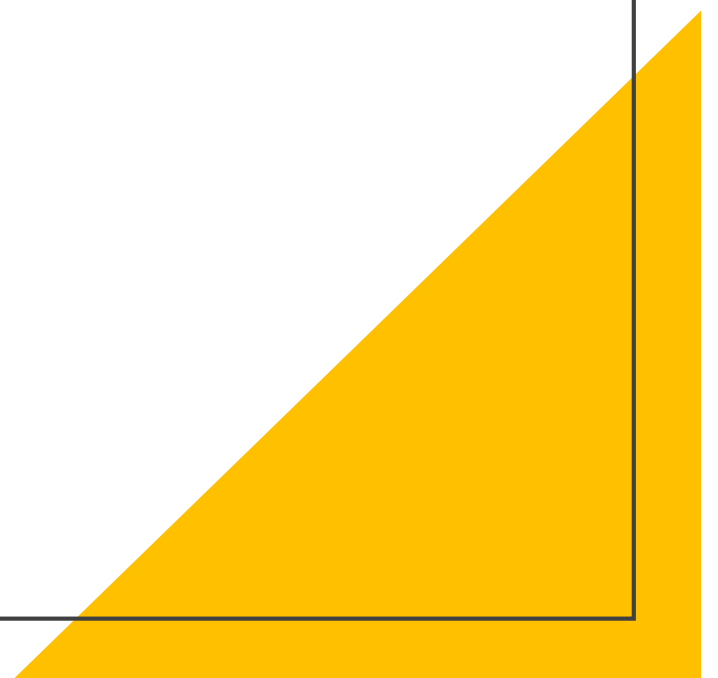


Supporting SMEs development by attracting the right kind of MNEs. The role of local policy

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MNEs and the local economies

- Multinationals account for one third of world GDP and two-thirds of international trade (OECD AMNE Database);
- The growing fragmentation of production within GVC has increased even further the importance of MNEs;
- MNEs foreign affiliates have strong backward and forward linkages with domestic companies, including SMEs:
 - Foreign affiliates source more than two thirds of intermediates from their host economy and more than 50% of domestic intermediate consumption is supplied by non-MNEs (of which the majority are small and medium-sized enterprises) (OECD AMNE Database);
- MNEs are also leading actors behind the external access of technology, knowledge and human capital.

MNEs and Connectivity

- MNEs play a key role in connectivity and in the integration of regions, districts and cities in the global economy;
- *Connectivity* is defined as two-way openness and integration shaping the domestic availability of skills, competences and business functions **AND shaped** by the economic and socio-institutional local context (i.e., local policies; local innovation systems; knowledge spillovers; local specialization) (Crescenzi and Iammarino, 2017);
- MNEs and local/regional economies are confronting similar challenges and their competitiveness is increasingly interconnected:
 - **Multinationals** are knowledge integrators complementing their own knowledge by tapping into geographically dispersed, local knowledge bases in clusters/cities around the world;
 - **Local economies** depend on a combination between localized productive and knowledge assets (the 'local buzz') and the access to external knowledge through global pipelines (MNEs).

Some evidence about the connectivity between MNEs and the local economies

Business activities matter:

- ❖ location factors attracting MNEs to regions differ for the different business activities in the value chain.

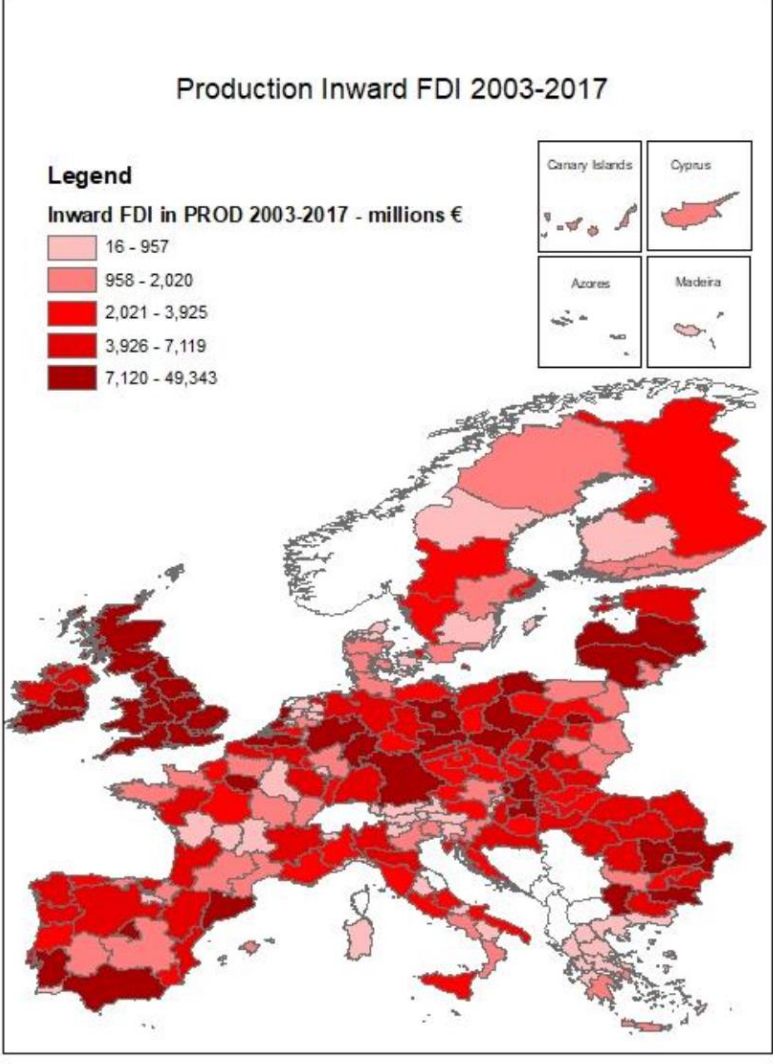
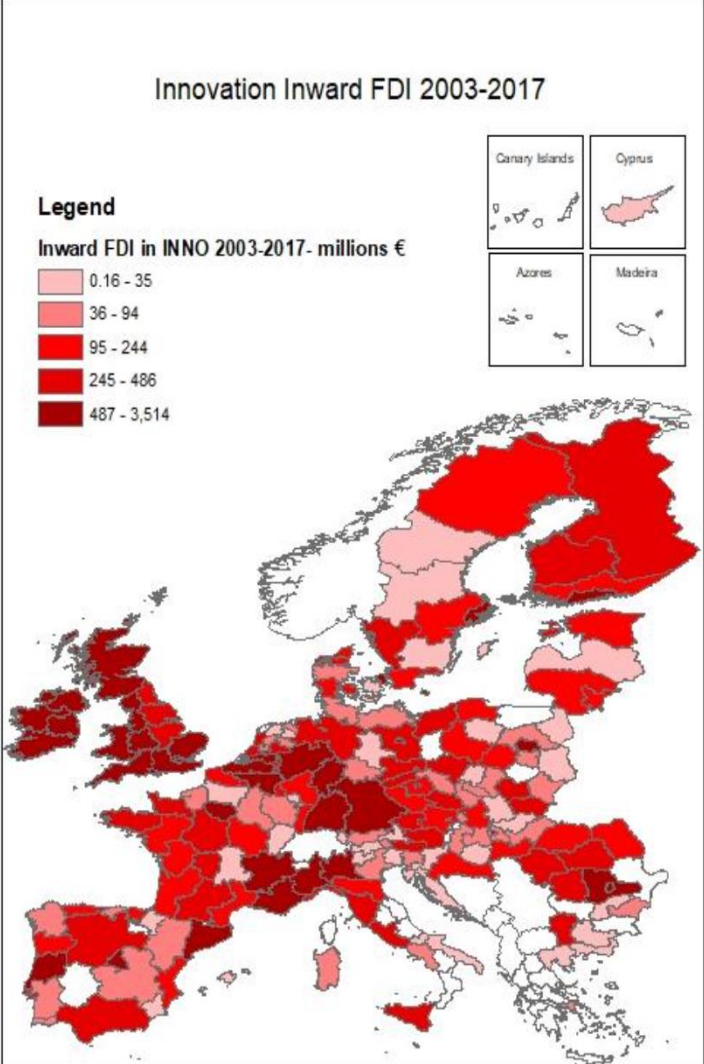
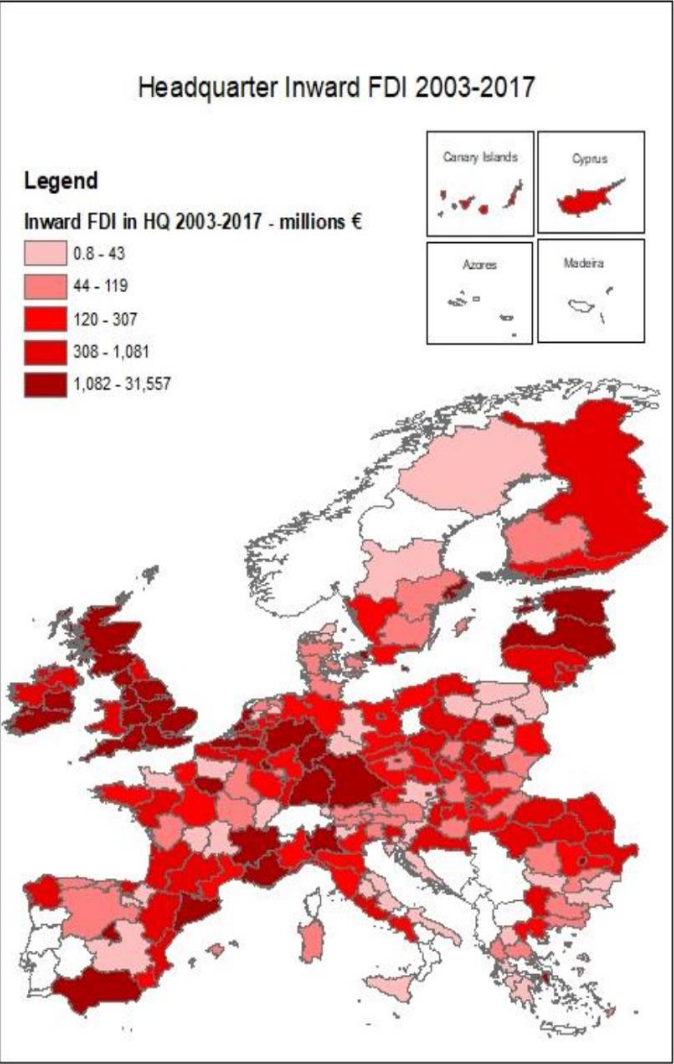
Entry mode matters:

- ❖ acquisitions and greenfield investments have a different impact on the local host economies;
- ❖ global cities are not the optimal location for the EMNEs acquisitions to access knowledge.

Fitting location factors with business activity characteristics

(Crescenzi, Pietrobelli & Rabellotti, JoEG 2014)

- The preferences of MNEs for the location of their foreign activities vary according to the value chain stages that are being re-located outside their home countries.
- Empirical setting: 19,444 greenfield investments from the entire world into the EU25 countries, geocoded at NUTS2 level (Source: FDI Markets) and disaggregated in 5 activities: Headquarters, Innovative Activities, Commercial Activities, Production, Logistic and Distribution.



Source: Comotti, Crescenzi & Iammarino (2020)

Investment location drivers

❖ **Regional Innovative Capacity:**

- **R&D Investments** as a share of Regional GDP and **Patent Intensity**;
- **Social Filter** measuring structural pre-conditions to establish well functioning regional systems of innovation (Crescenzi & Rodriguez Pose, 2011);

❖ **FDIs Regional Agglomeration:**

- total pre-existing investments;
- total investments in the same sector;
- total investments in the same functions;

❖ **Market size and labour market indicators.**

Findings in a nutshell

- MNEs locate different activities where they can be carried out most effectively tapping into location-specific resources and capabilities;
- Local factors are stronger drivers for:
 - Innovation activities are attracted by regions with strong innovation systems (proxied by the Social Filter);
 - Production activities are driven by local labor market conditions;
- National characteristics better explain MNEs' location decisions of headquarters and commercial activities;
- These findings have policy implications concerning what local governments could do for attracting what kind of business activities.

The choice between greenfield investment and acquisitions in regions (Amendolagine, Crescenzi & Rabelotti, 2022)

- There is increasing skepticism on acquisitions.
- In EU countries there are growing concerns about the impact that foreign acquisitions, in particular when undertaken in strategic sectors (i.e. ICT, biotech) and by multinationals from emerging countries (and especially China), may have on security and technology competitiveness.
- At the other end of the spectrum, national and local policy makers worldwide compete fiercely for the attraction of greenfield FDI which are seen as a fundamental source of economic growth, knowledge transfer, innovation, and recovery after shocks.

Drivers of entry mode choice

- Empirical setting: 1,116 multinationals from the Forbes Global 2000 list with at least one investment in the EU-28 regions.
- Drivers of the entry mode decision:
 - Investors' characteristics: efficiency and innovation capacity;
 - Host country and regional characteristics: technological dynamism and institutional conditions;
 - Interaction between firm-level heterogeneity and the characteristics of the host (national and regional) economy.

Findings in a nutshell

- MNEs prefer acquisitions to invest in regions with stronger investment eco-systems;
- While they choose greenfield investments in regions with weaker systemic conditions;
- However, when accounting simultaneously for heterogeneity at firm-level and in the host regional eco-systems, regions with high quality of eco system attract greenfield investments undertaken by the most productive MNEs;
- Policy makers require micro, granular evidence to build the local conditions attracting the type of foreign investments which can contribute most to local development.

Entry mode choice in global cities (Amendolagine, Piscitello & Rabelotti, 2021)

- Global cities are characterized by a high level of international connectedness, advanced producer services and a cosmopolitan environment (Sassen, 2010);
- But they can also have downsides, including the risk of unintentional knowledge spillovers to competitors especially in the case of MNEs endowed with high levels of technological assets (Shaver and Flyer 2000; Gordon and McCann 2000);
- When considering emerging multinationals (EMNEs), they are likely to suffer from the liability of emergingness and consequently from discrimination and protectionist attitudes that constrain their aim of undertaking FDI for acquiring knowledge and skills to improve their innovation capacity (Amendolagine, Giuliani, Martinelli & Rabelotti, 2018).

Findings in a nutshell

- With a sample of 170 Indian foreign direct investments, we find that, compared to greenfield foreign investments, acquisitions have a greater positive influence on the investor's innovation performance, in particular in technologically advanced countries;
- But when acquisitions are made in global cities, the impact on the investor's innovation performance is lower when compared to peripheral locations
- In global cities EMNEs face fierce competition by local actors, such as firms, research institutions and other multinationals in the same locations.
- Investments in global cities may be challenging for EMNEs aimed at acquiring knowledge to increase their innovation performance.

Final takeaways and policy implications

- MNEs strategies of internationalization are rather complex;
- For local policy makers, the attraction of the 'right' type of investments to maximise local development is a complex task that needs to balance a multiplicity of factors;
- Understanding the drivers of the MNEs about where to locate different business activities and about different entry modes is a key input for informed and tailored local and regional policies;
- By reinforcing their eco-system and improving their quality of government, local and regional policy makers can attract greenfield investments from the best performing MNEs;
- In a context where acquisitions are actively discouraged on national security grounds, there might open an opportunity for a rebalancing effect in favor of less developed regions, able to invest in improving their institutional quality and benefit from a partial shift towards greenfield investments.

Thank you!

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