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Global Investment Flows and Territorial Inequality: Reassessing Development Policies for Regions and Cities

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LSE and Europe

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Reassessing Development Policies for Regions and Cities**

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Current research project

Joint Programming Initiative (JPI) Urban Europe: “Resilient Cities: Industrial Network and Institutional Perspectives on Economic Growth and Well-being”

ESRC-funded (for the LSE team), partners:

- London School of Economics, UK
- Utrecht University, the Netherlands
- Lund University, Sweden
- Erasmus University Rotterdam, the Netherlands

This presentation

- Introduction to the topic (WP2-WP4 of the project)
- Paper 1 - Global Investments and Regional Development Trajectories: the Missing Links (Crescenzi & Iammarino, forthcoming on *Regional Studies*)
 - Research extensions to Brexit, with focus on Scotland and Wales (Comotti, Crescenzi & Iammarino, in progress)
- Paper 2 - Multinational Enterprises, structural change and resilience: The case of the British regions (Ascani & Iammarino, 2016)

Global investment flows: recent facts

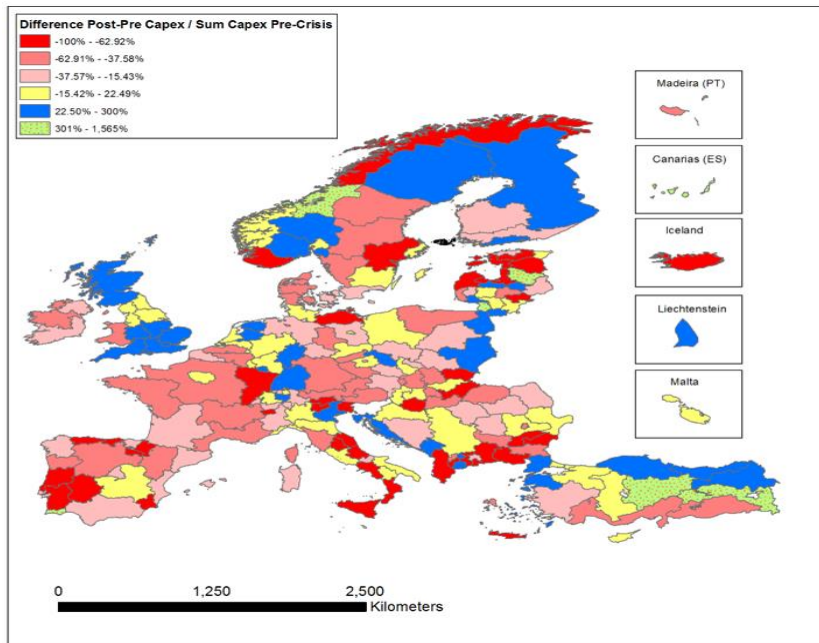
- Massive transformation of the geography of world FDI: share of **developing /emerging countries more than a half of world total inflows** in 2012 (55% in 2014), and **more than 1/3 of total outflows** in 2014 (UNCTAD, 2015)
- Majority of cross-border flows span **neighbouring economies**, rather than being genuinely global transactions (“global regionalism”, e.g. Rugman, 2005)
- Around **two-thirds of global FDI stocks are now in service industries** (63% in 2012) (UNCTAD, 2015)

General research questions

- What do we know about the **link** between **global investment flows** and **regional economic development and resilience**?
- To what extent and how rising **territorial inequality** is **related to globalisation**?
- Do we have effective **policy tools** to address regional inequality stemming from global flows?

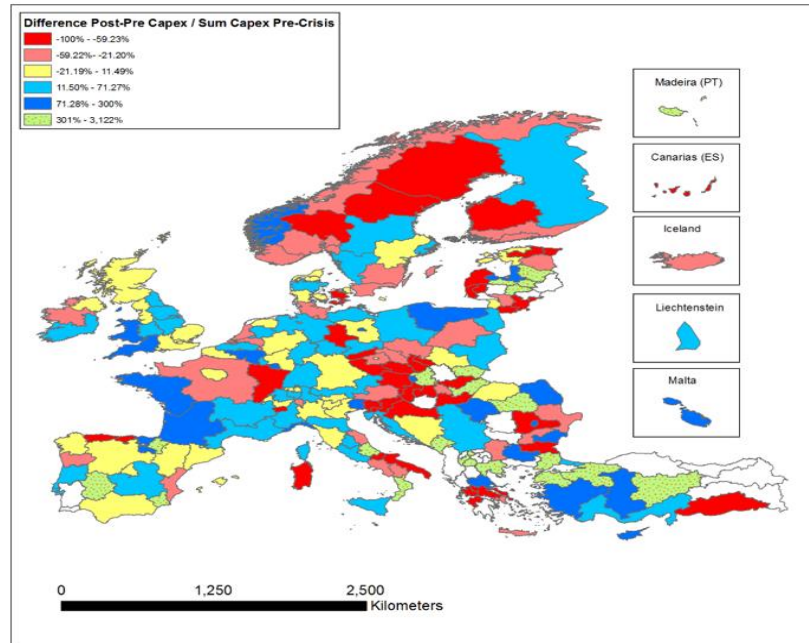
Paper 1 - Global Investments and Regional Development Trajectories: the Missing Links

Europe Destination FDI-Capex



Changes in inward FDI after the crisis
(normalised change of Capital
Expenditure between 2003-2008 and
2009-2014)

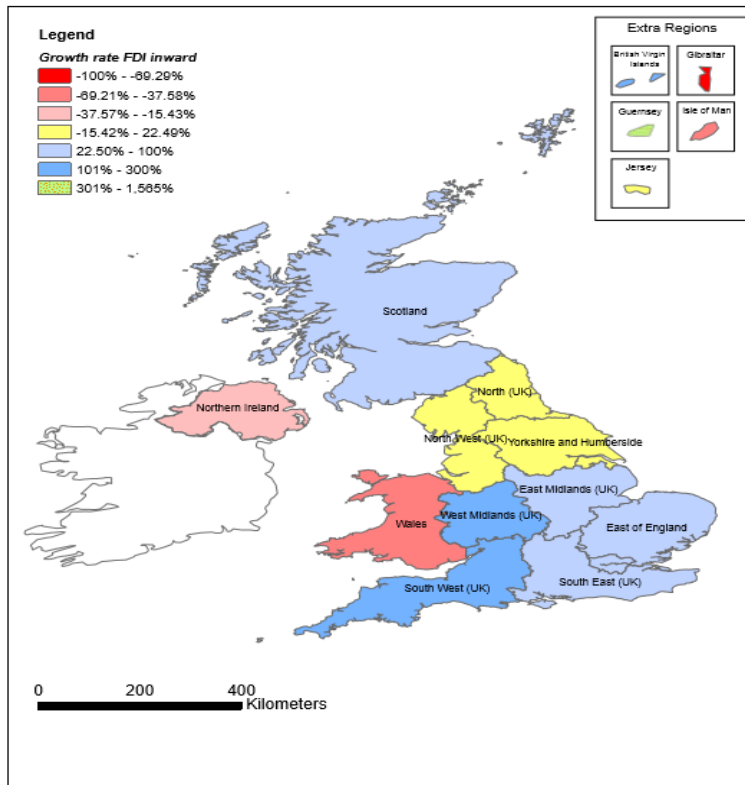
Europe Source FDI-Capex



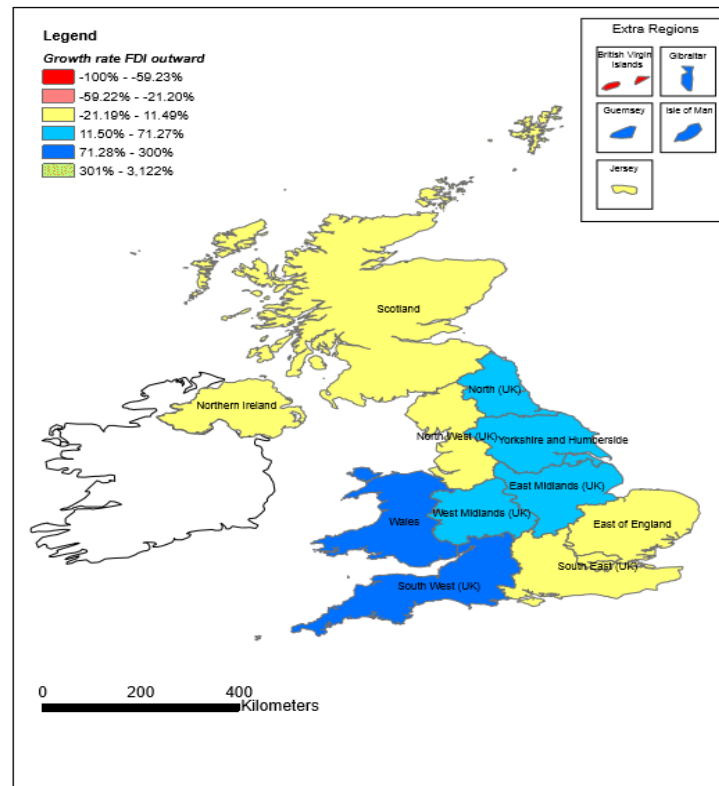
Changes in outward FDI after the crisis
(normalised change of Capital Expenditure
between 2003-2008 and 2009-2014)

Research extensions: the UK resilience

FDI from the Rest of the World to the UK



FDI from the UK to the Rest of the World



Research extensions: the UK regional vulnerability

FDI inward United Kingdom – regional shares FDI outward United Kingdom – regional shares

<i>United Kingdom Destination FDI - Pre Crisis vs Post Crisis</i>					<i>United Kingdom Source FDI - Pre Crisis vs Post Crisis</i>				
<i>Regions</i>	<i>Share Pre_Crisis</i>	<i>Share Pre_Crisis_ EU28</i>	<i>Share Post_Crisis</i>	<i>Share Post_Crisis_ EU28</i>	<i>Regions</i>	<i>Share Pre_Crisis</i>	<i>Share Pre_Crisis_ EU28</i>	<i>Share Post_Crisis</i>	<i>Share Post_Crisis_ EU28</i>
East Midlands (UK)	4.2%	42.7%	4.1%	35.5%	East Midlands (UK)	1.1%	44.2%	1.9%	22.5%
East of England	5.8%	48.0%	6.6%	29.7%	East of England	0.6%	15.2%	0.8%	10.4%
London	22.5%	22.3%	26.6%	19.7%	London	66.8%	15.2%	60.0%	14.3%
North (UK)	3.5%	28.2%	2.6%	33.8%	North (UK)	0.4%	38.7%	0.5%	21.1%
North West (UK)	7.5%	64.3%	6.4%	47.1%	North West (UK)	2.3%	33.7%	2.0%	22.9%
Northern Ireland	3.4%	37.8%	1.9%	25.2%	Northern Ireland	1.1%	70.9%	1.3%	12.4%
Scotland	13.0%	45.1%	12.9%	51.6%	Scotland	3.8%	27.9%	3.9%	9.5%
South East (UK)	4.5%	42.2%	9.4%	39.6%	South East (UK)	13.9%	33.3%	19.3%	25.2%
South West (UK)	2.6%	43.6%	5.3%	50.3%	South West (UK)	1.3%	44.3%	2.9%	15.1%
Wales	10.4%	63.2%	3.8%	61.3%	Wales	0.4%	72.8%	0.8%	31.9%
West Midlands (UK)	4.3%	28.5%	8.0%	28.4%	West Midlands (UK)	1.0%	34.7%	1.6%	21.3%
Yorkshire and Humberside	4.0%	48.2%	3.2%	58.2%	Yorkshire and Humberside	0.7%	41.2%	0.9%	25.3%
<i>Other Regions*</i>	0.3%	68.0%	0.2%	29.5%	<i>Other Regions</i>	3.5%	13.3%	4.0%	18.0%
<i>Not Specified</i>	13.9%	38.7%	9.0%	35.8%	<i>Not Specified</i>	3.2%	44.6%	0.2%	15.3%
* Other Regions are: British Virgin Islands, Gibraltar, Guernsey, Isle of Man, Jersey					* Other Regions are: British Virgin Islands, Gibraltar, Guernsey, Isle of Man, Jersey				

Paper 2 - Multinational Enterprises, structural change and resilience: The case of the British regions

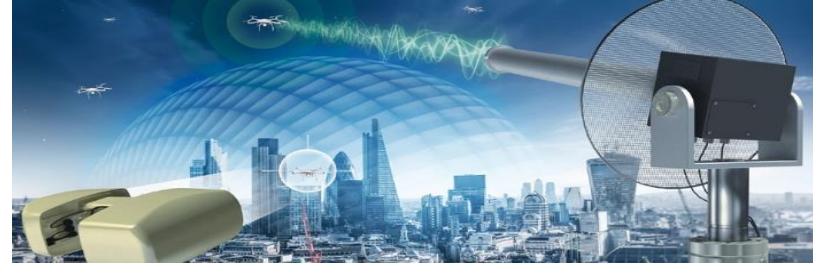
Facts:

- Service outsourcing: large phenomenon in the UK
 - Manufacturing sector as a whole spent £130 million to purchase business and IT services in the first half of 2014
 - 132% year-on-year increase in service outsourcing expenditure
- Relevant outsourcing linkages between manufacturing and services in the UK [e.g. Abramovsky et al. 2004]
- Foreign MNE affiliates can exert a strong influence

<http://www.computerweekly.com/news/2240233825/2014-one-of-strongest-years-for-UK-IT-outsourcing>
<https://www.arvato.com/uk/insights/outourcing-index/q2-2014.html>

An example

- SELEX Galileo
 - UK HQ in Basildon (Essex)
 - Foreign affiliate of Italian Leonardo-Finmeccanica
 - Aerospace defence systems and electronics
- 2011: 5-year outsourcing agreement with UK CSC Comp. Science for a number of IT activities (internet/intranet, servers, software, etc.)
- Estimated value: £200 million, thus generating opportunities for CSC growth and employment



Research question

- Do foreign MNE affiliates in manufacturing contribute to the growth of the service sector?
- Relevance
 - European economies characterised by both high presence of foreign affiliates in manufacturing and rise of services
 - Inter-industry linkages are crucial features of an economy, but we do not know much about them
 - The positive or negative impact of FDI in manufacturing can go beyond the industry boundaries, stimulating service development via outsourcing

Some figures for England

Table 2: Share of foreign-owned subsidiaries' employment in manufacturing by region (%)

Region	1997	2007
South East	0.50	0.53
Eastern	0.36	0.44
London	0.46	0.51
South West	0.47	0.50
West Midlands	0.37	0.43
East Midlands	0.34	0.49
Yorkshire/Humberside	0.44	0.33
Merseyside	0.50	0.58
North West	0.53	0.60
North East	0.48	0.43

Note: foreign and domestic plants are defined based on the nationality of the ultimate owner.

Table 3: Share of services on total employment by region (%)

Region	1997	2007
South East	0.75	0.87
Eastern	0.35	0.56
London	0.36	0.58
South West	0.33	0.62
West Midlands	0.30	0.46
East Midlands	0.33	0.57
Yorkshire/Humberside	0.44	0.62
Merseyside	0.30	0.49
North West	0.28	0.46
North East	0.39	0.65

Preliminary results

- Significant difference of service purchases between foreign and domestic firms at plant level
- Regional multiplier effect: significant for intermediate services (not for final demand), and particularly for KIS
- Multiplier effect depends on regional industry structure
- Policy interest:
 - Attracting FDI in manufacturing can have beneficial effects for a wider range of industries (clear evidence of inter-industry spillovers) in *some* regions
 - Regional resilience to economic shocks: by outsourcing ancillary operations, foreign affiliates feed tertiary activities thus favouring the development of new trajectories of employment and specialisation within *some* regional economies

General implications of the research

- Global investment flows (ONE type of such flows) are strongly associated with regional development variables: MNEs' production and knowledge networks leads to **integration and diversification**, as well as to **isolation and lock-in**, ultimately spurring spatial inequality
- **Limited understanding** of state of the art and consequences of regional attractiveness coupled with regional outward reaching (i.e. connectivity)
- Without a clearer understanding, limited possibility to improve the **modest achievements of traditional policies** inward-FDI-no-matter-what?
- **Brexit** offers an interesting case study of the link between inequality and globalisation: "The UK regional problem is *primarily* due to the differential regional impacts of globalisation" (Philip McCann, RSA Symposium on National Economic Challenges, House of Parliament, 6th July 2016)



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Thank you for your attention!

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