Transnational corporations and local and regional development

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Introduction

The activities of Transnational Corporations (TNCs), through Foreign Direct Investment (FDI) and processes of control and coordination, continue to orchestrate the process of global economic integration. Put simply, TNCs are one of the primary movers and shapers of the contemporary global economy (Dicken 2007). Since the 1970s the impacts of the contemporary TNC have been scrutinised across a variety of academic disciplines – inter alia economic geography, strategic management, economics and the international business literature – analysing economic growth, technological change, trade, market structures, finance and employment (Yeung and Peck 2003; Dunning and Lundan 2008). Perspectives developed within economic geography continue to make important and distinctive contributions to this inter-disciplinary endeavour.

On the one hand, economic geographers have led the move away from ‘placeless’ notions of global corporations to a more advanced appreciation of the geographical embeddedness of TNC activity (see, for example, Yeung and Peck 2003 on Dicken’s work in this field). The character and behaviour of TNCs both shape, and are shaped by, a geographical contradiction central to global economic integration – between the promotion of a space of flows and the continued significance of place (Phelps and Raines 2003; Jessop 1999). Examining the impact and possibilities for economic growth as part of the “variegated landscape of relations between TNCs and territories” is of greatest interest to economic geographers (Phelps and Waley 2004: 192). On the other hand, contributions from economic geography, industrial geography and regional studies have more specifically focused upon “unpacking the relationships between TNC activity and urban and regional development” (Yeung 2009: 198). Indeed, Yeung (2009: 199) goes on to suggest that a “geographical perspective argues strongly that TNCs and their activity are undisputedly one of the keys to understanding urban and regional development in today’s globalizing world economy”.

The current Global Production Network (GPN) approach (see Coe et al. 2008) offers a valuable framework in bringing together these interrelated concerns – TNCs, territories and local and regional development. At one level, the approach situates the roles and impacts of TNCs and territories as part of a broader “globally organised nexus of interconnected functions and operations by firms...”
and non-firm institutions through which goods and services are produced and distributed” (Coe et al. 2004: 471). At another level, the notions of ‘strategic couplings’ and ‘regional assets’ connect investment strategies of ‘focal firms’ with a ‘globalised’ understanding of regional development. In so doing, the GPN approach has created a productive and expansive dialogue between economic geography and local and regional development studies, moving beyond the traditional focus on FDI and regional development in Europe and the USA to encompass contributions from the global North and South (inter alia).

This chapter aims to contribute to the recent reinvigoration of academic and policy interest in the dynamic interrelations between TNCs and regional development. The GPN approach offers much utility as a heuristic framework to explore and question the interplay of global networks of firms, non-firm institutions and territories. However, in developing such a holistic and inclusive network approach the GPN framework tends to underplay the tensions created by the differential powers of key agents shaping and moulding the fortunes of regions and their ability to attract and embed exogenous resources. As a result, this chapter seeks to refocus attention on the particular and enduring roles of the TNC and the nation state in shaping host region development. First, while according an active role to the socio-institutional and cultural regulation of investment behaviour, this chapter restates the centrality, power and causal role of the firm. The ‘black box’ of the TNC is explored, focusing on emerging dynamics of time-based competition and intensified intra-corporate competition and the role of TNC merger and acquisitions in shaping (dis)investment decisions within host regions. The discussion reveals how the prospects for local affiliates, host regions and communities are asymmetrically pitched within a diverse array of fluctuating, competitive and geographically selective processes of corporate restructuring and change. Second, the discussion then focuses upon the enduring importance of national level institutions in shaping the interrelations between TNC investment behaviour and host region economies. Withstanding the widespread acceptance of state ceding power to capital within the contemporary neo-liberal context, the interrelations between TNCs and contexts of home and host nations continue to impact upon corporate strategies, and ultimately their relative power over institutions in host localities and regions. Building on the preceding discussion, the final section concludes by highlighting the changing roles, prospects and challenges for regional-level institutions in their ongoing relationships with TNCs – offering a series of insights into the GPN’s notion of establishing ‘strategic couplings’. The chapter begins, however, by briefly revisiting the traditional literature on TNCs, FDI and local and regional development prominent in the 1980s and 1990s within economic geography, industrial geography and regional studies.

In its contribution to local and regional development studies, the discussions developed within this chapter illustrate the complex and fluctuating ways in which “TNCs organise their economic activities across space in a variety of different ways, with important implications for the places that ‘plug-in’ in to these corporate networks” (Coe et al. 2007: 225). For local and regional development scholars and policy practitioners alike, the analytical challenge remains one in which “we generalize about the impact of TNCs at our peril…what is true in one set of circumstance may not be true in others…we need to avoid ‘kneejerk’ reactions, whether positive or negative” (Dicken 2007: 454).

**From branch plants to embedded plants and back again?**

Research into inward investment and peripheral region development represents a long
tradition of inquiry (Firn 1975; Watts 1981; Pike 1997; Hudson 2000; Phelps et al. 2003). According to Yeung (2009) a clear distinction can be made between this strand of literature with its preoccupation with the impacts of FDI activity and that of the more contemporary concerns of the GPN literature which affords more attention to unravelling the ‘black box’ of the TNC, its organisation, production networks, multi-scalar institutional relations and influence on regional development. However, I would argue that while the GPN notions of strategic couplings, regional assets and value are useful heuristic devices, the traditional literature continues to offer a detailed series of insights into how such ‘coupling’ processes are constrained, enabled and expressed in host regions. In particular, the analytical frameworks developed in the traditional literature around ‘studying regions by studying firms’ still offer considerable utility in grounding the impacts and interrelations between TNCs and regional development (Markusen 1995).

The truncated experiences of inward investment industrialisation in peripheral regions during the 1960s and 1970s coalesced with the development of the branch plant economy tradition of conceptual and empirical inquiry. This work emphasised the structures of external ownership and the control and creation of functional roles for regions within broader corporate and geographical divisions of labour (Firn 1975; Dicken 1976; Hudson 2000). In short, peripheral regions became sites for the more routine capital-intensive and low-skilled elements of the production chain, while higher level command and conception activities were located in more advanced regions. As such the original policy expectations that inward investment would stimulate a ‘growth pole’ for peripheral regions received heavy criticism as the very nature of branch plant investments offered host economies little in the way of “skill formation, technology transfer, linkages opportunities, transmission of new managerial and entrepreneurial know-how or reinvestment of profits” (Amin and Tomaney 1995: 202; Phelps 2009). Moreover, through the insertion into the extremities of corporate hierarchies peripheral host economies, such as the North East of England, were described as ‘global outposts’ (Hudson 1995) susceptible to the vagaries of external control, corporate rationalisation and capital flight as the cost/price nature of locational behaviour fuelled capital mobility (Bluestone and Harrison 1982; Hudson 2000).

With the failure of alternative forms of endogenous growth strategies to adequately cater for the huge employment demands within old industrial areas, the attraction of inward investment remained a key element of peripheral region development within states within Western Europe during the 1980s and early 1990s (Amin and Tomaney 1995). Indeed, the strategic direction of FDI-led growth was given new impetus in the early 1990s with the prospect that new processes of corporate reorganisation, operating with flatter and looser organisational structures, offered a qualitatively enhanced type of inward investment project for host region economies (see Table 33.1; Pike 1998; Young et al. 1994).

Situated within a loosely defined context of ‘flexible’ or ‘post-Fordist’ corporate reorganisation, new ‘performance plant’ inward investment projects carried heightened levels of autonomy, more complex functionality, specialised markets, heightened product and processes technologies and more qualified workforces (Amin et al. 1994; Phelps et al. 2003). Transnational corporate strategies were understood as increasingly responsive to geographical variations in markets and regulation, most notably at macro-regional levels. As a result production strategies became ‘regionalised’ or ‘glocalised’ (Hudson 2000) as companies sought to gain competitiveness through geographical proximity to markets and also localised production networks (for example, just-in-time supply chains). For host economies, the local economic development
### Table 33.1 Dimensions of type of plant and local and regional development implications

<table>
<thead>
<tr>
<th>Role and autonomy</th>
<th>'Branch plant'</th>
<th>'Performance/networked branch plant'</th>
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<td></td>
<td>External ownership and control; structured position and constrained autonomy; truncated and narrow functional structure involved in part-process production and/or assembly; cloned capacity and vertically integrated with limited nodes capable of external local linkage (e.g. suppliers, technology); state policy subsidised establishment via automatic grants to broadly designated areas</td>
<td>External ownership and control but possible enhanced strategic and operating autonomy as well as responsibility for performance increased within a ‘flattened’ hierarchical structure; wider functional structure involved in full process production tilted towards manufacturing rather than solely assembly; sole capacity with product (range), division or market mandate at the expense of rationalisation elsewhere; increased nodes capable of linkage (e.g. R&amp;D with technology support, human resources with training); state policy support for establishment on selective and regulated basis (e.g. job creation, local content)</td>
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| Labour process | Labour-intensive, semi- and unskilled work; ‘routinised’ and specific tasks within refined technical division of labour; high-volume production of low- to medium-technology products; standardised process technology; short-term, task-specific, ‘on-the-job’ training integrated with production | Capital and technology intensive, semi- and skilled work with increased need for diagnostic and cognitive skills; recombined job tasks and individual/team responsibility for performance; low- to high-technology and low- to high-volume production flexibility; flexible and reprogrammable process technology; longer term, coordinated with investment, ‘on-‘ and ‘off-the-job’ training |

| Labour–management relations | Organised and unionised labour; job classifications, task assignments and work/supervision rules linked to seniority-based pay scales; formalised and collective negotiation and bargaining tied to employment contract; personnel management with administrative focus | Business unionism; reduction and streamlining of grading, job titles and meritocratic salary structure; shift to company-based non-(traditional) union arenas, individualised negotiation and bargaining tied to ‘enabling’ agreements; human resource management techniques |

| Labour market strategies | Employees considered interchangeable, replaceable and in need of constant supervision; limited screening and high labour turnover and absenteeism; reliance on external labour market | Rigorous scrutiny and increased selectivity in recruitment; employees as human resources needing investment; teamworking to reduce labour turnover and identify employee with the goals of the company; development of core internal labour market and peripheral (part-time, temporary) segments |

| Supplier linkages | Limited since integration with broader corporate structures of production and supply chains; intra-firm linkages substituted for local ties; limited local supply chain knowledge and greater awareness of potential suppliers in headquarters region | Outsourcing increase with JIT and synchronous suppliers; increased potential for local procurement and supplier agglomeration; first- and second-tier supply chain management; increased global sourcing and partnership relations; growth in dependence in the local supply network; geographically distributed production networks and JIT operated over (inter-)national distances |

(continued)
implications of this purported shift focused upon the enhanced potential to increase the local ‘embeddedness’ of plants and investment projects. The localisation of production was seen to offer new forms of ‘development’ of local economies through the deeper sets of backward and forward localised supplier linkages (Turok 1993; see Table 33.2) while, the workforce requirements, a swathe of Japanese and South Korean FDI projects within Wales, Scotland and the North East of England, were understood to be generating more highly skilled and intensively trained workforces within peripheral regions, triggering both skills and occupational uplift effects (Phelps and Fuller 2000; Raines 2003). Together, the qualitative shift in supplier linkages and the increased requirement for skilled and professional labour were perceived to offer a ‘demonstration effect’ of new industrial practices which would trigger the modernisation of peripheral region economies (Cooke and Morgan 1998; Peck and Stone 1993).

In terms of workforce requirements, a swathe of Japanese and South Korean FDI projects within Wales, Scotland and the North East of England were understood to be generating more highly skilled and intensively trained workforces within peripheral regions, triggering both skills and occupational uplift effects (Phelps and Fuller 2000; Raines 2003). Similarly in the United States in the 1980s and 1990s, examples of ‘performance plant’ FDI emerged through a series of Japanese automotive ‘transplants’ – inter alia Honda, Nissan and Toyota – creating a distinct break with the geographies and production systems of the then traditional US automakers. In geographical terms, “this ‘new’ automobile industry had a very different geography from that of the traditional one. With few exceptions, the old established automobile industry centres were not favoured” (Dicken 2007: 309). In particular, having first secured the key priority of establishing production in the increasingly protected US national market, the incoming Japanese investments targeted greenfield rural locations, initially clustered in a ‘Transplant Corridor’ in the American Mid-West before being decentralised across the Southern States (e.g. Mississippi – Nissan, Toyota; Texas – Toyota; Kentucky – Toyota). Key factors of location included local workforce characteristics, low levels of unionised labour, transport infrastructures suitable for ‘just-in-time’ supplier agglomerations,
Table 33.2 Alternative linkage scenarios: a summary of the main tendencies

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<th>Developmental</th>
<th>Dependent</th>
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<tr>
<td>Nature of local linkages</td>
<td>Collaborative, mutual learning based on technology and trust; emphasis on added value</td>
<td>Unequal trading relationships; conventional subcontracting; emphasis on cost saving; short-term contracts; price-cutting and short-term convenience for multinationals</td>
</tr>
<tr>
<td>Duration of linkages</td>
<td>Long-term partnerships; high-level interaction to accelerate product development and increase responsiveness to volatile markets</td>
<td>Weakly embedded; branch plants restricted to final assembly operations</td>
</tr>
<tr>
<td>Meaning of ‘flexibility’</td>
<td>Deeply embedded; high investment in decentralised, multi-functional operations</td>
<td>Weakly embedded; branch plants restricted to final assembly operations</td>
</tr>
<tr>
<td>Inward investors’ ties to the locality</td>
<td>Markets for local firms to develop and produce their own products; transfer of technology and expertise strengthens local firms</td>
<td>Markets for local firms to make standard, low-tech components; subcontracting means restricted independent growth capacity; many low-skilled, low-paid, temporary and casual;</td>
</tr>
<tr>
<td>Benefits for local firms</td>
<td>Diverse including high skilled, high income</td>
<td>Vulnerable to external forces and corporate decisions</td>
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<tr>
<td>Quality of jobs</td>
<td>Self-sustaining growth through cumulative expansion of the industrial cluster</td>
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<td>Prospects for the local economy</td>
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Source: Adapted from Turok (1993: 402)

state-level grants and assistance and sites away from the competitive pressures of rival automotive assemblers (Kenney and Florida 1992). Subsequently, new local and regional flexible production enclaves emerged within non-traditional heartlands such as Kentucky, where Toyota’s largest US plant (Georgetown) provides the focal point of a state-wide motor vehicle industry involving 52,859 jobs and to become ranked as the third largest car-producing state, behind only the traditional centres of Michigan and Ohio (Kentucky Cabinet for Economic Development 2007). Beyond the local and regional impact, the purported demonstration effect of Japanese transplants triggered a restructuring of production systems among US producers such as Ford and GM, Toyota’s continued superiority supported the growth of a 42,000-strong US workforce across over ten vehicle and parts plants. For Toyota, its success was attributed to a company culture which “thinks globally, but act(s) locally…we have a hybrid system where we take the best of every culture and distil that into a system that really works effectively in every country where we do business – and the ability to transplant that system throughout other countries is the key to growing globally” (Toyota’s North American President cited in Schifferes 2007). Similar examples of Japanese automotive transplants in the UK – Toyota, Honda and Nissan – led to suggestions that FDI was stimulating a series of new growth trajectories around ‘flexible production enclaves’ in old industrial regions – analogous to a variant of a post-Fordist ‘new industrial space’ (Bryson and Henry 2005).

Since the early 1990s empirical inquiry has attempted to investigate and evaluate the notion of the locally embedded/performance plant within the UK, with a considerable weight of evidence continuing to illustrate the limited contribution of exogenous investment in stimulating regional transformation. One of the most comprehensive analyses of any purported shift from branch plants to embedded plants was provided by Phelps and
Raines (2003: 28), which concluded that in the inward investment heartlands of Wales and North East England there appeared “little support for the idea of the locally embedded plant”. Although many of the overseas operations had developed enhanced roles and were more advanced than traditional branch plant stereotypes, there remained low levels of local sourcing, collaborative R&D linkages remain limited in scope and there were few regional attractions (e.g. suppliers, education and training) that were deemed important in attracting further rounds of investment. In essence, the experiences of FDI in the UK regions were subsequently described as ‘extended enclaves’ (Phelps et al. 2003) whereby the integration of an FDI project is extended beyond simply direct employment to involve partial connections with local bases of R&D, suppliers and education and training. In terms of contributing to the development of synergies or agglomerations within host regions, then, FDI spill-overs appear mostly associated with existing clusters of indigenous industry with only reduced or even negative agglomeration effects in FDI-led clusters (De Propis and Driffield 2006; Phelps 2009).

At one level, this brief review of the traditional literature indicates the many lines of analysis through which the precise local and regional development impacts of TNC investment or ‘strategic couplings’ can be scrutinised. At another level, the limited evidence of embeddedness and truncated contributions to local and regional development serve to restate the political economy of FDI and the regions during the 1980s and 1990s (Hudson 2000). The extent to which the same structures shaping the degree of linkages, embeddedness, performance plants continue to shape the prospects of more contemporary concerns of FDI-led clusters remains a matter for further conceptual and empirical research. However, the following sections indicate the importance of connecting and retaining a geographical political economy perspective within studies of TNCs and regional development (Pike et al. 2006, 2008).

Restating the significance of the firm

With reductions in the growth of FDI flows in recent years, Phelps and Raines (2003) have identified a new terrain of intensified competition between territories for the attraction and retention of FDI and the mobile investment of TNCs. Central to these competitive dynamics are new forms of time-based competition, intensified processes of intra-corporate competition and increased merger and acquisition activity – all of which are impacting upon host regions in selective and geographically uneven ways. To better understand the corporate processes in which host regions are competitively pitched, research must look into the ‘black box’ of intra-corporate activity and redress fears that recent economic geography research has “sidestepped the issues of researching how business firms perform as the movers and shapers of the capitalist economy” (Yeung 2006: 2; O’Neill 2003; Dawley 2007a). It is important, therefore, that economic and political imperatives of TNCs – or focal firms – are not diluted within frameworks such as the GPN approach. As a purely economic agent, relative to other agents such as governments, the firm continues to possess structural power (Phelps and Waley 2004). Moreover, constitutive of the institutional contexts that they connect, firms increasingly exhibit political power, for example, using mobility to promote convergence across national regulatory environments (Phelps and Waley 2004). Here, Phelps and Wood (2006: 497) draw on the work of Crotty et al. (2003) to make the distinction between the bargaining power that TNCs can generate through the “gross mobility of capital (i.e. realized and non-realized threats of relocation of production) rather than just the net mobility of capital that highlights the
true extent of regulatory arbitrage”. As such, the structural power of the TNC continues to play a central role in determining the execution of their strategies across and between local affiliates, host region institutions and communities. The following discussion focuses upon three competitive dynamics currently shaping the uneven geography of their corporate investment and restructuring processes: *time-based competition*; *intensified intra-corporate competition*; and *TNC merger, acquisitions and restructuring*.

**Time-based competition**

Emerging from broader questions of the heightened mobility and turnover of multinational capital in time and space (Jessop 1999), the development prospects for host region economies are increasingly moulded by the shortening life span of individual FDI projects (Phelps and Raines 2003). Driven by the enhanced dynamism of ‘time-based’ competition (Schoenenberger 1997; Van Egeraat and Jacobson 2005), disruptive technological change and market preferences, competitive pressures are forcing TNCs to reduce the *time-to-market* of products and shorten *product life cycles* (Stalk and Hoult 1990; Yeung 2006). According to Phelps and Raines (2003: 3), these competitive pressures expose host regions to the “heightened mobility of productive investments as the ‘lives’ of individual production facilities dwindle, their future existence repeatedly and frequently become subject to parent company review”.

Compounding the existing vulnerabilities of host peripheral regions within TNC spatial divisions of labour and accentuated by the recent shift towards deregulated trade and investment policy regimes (Peck and Yeung 2003), the emerging salience of time-based competition and product life-cycle perspectives provide important insights into the economic geographies of transnational investment activity. The recent interest surrounding time-based competition and product life cycles necessitates a brief consideration of former approaches to the temporal and spatial dynamics of TNC investment activity and peripheral region development (Phelps and Raines 2003; Schoenenberger 1997). The late 1970s and early 1980s reflected the hey-days of cyclical models of TNC industrial location behaviour, built around the profit-cycle approach (Markusen 1994) and its influential antecedent the product-cycle model (Vernon 1966; Taylor 1986). Both approaches connected the cyclical evolution of products and sectors to the geographical dispersion and life course of TNC investments, with peripheral regions hosting the most labour-intensive, cost-sensitive and consequently ephemeral operations. However, with the rise of structuralist realism within economic geography in the mid-1980s, cyclical models of industrial change became discredited as essentialist, technologically deterministic and ultimately disembodied from the concrete phenomena of industrial behaviour (*inter alia* Sayer 1985; Walker 1985). Nevertheless, elements of both approaches connected with an emerging concern into investment volatility within the classic ‘branch plant’ critique of FDI that conceptualised a geographical division between core and peripheral localities within corporate spatial divisions of labour (Pike *et al.* 2006). Here, cyclical notions of investment vulnerability were replaced with a non-temporally determined exposure to corporate abandonment through spatial structures of production within broader social relations of production (Massey 1995; Yeung 2005). Continued scepticism surrounding the nature and scale of any qualitative transformation surrounding durability brought about by the ‘performance plant’ perspective were more recently reinforced by a series of ‘performance plant’ closures, rationalisations and postponed investments across the “periphery of the neoliberal economic heartland” (Phelps and Raines 2003; Dawley 2007b; Van Egeraat and Jacobson 2004). This was most vividly demonstrated with the decimation of the
UK’s high-technology semiconductor fabrication industry almost entirely dependent upon FDI projects. Between 1998 and 2002 over 4,000 jobs were lost and a further 2,400 new jobs postponed due to a flurry of plant closures and aborted investments, geographically concentrated in the North East of England, Wales and Scotland’s much-hyped ‘Silicon Glen’ electronic corridor. Encompassing some of the largest FDI projects within Europe, these flagship investments were emblematic of a ‘new dawn’ for the peripheral regions. The most acute example being that of Siemens Semiconductors in the North East of England, the German TNC closed its £1.1 billion investment after just over one year of commercial production with the loss of 1,200 high-skilled jobs (Dawley 2007a). While the collapse of the memory chip market was felt across the whole Siemens Semiconductors Corporation, the selective nature of rationalisation and closure exposes the weak position of the Siemens plant in the North East of England within the broader corporate division of labour. From its inception, the North East plant became locked into extracting the diminishing returns from an outgoing segment of the market – and therefore unable to compete with other Siemens plants, notably in Germany, in attracting and upgrading its product and process technologies. The fragility of the plant’s path dependency was subsequently exposed as the ‘weakest link in the chain’ in the face of market collapse. In sum, the dynamics of intensified time-based competition create new challenges for host regional economies as the volatility of TNC investment increases and the life span of projects dwindles, accentuating further the vulnerabilities of peripheral host regions within TNCs spatial divisions of labour.

**Intensified intra-corporate competition**

Much academic and policy attention has focused upon the ‘locational tournaments’ (Mytelka 2000) pitched between nations and regions for the attraction of new greenfield inward investment projects. However, following an overall reduction in the growth of FDI flows and greenfield investment in recent years, Phelps and Fuller (2000) suggest competition for investment is now more focused upon capturing intra-corporate repeat or reinvestment. More acutely, such intra-corporate competition can also be pitched in a regressive battle to avoid disinvestment or closure (Pike 2005). But how can we better understand these new competitive contexts within which local affiliates and regions compete against each other to attract or preserve investment?

While much of the GPN work has thus far been preoccupied with inter- and extra-firm institutional relations, more emphasis needs to be placed on (focal) firm-level processes to open up the black box of intra-corporate activity during the geographical uneven and selective (dis) investment episodes. Even so, the GPN approach does offer a framework within which the agency of the corporation can be analysed as part of a more “pluralistic industrial geography”, according an active role to the socio-institutional and cultural regulation of investment behaviour (Yeung 2001: 293). In this sense, while the capitalist ‘firm’ continues to respond to economic imperatives, the precise strategies and actions of capitals evolve in response to specific social, cultural, political contexts – both internal and external to the corporation (Schoenberger 2000; Yeung 2000). By conceptualising the firm as a complex socio-spatial and territorial construction, the behaviour of corporate actors and strategists need not be confined to a singular logic of profit maximisation, but instead reflect the influence of competing discourses, cultures and politics within the firm (Dicken and Malmberg 2001; Yeung 2001; Schoenberger 1997). In particular, three important dimensions offer critical insights into the investment strategies which shape the geographically uneven nature of investment decisions within
and across TNC affiliates and regions. First, in seeking to reconnect historical contexts with economic-geographical analysis, investment decisions and corporate strategies are shaped by the evolution and path dependency of the institutional architecture of capital (Clark 1994). Path dependency can reflect the strategic disposition of corporate activities together with territorial embeddedness of firms and corporate cultures (Dicken and Malmberg 2001). Second, the embeddedness of a TNCs within its home nation has been proven to play an important role in influencing and enmeshing corporate strategies and behaviours within territorially distinctive assemblages of institutions and practices (Dicken 2000). Insights are derived from studies which reveal the distinctiveness of national business systems and varieties of capitalism that suggest “although firms do respond and react to (or anticipate) changing competitive conditions…the strategy they choose is most strongly shaped by the national legacy of their home county” (Bathelt and Gertler 2005; Gertler 2001: 14). Through the processes of TNC-driven international economic integration, the roles of home and host political, cultural and regulatory institutional environments serve to embed the firm-territory nexus and contextualise intra-corporate socio-spatial relations during (dis)investment episodes (Phelps and Fuller 2000).

Third, evidence of time-based competition and the shortening life span of individual FDI projects suggests elements of the product life-cycle approach still provide some practical bearing on the functional and spatial organisation of affiliates within the TNC networks (Phelps and Fuller 2000). In this way, the status and roles of TNC affiliates are connected to the life cycle of each plant’s product and process technologies. Intra-corporate spatial divisions of labour emerge and are contested as TNC operations compete for parent company investment to obtain first-mover advantages and avoid being locked into declining product markets (Birkinshaw 1999; Phelps and Fuller 2000). Connecting to Massey’s (1995) work, and while not situating plants within rigid spatial structures, managerial hierarchies (including economic ownership) and technical divisions of labour continue to contribute to our understanding of socio-spatial power relations within corporate and global production networks (Phelps and Fuller 2000; Birkinshaw 1999). For example, the work of Schoenberger (1997) illustrates the variations in corporate sub-cultures and knowledge transmission across TNC networks, while Birkinshaw and Hood (1998) have focused upon the agency of entrepreneurial affiliates to alter their position within corporate socio-spatial hierarchies. For local and regional development, the discussions surrounding enhanced intra-corporate decision-making expose the complexities of the corporate decision-making process and the degree to which the prospects of regions are based, but also how they are very rarely purely financial decisions and instead are melded together under particular economic, political, institutional and cultural contexts (Phelps and Waley 2004).

**TNC merger, acquisition and restructuring**

To date the majority of literature focusing upon TNCs and local and regional development has been preoccupied with the arrival and departure of greenfield investment projects (cf. Ashcroft and Love 1991, 1993). However, less attention has focused upon the local and regional development impacts of in-situ corporate restructuring driven by TNC acquisition and merger activity. While not exclusively so, this is especially the case in traditional industries when firms with long regional histories become acquired and absorbed within broader TNC ownership structures. Put simply, we tend to look beyond ‘the new in the old’ despite these corporate dynamics representing some of the main FDI flows into host regions. This has been most starkly demonstrated through the pent-up...
and belated globalisation of the steel industry. Driven by a complex combination of new market conditions, technological change and above all pressures to consolidate in the face of persistent global overcapacity, the corporate anatomy of European steel production has been rapidly restructured from a fragmented sector dominated by a large number of predominantly national, sometimes nationalised, companies towards an increasingly smaller number of integrated TNC producers (Fairbrother et al. 2004). Within the UK the vestiges of the formerly nationalised British Steel Corporation merged with the Dutch steel company Hoogervens in 1999 to form Corus. The merger was driven by the need to achieve scale, market access and a more diversified product base, but the burden of post-merger rationalisation was to be most harshly felt in the UK’s steel regions with the loss of 13,000 jobs (Dawley et al. 2008). Moreover, indicative of different national traditions of corporate governance, rumours of “open warfare between the UK and Dutch parts of Corus” (Financial Times 2003) hampered corporate decision-making, especially in terms of the location of further disinvestment and job loss. Less than five years after the Corus merger, a corporate decision was made to write the steel plant on Teesside, North East England, out of the company’s strategy reflecting its vulnerable position in producing cost-price commodity steel within an increasingly competitive global market. Moreover, Teesside’s fate appeared pinned directly to the new corporate pressures to deliver investment returns generated by a ‘financialised’ capitalism and search for ‘shareholder value’ within restructuring plans (Pike 2006). Following merger, Corus’ strategy sought “to selectively seek growth and shareholder value creation … achieved through the development of those businesses where we can achieve market-leading positions” (Corus 2002). Although a spike in global steel demand sustained the plant through a series of international supply agreements, the fate of Teesside was further compounded in 2007 when Corus was acquired by Tata Steel, part of the Indian Tata industrial conglomerate. While Corus viewed the acquisition as essential in that it was “no longer sufficient to be European…this is a global industry” (Jim Leng, Deputy Chairman of Tata Steel cited in BBC News 2007), it marked further uncertainty for the future of Teesside. In December 2009, Tata announced that the Teesside steel operation was the source of its greatest losses within Europe and will be ‘mothballed’ with the loss of 1,500 jobs. While there is no counterfactual as to the direction the Teesside steel plant may have taken without being integrated within evermore transnational corporate structures, it nevertheless mirrors similar processes that have occurred within the Teesside petrochemicals industry (Sadler 1992; Chapman 2005). Together these processes raise important challenges in broadening and deepening our analysis of TNCs and local and regional development. In particular, this story indicates how analytical and policy attention must redress the tendency to overlook the significant ways in which TNCs and FDI can serve to reinvigorate or indeed ‘hollow-out’ (Williams et al. 1990) long-serving and established regional industries.

The state is dead…long live the state

Dicken’s (2007) commentary on the often uneasy nexus between states and TNCs suggests that while historical variations have existed between states’ FDI policies, in the last two decades policies have tended to converge in the direction of liberalisation. At the broadest level, historical variations existed between the more liberal approaches of developed countries than developing countries. But even within the developed countries there were wide variations between, for example, the UK’s ‘open door’ approach from the 1970s onwards compared to that of France’s more restrictive – even protectionist – stance.
Similarly, within the developing states, Singapore’s longer term ‘developmental’ open door policy to FDI contrasted sharply for many years with the latecomer liberalisation of South Korea. However, moves towards greater harmonisation in neo-liberal policy approaches suggest that competition for investment is now more extensive and that the bargaining power is ever-more loaded in the favour of business (Stopford and Strange 1991).

However, this does not necessarily reduce the significance of the state, nor variations between states, in understanding the dynamic relations and frequently “murky firm–state nexus” in regulating, shaping and moulding patterns of investment or disinvestment (Phelps and Fuller 2000; Mackinnon and Phelps 2001a). While much attention has focused upon decentralisation of certain economic development roles to local and regional scales, these continue to be mediated by national modes of regulations ranging from policies on corporate governance and trade to labour market regulation (MacLeod 2001). Recent case studies of attempts to stimulate FDI-led clusters and agglomerations in China (Yeung et al. 2006), South East Asia (Phelps 2008) and the UK (Phelps 2009) continue to reveal the integral role of state-level institutions and strategies in orchestrating their successes and failures.

Economic geography research has continued to explore the altered roles and capacities of nation-states in developing political and policy structures to promote and regulate the spatial strategies of TNCs’ investment activities (Phelps and Waley 2004; Yeung 1998). After all, it remains the “complex, dynamic interactions between states and firms” that creates the context for ‘regulatory arbitrage’ within which TNCs play one state (and communities within them) off against another (Dicken 1998: 10). However, while states engage in regulatory arbitrage in the attraction of inward investment, they are at the same time relatively powerless to prevent companies attracted by national regulatory environments emphasising deregulation and labour market flexibility from taking advantage of low exit costs to close or rationalise operations within host regions (Mackinnon and Phelps 2001a; Dawley 2007a). Thus, Dicken (2000: 284) suggests that the inter-firm, intra-firm, firm–place and place–place connections developed through processes of international economic integration are:

fundamentally embedded within asymmetrical, multi-scalar power structures….Each of these sets of relationships is embedded within and across national/state political and regulatory systems which helps to determine the parameters within which firms and place interact.

Stark variations exist between national regulatory structures and FDI models. On the one hand, the US has developed a highly deregulated approach to competition for, and incentives given to, overseas TNCs (Phelps and Raines 2003). Similarly, until recently the UK’s approach was typified as a “low cost to enter – low cost to exit” pro-business environment, which lacked a clear connection to an industrial, or even regional, policy (Mackinnon and Phelps 2001). Therefore, Loewendahl (2001: 219 cited in Phelps 2008) suggested that:

UK industrial policy is based upon the ad hoc attraction of large-scale, job-creating inward investment to create short-term jobs in declining regions. There is no coherent strategy integrating sector targeting and economic development, at least at the central level, and government policy, has artificially dispersed foreign companies, missing out on any clustering benefits.

For many decades UK regional policy used the dispersal of FDI as a vehicle to diversify the industrial profile of peripheral regions, leading to few positive economic impacts.
beyond direct employment (Phelps 2009). Where FDI-based clustering – or sectoral grouping – did occur within the UK, for example, the ‘Silicon Glenn’ electronics corridor in Scotland, linkages remained truncated, few knowledge spill-overs were generated and labour poaching reflected a lack of a coordinated approach (Turok 1997). Indeed, ultimately the fragility of the Silicon Glenn cluster, based almost entirely dependent on the FDI, was brutally exposed in the early 2000s with a rapid and extensive spate of closures.

On the other hand, elements of the developmental state model prosecuted in certain East Asian nations, particularly Singapore, provide a significant counterpoint. In the immediate aftermath of independence, Singapore followed a necessarily indiscriminate approach to attracting FDI, driven by the need to stimulate large-scale employment. However, by the 1970s and 1980s the city-state’s Economic Development Board pioneered the sectoral and functional targeting of FDI projects as part of an integrated industrial and cluster policy (Phelps 2009). Singapore’s strength as a high-level business service centre continued to attract head office and R&D functions while low value-added functions were increasingly offshored, both organically and as part of a state-managed process to relocate TNC activities from the overheating economy. Initially, the Singaporean and Indonesian government coordinated the industrial development of the nearby Batam and Bintan islands to provide a low-cost hinterland. Subsequently, the Singaporean government deployed its power extraterritorially (i.e. beyond its sovereign territory) to establish and manage business parks in China, Vietnam and India – an expansion equivalent to 20 per cent of the industrial land in Singapore. Despite the gains from this programme being relatively modest – anchoring corporate functions in Singapore and internationalising domestic firms – larger benefits have accrued from attempts to embed FDI projects within industrial clusters (see Phelps (2008) for a review of South East Asian clusters).

Within Europe, the liberalisation of the Central and Eastern European (CEE) economies as part of the transition process (Bradshaw and Swain 2004) led to striking rates of growth in the receipt of FDI in the 1990s. By 1998, CEE economies received one-tenth of all European inward investment flows, growing at a rate which outstripped FDI to the developing world (Raines 2003; Helinshka-Hughes and Hughes 2003). Much of the growth in FDI was concentrated in Poland, Czech Republic and Hungary and focused primarily on manufacturing investments, especially from the US and other EU states. Following an initial impetus by TNCs to ‘cherry pick’ as part of the privatisation process, inward investment and FDI promotion has developed through a more sophisticated set of national institutional structures. Each of the first wave transition states developing – with EU PHARE support – inward investment promotion agencies (e.g. CzechInvest; PAIZ – Poland Inward Investment Agency) and sophisticated portfolios of inward investment incentives. While many of the state-level incentives structures have been phased out as part of the harmonisation of accession into the EU, within Poland, legacies of the incentivised structures continue to be used across 15 Special Economic Zones (inter alia tax exemptions, land and property assistance, etc.). While Poland has attracted considerable cost-sensitive manufacturing FDI, often relocated from former inward investment heartlands in the UK and Ireland, it has also become a location for product development and shared services centres, with FDI concentrating in regions with high levels of human capital and technological infrastructures (Raines 2003; OECD 2008). Within Krakow, for example, the Special Economic Zone programme developed a series of Technology Parks which have attracted TNC R&D investment from companies such as Motorola, IBM, Google and Delphi. In the case of Motorola, its decision to locate a
software development centre in Krakow in 1998 followed the instigation of a ‘locational tournament’ across Central and Eastern Europe. Indicative of a qualitative shift in the nature of FDI attracted to Poland, a key driver for Motorola’s investment was the ready availability of human capital. Krakow offers the second largest concentration of university students within Poland and a long history of university-based R&D within computer sciences. In addition, the relative wage levels within Poland coupled with the site and infrastructure support available within the Special Economic Zone programme also made Poland a low-cost, high-quality location relative to other European states (Motorola Plant Director, author’s interview 2009). Yet the recent success of Krakow in attracting additional FDI in allied software development (e.g. Google, IBM, etc.) has raised a number of issues as to the sustainability of its low-cost profile as competition for the recruitment and retention of skills heightens. However, while the embeddedness of Motorola’s investment remains limited to local training and education linkages and market access, the US TNC has instigated several rounds of reinvestment and has expanded to employ over 600 staff across two sites.

Local and regional institutions and TNCs

The themes developed within this chapter have served to restate the relative and differential powers of TNCs and nation-states in analysing the prospects for regions in attracting and embedding exogenous resources. The chapter has examined the power and causal role of the firm and explored a number of current corporate dynamics which shape the uneven geographical expression of (dis)investment. The chapter then examined the ways in which the investment strategies of corporation continue to be moulded and embedded by the enduring interrelations between TNCs and national institutional contexts. Together, these perspectives illustrate the importance of adopting a geographical political economy approach to TNCs and regional development and as a result illustrate the importance of not losing sight of theoretical, empirical and policy lessons developed within the traditional literature on TNCs, FDI and local and regional development – reviewed at the outset of this chapter. Drawing on the preceding discussions, this final section of the chapter concludes with an examination of the changing roles, prospects and challenges facing regional-level institutions in their ongoing relations with TNCs.

In an attempt to ‘globalise’ regional development, Coe et al. (2004) restate the importance of local and regional institutional agency and capacity in promoting and negotiating issues of power and control with focal firms in global production networks. Within a global context of geo-economic deregulation and mobile capital, ‘regional institutions’ (including non-local institutions with regional influence) have an important role to play in promoting and coupling ‘regional assets’ with the strategic needs of focal firms within global production networks (ibid. Amin and Thrift 1994). Again, considerable attention has focused upon the roles and efficacy of local and regional institutions in both seducing ‘flagship’ FDI projects and embedding TNC investment within host economies within the existing research focused upon FDI and regional development (Mackinnon and Phelps 2001a; Phelps and Fuller 2000; Amin et al. 1994). Important insights for the GPN approach can be derived from this literature, especially in terms of developing proposals suitable for adoption within the policy community.

Within the UK, the neoliberal orthodoxy implemented during the 1980s and early 1990s created a highly competitive and ultimately wasteful environment within which regional agencies effectively competed against each other as ‘hostile brothers’ to
seduce mobile investment. Even so, regions and nations such as the North East and Wales developed successful repertories of rapid ‘one-stop shop’ multi-agency and multi-scalar institutional responses, referred to as Taskforces or coalitions, to delivering packages of assistance on sites, infrastructures, supply chain and labour market support for large-scale FDI projects. Crucially, the regional initiatives were necessarily mobilised under the guidance and funding support of the national agencies and government bodies. Over time regions began to move away from an indiscriminate attraction of FDI to an approach which increasingly targeted key sectors and corporate functions and a more explicit attempt to embed projects through ‘aftercare’ provision (Amin and Tomaney 1995). In part, this was driven by the pragmatism of a need to stimulate reinvestment in the face of flows of greenfield inward investment projects from the mid-1990s onwards. It also reflected attempts to mimic emerging best practice from institutions such as IDA Ireland with high-skilled FDI electronics investments driving the ‘Celtic Tiger’ (Amin et al. 1994). In addition to increasingly supporting the embedding of FDI projects, Raines (2003) indentifies two further shifts in inward investment promotion strategies around differentiation and discrimination. In terms of differentiation, agencies have increasingly focused upon promoting the distinctive ‘regional assets’ (in GPN parlance) such as sector, R&D or labour market strengths rather than more generic advantages. Discrimination builds upon the principles of differentiation, but emphasises the ways in which regions proactively ‘target’ specific projects or functions within sectors or sub-sectors to either upgrade or enhance existing strengths (see, for example, preferential rates in the UK former Regional Selective Assistance grants). Examples of differentiation and discrimination are clearly more readily applicable when part of a national sectoral and industrial programme, for example, the development state models, especially Singapore. However, similar trends are occurring within regions of the UK. The North East of England has recently attempted to capture ‘first mover’ advantage in the offshore wind turbine power generation sector. Partially in the wake of the collapse of the former FDI-driven model of regional development pursued in the North East, the Regional Development Agency adopted a more balanced approach which sought to foster R&D strengths in areas including renewable energy – creating the UK’s largest R&D and testing facility for offshore wind turbines. FDI is now being targeted to supplement the R&D activity but also to build outwards in the value chain into the mass production of the wind turbines – ironically reutilising the shipbuilding infrastructure that provides the regions industrial heritage. Built around a series of ‘regional assets’ (R&D; infrastructure; skills; market access) the North East’s new targeted approach to FDI marks a stark contrast to its formerly indiscriminative approach built around low costs and institutional flexibility.

However, drawing on the geographical political economy approach adopted within this chapter, regions continue to be pitched into significant power asymmetries with TNCs across episodes of investment and disinvestment. This can be reflected in what Phelps (2008) terms the ‘corporate capture’ of land and infrastructure developments, skills and training support and more generally monopolise the efforts of regional institutions (Christopherson and Clark 2007; Lovering 2003). The most acute example of capture occurs when FDI projects are short-lived. In the case of the volatile Siemens Semiconductor investment in the North East of England examples existed of both labour and infrastructure capture. In terms of labour, the rapid ‘ramp up’ into production led to the recruitment of an ‘off-the-shelf’ skilled workforce, causing ‘backfill’ issues for employers within and beyond the region – with one in three high-skilled recruits drawn
from outside the North East. In the aftermath of the shock closure of the plant, the limited absorptive capacity of the local labour market contributed to the majority of management and engineers leaving the region for new employment (Dawley 2007b). The labour market churn and limited ‘regional capture’ of the skills involved in this investment episode highlighted the ways in which TNCs internalise value from the host region (Phelps 2009). The challenge facing the region was further compounded by the limited power of regional – and national – institutions to capitalise on the relatively unique ‘regional assets’ of plant and infrastructural legacies. Siemens’ ongoing ownership and overseas control of the mothballed plant meant numerous options to sell the plant to new investors were turned down, fuelling speculation that the company would not cede capacity to its rivals. Despite the efforts of national and regional institutions in securing a replacement investor, it took over two years before Siemens sold the plant, by which time much of the ‘regional asset’ of skills and experience of the previous round had dissolved. Therefore, if peripheral regions – already weakly positioned within intra-corporate spatial divisions of labour – are to respond to the shortening of FDI project life cycles then host economies require responsive policies to identify and integrate ‘strategic couplings’ between regional assets created by one round of investment and the strategic needs of future rounds of investment (Massey 1995; Coe et al. 2004). Few studies have examined the relative power of host regions to retain, reinvigorate or recycle the hard and soft infrastructural legacies of disinvesting TNCs. These questions raise further conceptual and policy-related challenges for research that explores the potential agency of localised points of resistance (local affiliates, institutions and communities) in moderating the powers and investment decisions of MNEs within host region economies (Phelps and Waley 2004; Coe et al. 2004).

References


