



Outward foreign direct investment, intangible assets and the performance of European regions

Sara Landi

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Outward foreign direct investment, intangible assets and the performance of European regions

Edoardo Ferrucci (Sant'Anna School of Advanced Studies)

Simona Iammarino (London School of Economics and Political Science)

Cecilia Jona Lasinio (ISTAT and Luiss University)

Valentina Meliciani (Luiss School of European Political Economy)

Project update by Sara Landi¹

The digital transition of the world economy in recent years has important repercussions on the division of labor at the regional level: exposure to inflows or outflows of FDI, in fact, determines a transfer of intangible assets (Corrado, Hulten and Sichel, 2009), knowledge, skills and experience from and to the rest of the world, involving the activation of dynamic processes of specialization and diversification that reconfigure regional economies.

If incoming FDIs and their attraction have long been the focus of policymakers, the issues relating to the internationalization that occurs through outward FDI flows are largely disregarded, both by the scholarly literature and by the political debate.

Part of this gap is due to significant limitations in the availability of data, in particular at the subnational level: it is still difficult to capture the characteristics and evolution of interdependence, connectivity and the endowment of intangible assets of European regions (Crescenzi and Iammarino, 2017; Jona Lasinio, Manzocchi and Meliciani, 2019). In this scenario, the analysis of connectivity between regions through global value chains and FDIs, especially outward, remains a "missing strategy" (Bailey and Driffield, 2007; Bailey and Lenihan, 2015), also in the recent definition of regional strategies for research and innovation for smart specialization (Uyarra et al., 2014; Crescenzi and Iammarino, 2017; Iammarino, 2018; Radosevic and Ciampi Stancova, 2018; Comotti, Crescenzi and Iammarino, 2020).

The overall impact on the country (or region) of the origin of outward FDIs remains ambiguous and depends on the net balance between the delocalized activities and the reconfiguration of national production (Castellani and Zanfei, 2007; Castellani and Pieri, 2016).

The prevalence of positive or negative effects could depend on the function or stage of the value chain that is located abroad, and on the ability to coordinate the value chain itself. Indeed, if the domestic

¹ This project update was written by Sara Landi, researcher at Osservatorio imprese estere, based on the presentation of the paper "Outward foreign direct investments, intangible assets and the performance of European regions" coauthored by Edoardo Ferrucci, Simona Iammarino, Cecilia Jona Lasinio and Valentina Meliciani.

activities move towards operations and functions with a higher added value content and the outward FDI facilitates access to different knowledge bases abroad, with the consequent updating of skills, the region of origin of the outward FDIs can enhance its added value. However, at the same time, negative effects on employment could occur, both of "exporting workers" and of reducing employment for routine jobs.

The main contribution of the paper "Outward FDI, intangible assets and the performance of European regions" to the political debate and economic literature is to look at the interaction between outward FDIs - distinguished by function - and intangible assets in determining regional performance. The methodological innovations introduced and the wealth of data sources used make it possible to distinguish the effects of outward FDIs according to the investment function located abroad, focusing on five functions in particular: headquarters, research and development and innovation, production, sales, and logistics and distribution.

The database used integrates three different sources: FDImarket, which contains detailed information at the level of individual direct investments abroad (number and financial volume of FDI, geographic variables on the origin and destination at the level of country, region, province and city, industrial sector, function or stage of the value chain, etc.); INTAN-Invest, which provides harmonized measures of investments in intangible assets in 18 European countries and the United States, broken down by industrial sector; Eurostat, the European statistical service from which to obtain information on regional added value, employment and other control variables.

Overall, it emerges that the impact of outward FDI flows on value added and employment is positive and is greater when the functions located abroad concern the headquarters, research and development and innovation and sales, while it is positive but very modest in the case of production and not significant in the case of logistics.

The impact on regional added value is amplified when investing countries have a higher rate of investment in intangible assets, in particular in organizational capital, a strategic element because it allows the efficient coordination of complex and displaced activities by multinational companies.

The results show that outflows of FDIs can lead to skills upgrades and higher production value, with a consequent increase in employment. However, the concentration of high value added FDI functions in large metropolitan areas and organizational capital in central European countries risks exacerbating regional disparities in terms of value added and employment. These disparities can be mitigated by policies that favor investments in intangible assets also in peripheral countries and increase connectivity between metropolitan centers and more peripheral regions. The debate on the benefits of internationalization and delocalization processes for the countries and regions of origin and destination of FDI should be complemented by careful consideration of the functions that are being internationalized and the availability of intangible assets.

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