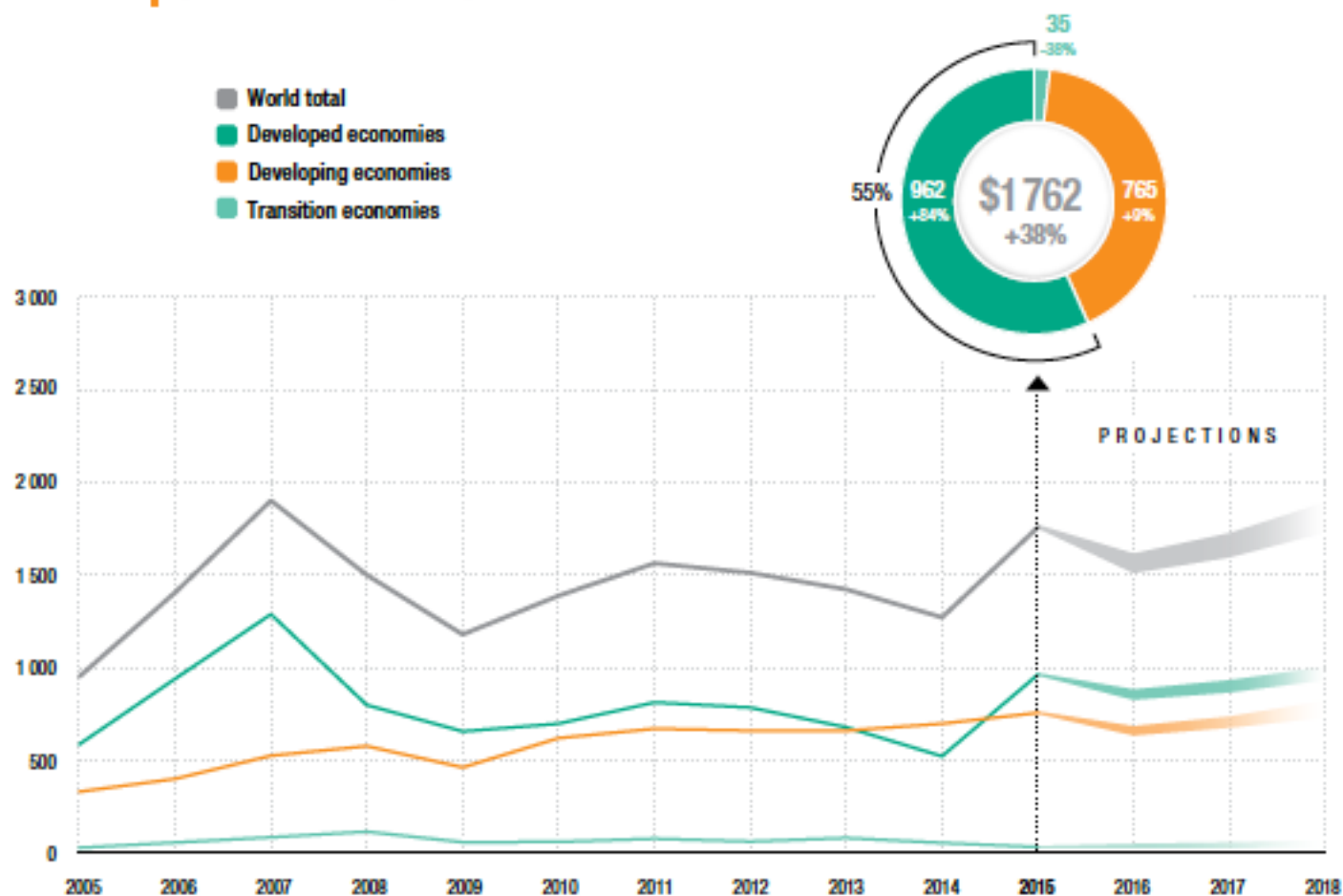
## Banks begin moving some operations out of Britain



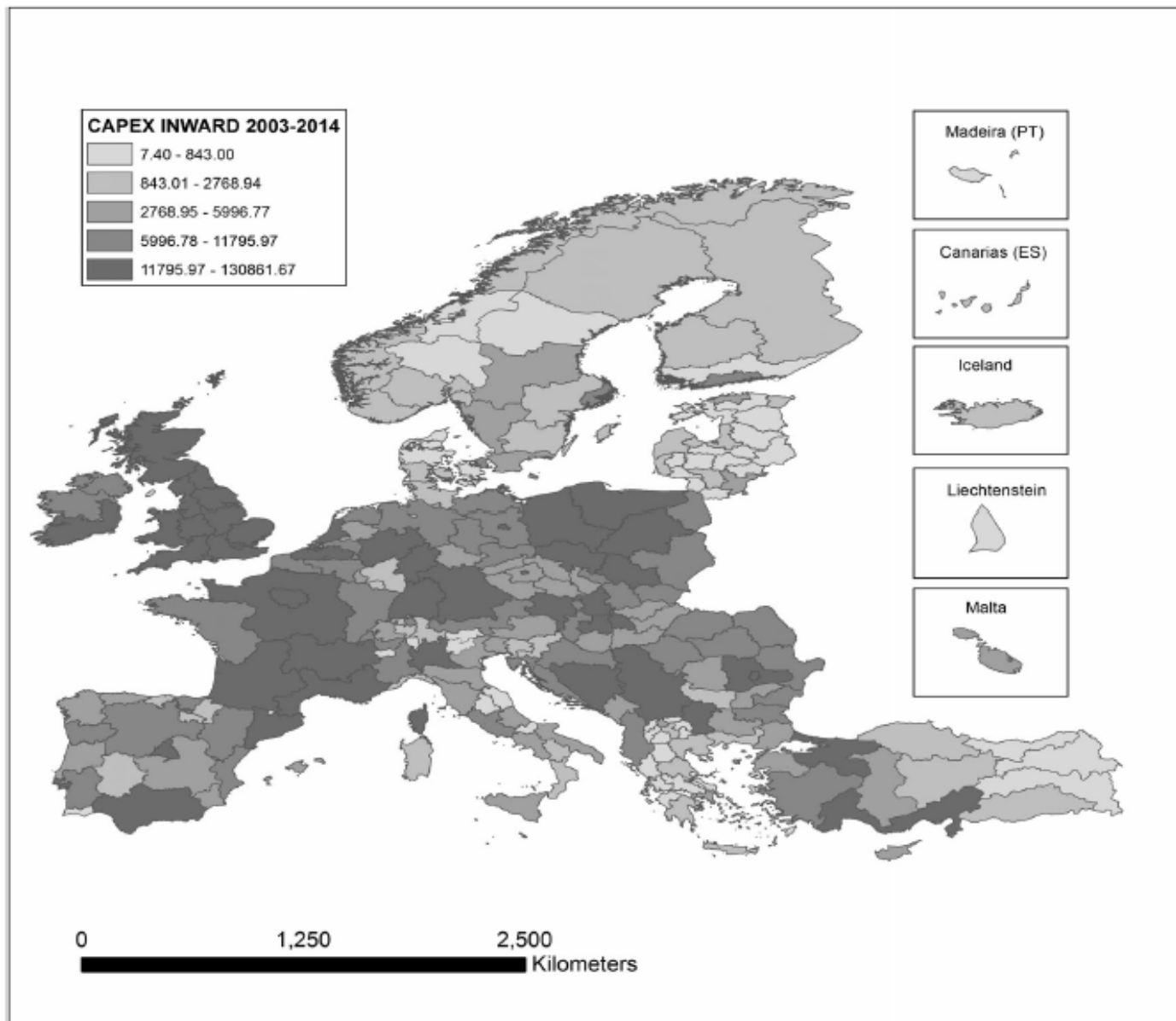
People walk to work in the City of London © Reuters

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**Figure I.1. Global FDI inflows by group of economies, 2005–2015, and projections, 2016–2018**  
(Billions of dollars and per cent)



Source: ©UNCTAD, FDI/MNE database ([www.unctad.org/tdstatistics](http://www.unctad.org/tdstatistics)).



**Figure 1.** Foreign direct investment towards the regions of Europe (cumulative inward capital expenditure, 2003–14, US\$ millions).

Source: Authors' elaboration of fDi Markets data.

# MNEs as global pipelines

- Regional economic and innovation development do not depend exclusively on localized productive and knowledge assets, but need to combine ‘local buzz’ (Storper & Venable, 2004) with “global pipelines” (Bathelt, Mamberg & Maskell, 2004);
- MNEs can be considered as protagonists of these global pipelines;
- Key is investigating how MNEs investment strategies interact with regional development trajectories adopting an interdisciplinary approach involving International Business Studies, International Economics and Economic Geography (Crescenzi & Iammarino, 2017) .

# A long-run research agenda and some (selected) contributions

- ① On the location strategies of different GVC functions undertaken by MNEs;
- ② On different location strategies undertaken by MNEs from emerging countries compared with MNEs in advanced countries;
  - a) Are EMNEs able to take advantage from their acquisitions in advanced countries to improve their innovation output?
- ③ On the choice of mode of MNEs.



# Innovation drivers, value chains and the geography of multinational corporations in Europe

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## Abstract

This paper investigates the geography of multinational corporations' investments in the EU regions. The 'traditional' sources of location advantages (i.e. agglomeration economies, market access and labour market conditions) are considered together with innovation and socio-institutional drivers of investments, captured by means of regional 'social filter' conditions. This makes it possible to empirically assess the different role played by such advantages in the location decision of investments at different stages of the value chain and disentangle the differential role of national vs. regional factors. The empirical analysis covers the EU-25 regions and suggests that regional socio-economic conditions are crucially important for the location decisions of investments in the most sophisticated knowledge-intensive stages of the value chain.

**Keywords:** Innovation, multinationals, systems of innovation, value chains, regions, European Union

**JEL classifications:** F21, F23, O33, R12, R58

**Date submitted:** 26 June 2012 **Date accepted:** 3 June 2013



## Data and method

### Research Questions

- How do MNEs organise their value chains in space?
- What is the role of national vs regional factors?
- Do regional innovation factors matter for the location of FDIs?

- **19,444 greenfield investments** from the entire world into the EU25 countries geocoded at **NUTS2 level** (Source: FDIMarkets);
- **Functional classification:** Headquarters, Innovative Activities, Commercial Activities, Manufacturing Activities and Logistic and Distribution;
- **Nested logit model:** a) choosing a country  $i$  and b) selecting a region  $j$  in the chosen  $i$  country.

# Investment location drivers

- ① Market size and labour market indicators;
- ② Regional Agglomeration of Foreign Investments:
  - a) *Total pre-existing investments;*
  - b) *Investments in the same sector ;*
  - c) *Investments in the same*
- ③ Indicators of innovation
  - **R&D Investments** as a share of Regional GDP and **Patent Intensity;**
  - **Social Filter** index measuring structural pre-conditions to establish fully functional regional systems of innovation

# Findings in a nutshell

- MNEs break down their value chain into different functions (e.g. manufacturing, R&D, sales) and locate them where they can be carried out most effectively to tap into location-specific resources and capabilities;
- R&D investments are attracted by regions with strong innovation systems (proxied by the Social Filter);
- Investments in manufacturing are driven by regional labor market conditions;
- National characteristics better explain MNEs' location decisions of headquarters and commercial functions;
- Regional factors are stronger for manufacturing and innovative activities.

## Regional strategic assets and the location strategies of emerging countries' multinationals in Europe<sup>†</sup>

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### ABSTRACT

This paper explores the location strategies of multinational enterprises (MNEs) from emerging countries (EMNEs) in search for regional strategic assets. The analysis is based on a systematic comparison between EMNEs and multinationals from advanced countries (AMNEs) in order to unveil similarities and differences between these two major sources of foreign investment into the regions of the European Union. The empirical results suggest that EMNEs follow a distinctive logic in their location strategies. They are attracted by the availability of technological competences only when their subsidiaries pursue more sophisticated and technology-intensive activities. Conversely, EMNEs share some behavioural similarities with AMNEs in their response to the spatial agglomeration of investments.

### ARTICLE HISTORY

Received 23 July 2015

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### KEYWORDS

Innovation; regions;  
multinationals; European  
Union

## Research Question

Global Agenda | China | Growth

### The new Fortune Global 500 is out. It shows a shift in the world's business landscape



- Do EMNEs from emerging countries follow different location strategies from MNEs from advanced countries?

Table 4 – The location drivers of MNEs in the EU regions: A summary

| SAS investments |                                | ORIGIN |                 |   |
|-----------------|--------------------------------|--------|-----------------|---|
|                 |                                | EU-25  | NA              | EE  |
| Innovation      |                                |        |                 |   |
|                 | • Hard drivers (patents)       | (+)    | (+)             | <b>(+)</b><br><b>Only for</b><br><b>KNOWLEDGE</b><br><b>INTENSIVE FDI</b> |
|                 | • Soft drivers (Social Filter) | (+)    | (+)             | <b>Not significant</b>  |
| Agglomeration   |                                |        |                 |   |
|                 | • # FDI                        | (-)    | Not significant | <b>Not significant</b>  |
|                 | • Same Function                | (+)    | (+)             | <b>(+)</b>  |
|                 | • Same Sector                  | (+)    | (+)             | <b>(+)</b><br><b>Only for</b><br><b>MANUFACTURING</b><br><b>FDI</b>       |



# Findings in a nutshell

- EMNEs seek technological competences (i.e. patent intensity) only when investing in knowledge intensive functions;
- Technological and cognitive gaps still prevent EMNEs to directly capture the potential asset seeking advantages generated by innovation prone regional environments (i.e. the Social Filter);
- The imitation of the location choices of other 'selected' (in functional and sectorial terms) foreign investments offers **easy and clearly detectable indications of the availability of specialized pools of strategic assets**, more easily intelligible by EMNEs than the soft innovation factors.



**Chinese and Indian MNEs' shopping spree in advanced countries.**

**How good is it for their innovation output?**



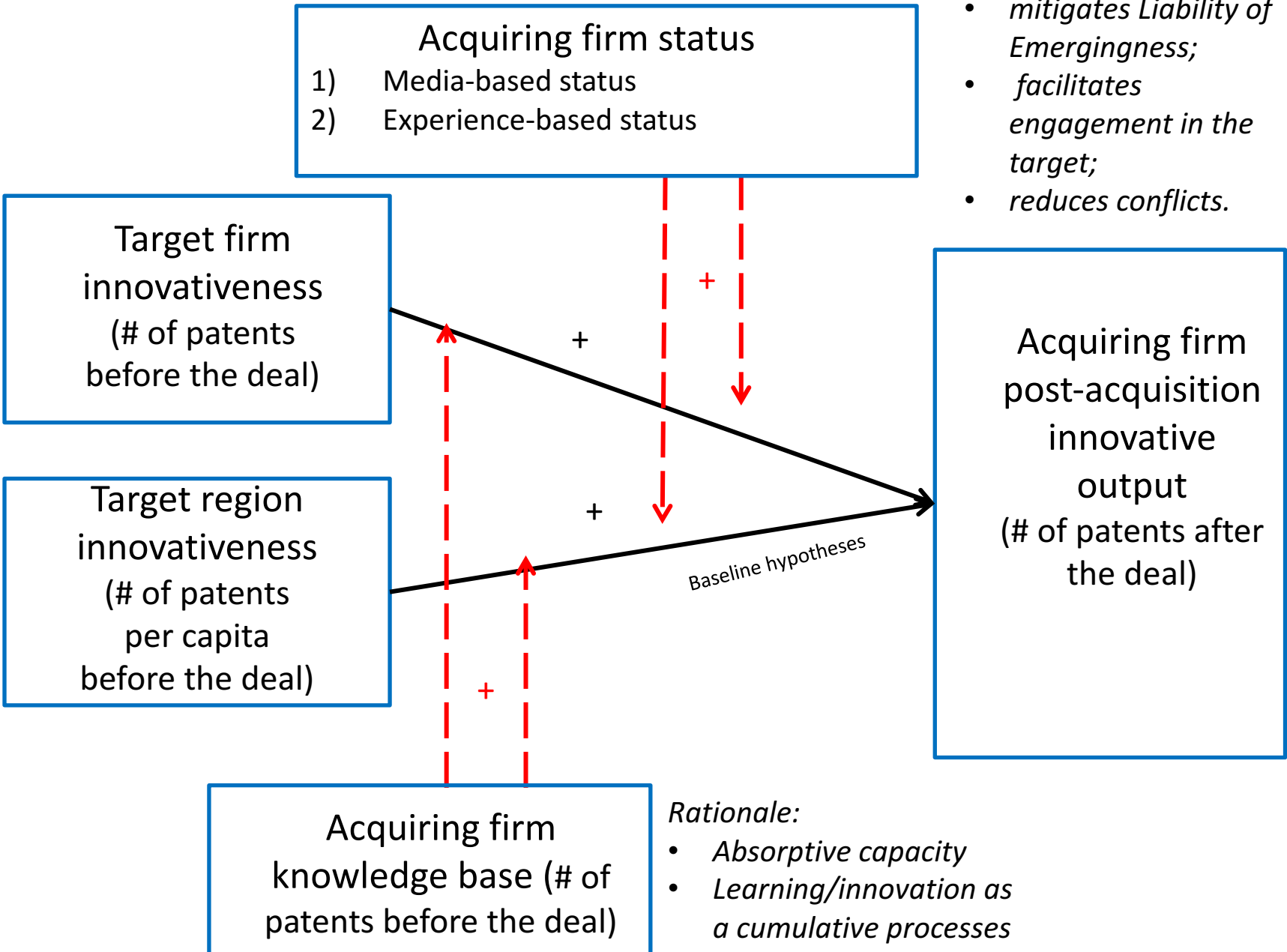
With Vito Amendolagine,  
Elisa Giuliani & Arianna  
Martinelli

## Research questions

① How much does the target *firm* and *region's* innovativeness influence the acquiring firm post-deal innovative output?

All completed majority-stake cross-border acquisitions (CBAs) made by Indian and Chinese firms in Europe (EU28), the U.S., and Japan between 2003 and 2011.

# Analytical framework



# Findings in a nutshell

- **Baseline hypotheses NOT supported**
  - The more innovative the target firm, the lower the innovative output of the acquiring EMNE after the deal;
  - Regional innovativeness is not significant;
- Absorptive capacity and (media-based) status facilitate the absorption of knowledge from the acquiring firms (and together they reinforce the positive moderation effect);
- Considering the regional knowledge, we find that only EMNEs with strong knowledge bases are able to gain from regional knowledge although the expected innovative output is more modest than the one expected from investments in innovative target firms:



# **FDI mode, firm heterogeneity and institutional conditions**



with  
Vito Amendolagine &  
Riccardo Crescenzi



# FDI mode choice

- MNEs conduct FDI by either engaging in **greenfield investments** (entering a foreign market by building a new enterprise) or in **cross-border acquisitions** (M&As) (entering a foreign market by buying an existing enterprise);
- Their impact on the host economy (country and sub-national) is different.

# What does drive the mode choice?

- Nocke and Yeaple (2008) investigate the mode choice as a **positive assortative matching process between subsidiaries and headquarters**;
- They develop a theoretical model explaining that the two modes of FDI differ significantly in both:
  - the characteristics of the firm that engage in these modes;
  - the characteristics of the host countries in which firms invest;
- To national macro level factors, we add **REGIONAL** strategic assets and institutional conditions.

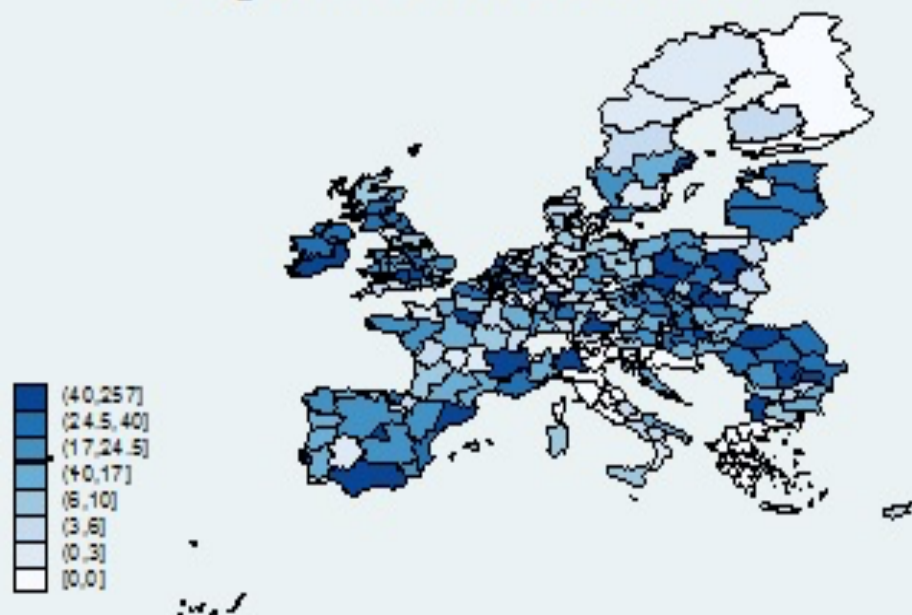
## Research Questions

- ① Are **MNEs' characteristics** influencing the choice of the investment mode?
- ② How are MNEs and 'host' regions matched via different establishment modes?
- ③ How **national AND regional** characteristics of the **host economy** matter for this matching?
  - Do investments in more 'advanced' countries/regions favour one mode over the other?
  - Does institutional quality matter?

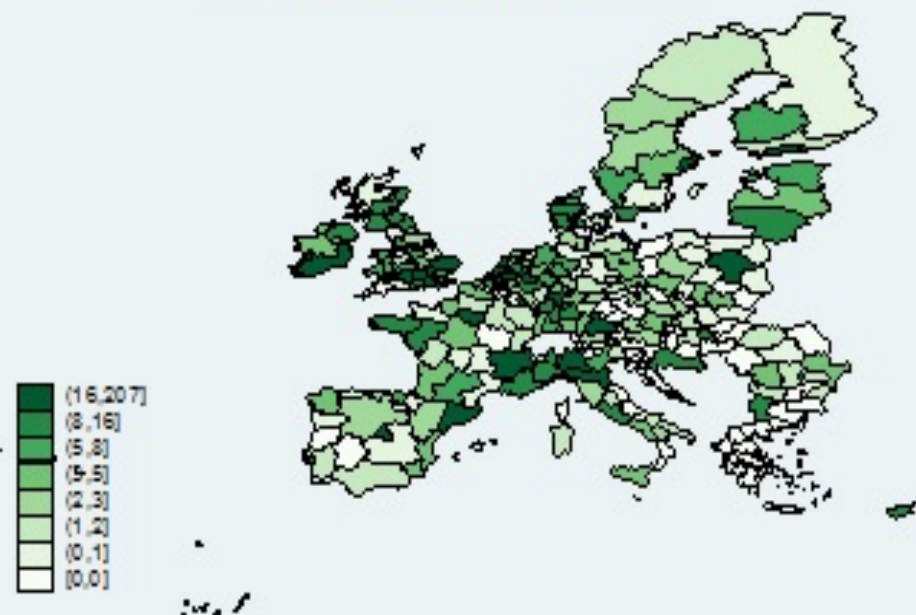
## Data

- Investors are selected from the **Forbes Global 2000 list (2015)**: 1,116 with at least one investment in the EU-28 during the period from 2003-14 (40% of the total value of greenfield and M&A deals directed to the EU-28 in 2014: UNCTAD 2016);
- For each company, we identify all foreign investments in the EU-28 over the 2003-2014 period:
  - M&A from **Zephyr** (Bureau van Dijk);
  - Greenfield FDI from **FDI Market** (Financial Times Group);
  - For each investment we know the establishment mode, year, sector, country, region, city and financial value.

all greenfields 2003-2014



all M&As 2003-2014



## The empirical model

- Logit model (Nocke & Yeaple, 2008) with as dependent variable:
  - 1 if parent firm  $i$  in the industry  $j$  **acquires** a foreign company in industry  $k$  within country  $l$ ,
  - 0 if the same company opts for a **greenfield FDI**;
- Before and after the 2008 crisis.

## Drivers of the mode choice

- **Firm-level characteristics**: productivity, size, industry diversification, past FDI experience; # of patents;
- **Regional characteristics**: size; GDP per capita, institutional quality;
- **Country characteristics**: openness, geographical distance between the origin and the destination country of FDI;
- Time controls; country and industry fixed effects.

# Preliminary findings in a nutshell

- Efficient and innovative MNEs enter foreign markets through greenfield rather than acquisitions;
- MNEs with previous investments in the same country enter with acquisitions;
- Richer and larger regions (and country) attract more acquisitions than greenfield;
- Country institutional quality increases the probability of foreign acquisitions;
- Regional institutional quality magnifies the attraction of greenfield from efficient MNEs.



# Some general takeaways

- MNEs are key actors in regional development and innovation;
- They undertake very differentiated strategies in terms of origin, industry, value chain stages, establishment mode and this heterogeneity results in complex sub-national geographies of internationalization;
- Regional development policies should evolve from the attraction of '*inward FDI no matter what*' to more diversified and place-sensitive policies accounting for this heterogeneity;
- These policies need to be informed by diagnostic tools that fully account for the multi-faced nature of FDI.

**Thank you**

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