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Book Review

Foreign Direct Investment and the Regional Economy

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reviewed by Prodromos Prodromidis*

The book constitutes an interesting contribution to the study of regional economic development and international movements and businesses. It consists of an introductory overview (pages 1-4), four background and theory-oriented chapters focusing on the theory and patterns of foreign direct investment (FDI) (pages 5-90), four empirical chapters regarding aspects of inward investment in the regional economy of North-East England (pages 91-190), and conclusions (pages 191-97), followed by a data appendix (pages 199-224), bibliography (pages 225-41), and an index of terms (pages 243-48).

The authors build up the material by (i) presenting background material concerning the definition, history, and recent evolution of FDI in the world economy and the UK (pages 7-25); (ii) offering a literature review on the theories regarding the assumption of such investment by firms (pages 27-43); (iii) providing a literature review on the theories and empirical evidence pertaining to why some areas attract more FDI compared to other areas (pages 45-70); and (iv) engaging in a literature review on the theoretical and empirical evidence as regards the costs and benefits of FDI for the regional economy hosting the said investment (pages 71-90). They then utilize the *Inward Investment Dataset*, a project-based account of proposed (NB: not necessarily fully realized) FDI projects held at the plant-level and supported by the regional inward investment agencies of North-East England, over the 1985-98 period, in order to (v) examine the investment projects in terms of their characteristics (pages 93-118); (vi) determine the project characteristics that promise more jobs (pages 119-37); (vii) examine the pattern(s) of plant employment and whether the plants deliver their job targets (pages 139-62); and (viii) analyze the survival and re-investments of plants (pages 163-90).

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Concerning the UK, they observe that FDI inflows increased from the early 1990s and peaked in 2002. As with world FDI flows, the main propellant was the increase in mergers and acquisitions, and the main sources were the USA, Western Europe, and the Far East.[1] This investment was distributed unevenly across the country, which may be a reflection of the industrial structure of regions and/or the availability of assistance grants aiming to attract FDI to certain areas. The mixed results emerging from the study of pros and cons of FDI at the regional level, and the re-appraisal of evidence, pose the question regarding the value of the jobs created as a direct or indirect result of FDI. So the authors proceed to study the case of North-East England.

It appears that FDI accounted for 5% of the region's GDP produced between 1985 and 1998; with nearly 80% of pledged FDI originating from 28 rather large projects (each promising more than £50 million) implemented by 20 plants out of some 364 known projects carried out by 230 plants for which information exists. According to these aggregates, 13.86% and 30.98% of pledged FDI involved start-up and re-investment projects (in pre-existing plants), respectively, of Far Eastern companies; 5.35%, 5.32%, 11.45%, and 6.40% concerned start-up, re-investment, acquisition, and joint-venture projects, respectively, of North American companies; 13.68 and 6.94% involved start-up and re-investment projects by Western European companies; while the remaining types of investment by each supranational region of origin and projects from the rest of the world attracted lower shares. This pledged investment was heavily concentrated in the manufacturing sector, especially in the radio-television and communications equipment industry (33.22%), the transport equipment industry (22.13%), the chemicals industry (11.88%), and the unclassified machinery and equipment industry (7.45%). Additionally, 22.5%, 17.34% and 5.41% of it involved re-investment, start-up, and acquisition projects, respectively, located in Tyne-and-Wear; 15.06% and 7.15% concerned reinvestment and start-up projects, respectively, located in County Durham; 8.14%, 6.6%, and 6.38% involved start-up projects, acquisitions, and joint-ventures, respectively, in Cleveland; while the remaining types of FDI directed to the three above-mentioned sub-regions and Northumberland attracted lower shares. A visual comparison of the pledged investment pattern bears a resemblance to the spatial distribution of plants and clusters of plants across the region. These, for the most part are located across the eastern-seaboard transportation network and close to the main conurbations from which they draw labor.[2] Naturally, this raises the question as to why other FDI plants locate away from

1. The authors' description of the large developed economies, such as the USA, UK, Germany, and France as the most popular destinations of FDI (p.17) is correct insofar as aggregate figures are concerned, given that other indicators may tell a different story. For instance, the Republic of Ireland, and Belgium-Netherlands-Luxemburg exhibit a higher FDI per capita (the latter exhibit a higher FDI per hectare ratio as well).
2. In our view, a couple of correlations between investments per project and the population densities of the eastern and western travel-to-work areas might have illuminated the point more clearly.

the main road artery. Indeed, the rationale for directing investment to a certain area may or may not be different from the motivation to direct investment to a particular region. Yet, while the authors raise the issue of FDI location at the national, regional, and sub-regional level in their literature review, their empirical analysis for the most part pays little attention to the latter and is directed to other matters.[3]

The econometric analysis of 350 FDI projects for which both prospective job and investment details are known indicates that the number of promised jobs increases with investment, while larger projects are associated with proportionally fewer jobs. If that is so, the concentration of policy-makers on attracting large plants may be in need of revision. Another selection of econometric findings from all 511 projects implies that the number of promised jobs is higher in acquisition cases, in the transport equipment and the radio-television and communications equipment industries, when they are in receipt of government grant and/or attracted the involvement of the national agency, but may not depend much on location (county or local authority), the place of origin (country or supranational region), and the year of investment (i.e., the different phases of the business cycle). Additionally, a selection of econometric findings from the 350 projects for which both job and investment details are known seems to preserve these results even across projects of a similar investment scale.

In terms of plants, by mid-1990 the region possessed 67 units that had commenced operations prior to 1985 and employed 24,578 people; and 215 that were established between 1985 and 1999, of which 129 were start-up plants employing 17,900 people, 67 were acquisitions employing 16,150 people, and 19 were joint ventures employing 3,802 people. Considering that the surviving start-up plants had pledged 19,650 jobs through their various projects, the acquisitions had pledged 22,707 jobs, and the joint ventures 4,110 jobs, it is quite clear that all types of plants fall some way short of their job targets. As the authors point out, the non-realization of promised jobs in a period of stable economic conditions suggests that the number of promised jobs was perhaps deliberately exaggerated so that the foreign firms to be attracted to the region might enjoy better treatment from the investment agencies, and the agencies might benefit from an increased grant-in-aid from the central sources. The econometric analysis of the *employment-to-pledged job*s ratio for 193 new plants indicates that start-up plants, plants established in 1994-96, and plants involved with the national investment agency delivered a smaller ratio, while those engaged in the manufacturing of transport equipment and/or in receipt of a government grant (which is apparently conditional on the plant delivering the jobs) delivered a higher ratio.[4]

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3. For instance, the finding in the very last regression (Table 8.9) that start-up plants providing over 50 jobs survive longer in rural areas than urban, is probably a side result that goes unnoticed in the text.
4. Though the start-up and national investment agency results are not strong among plants pledging more than 100 jobs; the transport result is not strong among single-investor start-ups and plants pledging less than 100 jobs; and the 1994-96 result is not strong among plants pledging less than 100 jobs. Additionally, acquisition plants pledging less than 100 jobs are associated with a lower *employment-to-pledged* ratio.

Additionally, the authors find that smaller plants (which pledged less than 100 jobs) have overshot their job targets while larger plants (which pledged more than 100 jobs) have fallen some way short; and they observe that for every large plant there is a need for thirty smaller plants in order that the job target be met in the aggregate.

They note that five plants that had commenced in foreign ownership prior to 1985, along with fifty FDI plants that settled in the region between 1985 and 1998 and had pledged 9,797 jobs,[5] shut down by 2000. And, on the basis of their econometric analysis from 236 new plants, they suggest that the probability of exit at first increases and then decreases, with the survival duration being longer for plants receiving support from the national investment agency, and shorter for start-up plants pledging 50 jobs or more (especially in the manufacturing of radio-television and communications equipment), and plants involved with the regional agency. Overall, a start-up plant seems to have a lifetime of about 14 years, with very large plants (those pledging more than 500 jobs) being slightly more transient by about a year. As the rooting of FDI in a region is often associated with re-investment, the authors analyze the probability of re-investment using data from 191 new plants. They find that the probability increases up to a size of about 350 jobs and decreases for larger plants (mostly joint ventures and acquisitions). It also increases if the plant is in receipt of a grant or was taken over since 1998 by another firm or the management (unlikely for start-ups), and decreases if the plant is rather old (in the case of acquisitions). In the case of start-up plants, the probability increases if they are involved in the chemicals industry and/or there exist other plants in the area under the same owner. Their analysis of annual hazard rates suggests that a plant re-invests within 7 years or not at all; and only half the plants re-invest. Indeed, in analyzing the duration of re-investment the authors find that plants involved with the national agency have not re-invested, while Far Eastern plants have re-invested sooner than those from North America or Western Europe, as do plants in the transport activity, and plants promising more jobs. Additionally, they propose that promised reinvestments do not lead to significantly longer survival durations compared to initial pledged investments. These suggest that there may be little role for policymakers. If the region has a comparative advantage in manufacturing or other activities then the survival rates of such plants ought to be longer.

In evaluating the present study, this reviewer is of the opinion that the authors demonstrate an impressive array of tools, such as tables, graphs, maps, statistical tests, regressions with alternative specifications, sensitivity analyses, the generation of hazards, on the basis of which one is tempted to recommend it as an example of how regional economic research ought to be conducted, not only in the UK but around the world. However, the eloquence and clarity that permeate the first five

5. Of these, 7,533 jobs were in start-up plants, 2,146 in acquisitions, and 188 in joint ventures.

chapters wane in the later chapters: Explanations are often curt, allusive or non-existent as if writing for the initiated, thus causing the reader to swing from fascination at the brilliance of the authors producing the analytical tools to frustration at their 'negligence' in presenting and explaining things. For instance, emphasis is placed in the 7th chapter on the description of a theoretical linear model which turns out to produce awkward or unsatisfactory econometric results. However, when the authors switch to a multiplicative arrangement of terms (a log-linear format) that yields the desired coefficients, they do so without offering an explanation for the underlying (alternative) model. In tables 6.5, 6.6, 6.7, 8.4, and 8.5, a number of regressors are not specified (one has to think to search in the appendix for the definitions), much less discussed in the text; and in tables 6.8, 7.8, 8.6 several estimated parameters are not presented (and the discussion of table 7.9 conveys a similar impression). Could it have been better if the full models and the t-statistics were provided somewhere in order to enable the reader to assess them better? And, similarly, could the relationships between the various vectors be probed and be presented in terms of correlations as well? As things are, on the basis of table 7.1 one may get the impression that the plant-type and origin or the plant-type and age regressors employed in table 8.6, are to some extent correlated. We conclude with the view that a future edition of the book would also benefit from a number of typographical corrections (especially on pages 141, 153, 158, 170, 171), a better varied figure 5.8 (whether by different shades of gray or patterns), and the inclusion in figures 5.4 and 5.5 of the county appellations mentioned in the text (and maybe an outline of the transportation network) in order to aid the international reader who is not acquainted with the geography of North-East England.