Foreign Investment and innovation in regions across the globe

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Innovation around the world

1975

Regional Patent Count – Own Elaboration - USPTO data
Innovation around the world

Regional Patent Count – Own Elaboration - USPTO data

Innovation around the world:

Regional Income vs. Patents

Own Elaboration (US States Excluded) - USPTO data
Innovation and the Middle Income Trap ...

... some regions escape the trap!
Guangzhou 1984
Guangzhou 2017

Bangalore 1999
Bangalore 2017

Europe and North America
Lubuskie 1994

Lubuskie 2017
Some regions have escaped ... How?

Global inflows of Foreign Direct Investment (FDI)

Billions $ - 1995-2015

Source: UNCTAD - World Investment Report 2015
“Between 2000 and 2015 the number of MNE R&D centres in emerging countries grew by a factor of five, while in the Triad countries this number merely doubled”

*Global Innovation Index Report, 2016*
FDI to ‘escape’ the trap?

- Crescenzi, Dyevre & Neffke looked into the innovation performance of 1,528 regions, from 83 countries between 1975 and 2012
- We relied on US Patent and Trademark Office data on 3.6 million distinct inventors, 6.0 million patents from all over the world
- Patents in 1,240 3-digit patent classes
- ‘Matched’ regions receiving for the very first time a foreign firm pursuing innovative activities in their economy with a region very similar in terms of its observable characteristics and economic pre-trends but that did NOT receive any foreign investment leading to innovation
E.g. Texas Instruments in Bangalore
Difference-in-Differences

Patents by all firms

![Graph](image)

caliper is .0002, 1502 treatments

Difference-in-Differences

Patents by all firms – Top 5% MOST INNOVATIVE Foreign Investing Companies

![Graph](image)

caliper: 0.0002
Not all Foreign Firms are good partners

- It’s not the usual suspects that matter!
- The top tech giants – that all countries and regions fight to attract (at a huge cost) – are less likely to generate local innovation
- Why?
  - We showed that they are more effective in retaining their staff and less likely to hire local workers (less circulation on the labour market)
  - New ideas generated by the ‘giants’ are less likely to be used and absorbed by local firms (technological distance)
Points for discussion

• Escaping the Middle Income Trap is far from easy ... but some regions and cities make it to the top
• It is hard to make it alone
• There is no alternative to openness and internationalisation
• The ‘usual suspects’ are not always the most helpful
• Regions and cities should embrace globalisation with a critical attitude and make evidence-based decisions on their future

http://blogs.lse.ac.uk/gild/
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All errors and omissions are our own

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