City-regions, International Business and (Uneven) Development: Some Observations and Themes for Future Research

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City-regions, International Business and (Uneven) Development:
Some Observations and Themes for Future Research

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Agenda

A. Pre-amble: IB and economic geography – disciplinary distinctions & overlaps

B. Previous work on MNEs and (regional/sub-national) economic development

C. IB, cities and (uneven) development – some (inter-related) themes for future work?
   1. City-regions and the analysis of FDI and offshoring location decisions
   2. City-regions and MNEs’ spatial and organisational strategies
   3. Beyond ‘World Cities’ for a more comprehensive look at IB & city-regions
   4. (Changing) City-region roles within the semi-globalized economic system
   5. City-regions, IB activity and sub-national inequality
   6. City-regions and ‘subsidiary management’ themes

Not considered here
A. IB and economic geography – disciplinary distinctions

Key concerns and approaches

International Business

• “...how and why cross-national differences matter and how businesses are able to transcend national (and other) differences..." (Meyer, 2013, p.10)

• A core research theme: the activities, strategies, structures and decision-making processes of multinational enterprises (but an increasingly diverse research agenda)

• "A central theme in IB studies... is the search for ‘universal truths’ or general principles. This sits alongside a second IB theme, that locations or places vary and context matters..." (Collinson et al, 2013)

• Quantitative, positivist approaches dominate

Economic Geography

• “…to offer multi-faceted explanations for economic processes – growth and prosperity as well as crises and decline – manifested across territories at various scales...”

• …study geographically-specific factors that shape economic processes and identify key agents (incl. firms) and drivers that prompt uneven territorial development...” (Aoyama et al., 2010, p.1)

• interested in, and concerned to explain, unique, one-of-a-kind outcomes for particular places, which are viewed as a consequence of the interplay between wider trans-local processes and particular local conditions

• Qualitative, in-depth methodologies dominate
A. IB and economic geography – disciplinary distinctions

Key geographical concepts

‘Location’ and ‘distance’ (IB)

• IB has traditionally privileged the ‘national’ (country) scale – MNEs as ‘border-crossing’

• Some (growing) recognition of other scales – e.g. regionalisation, sub-national clusters

• ‘Locations’ as *containers* of resources and institutions (as in Meyer et al, 2011)
  – To geographers, a simplistic and ‘passive’ conception of geographic space?

• ‘Distance’ as a multi-dimensional construct but primarily associated with national borders and differences between countries
  – Typically a ‘frictional’ impediment to IB

‘Place’ (economic geography)

• EG considers a variety of scales, since the economic processes that shape the fortunes of particular places operate at a variety of spatial scales (Dicken, 2011; Henderson et al., 2002).

• But ‘place’ is most frequently applied to sub-national units (local, regional, urban) – and there is a concern for ‘regional development’

• Places are endowed with meaning and significance, have economically-significant cultural and political aspects, are *unique and specific*, and are the *product of the interaction of wider extra-local processes and local specificities and history*
< Coe & Yeung (2015) on Territoriality of GPNs
(a multi-scalar and relational perspective)

Illustration: mapping BMW's GPN in 2 macro-regions

Figure 3: BMW's GPN and Regions in the EU and ASEAN

[Source: GPN Working Paper 3, Univ. Manchester]
What does the global economy look like to (some) economic geographers?

Some observations...

• City-regions (‘places’) as ‘nodes’ in global production networks (and/or the world city network?)

• ‘Places’ and GPNs/TNCs are seen as ‘mutually constitutive’

• Core-periphery dimension (influenced by Wallerstein’s world systems theory and Marxian political-economy?)

• Implicit recognition of uneven development as an inherent feature of capitalism (ditto)

• Implies existence of globally significant city-regions in both developed and emerging countries

• A notably absence of national boundaries and ‘distance’ effects in this depiction (contrary to the IB view)

• Reflects Scott’s (contestable) view that city-regions have supplanted nations as the key organising unit

Figure 2.11 A schematic representation of the geography of the global economy

(from Dicken, 2011, Global Shift)
(Some) similarities with Buckley’s (2009, 2011) writings on “global factory” (and other recent/related work in IB)...

The operation of different markets at different spatial scales implies a need for multi-scalar analysis of IB/location behaviour (similar arguments could be made wrt the institutional landscape?)

[But note: sub-national scales not recognised here]

‘fine-slicing’ of the value chain; lead firms make geographic location and firm boundary decisions, (may) exert control w/out ownership
B. Previous work on MNEs and (regional/sub-national) economic development

- In fields of regional studies, economic geography and urban & regional economics – a sizeable literature on the ‘MNE-region nexus’, including
  - Including (largely empirical) work on FDI in peripheral regions, issues of external control, functional truncation and the branch plant syndrome (starting from Firn, 1975; Dicken, 1976; Holland, 1976; Watts, 1981; continuing into 1990s and beyond)
  - Regions not cities as the primary focus (though role of major cities as command-and-control centres in core-periphery relations was implicit)
  - Distinct but related work on ‘spatial divisions of labour’ (Doreen Massey) and ‘spatial fix’ (David Harvey) – Marxian political economy tradition but the roots of later ‘relational perspectives’ (like GPN) => development outcomes for specific cities/regions must be seen in the context of a wider (capitalist) system characterised by uneven development
  - Some overlaps with work of IB scholars such as Young & Hood on host economy impacts of MNEs/FDI – e.g. Young et al (1994) ‘developmental’ and ‘dependent’ scenarios
B. (contd): The Global Production Network (GPN) approach and its ‘strategic coupling’ concept (from economic geography)

“The fortunes of regions are shaped not only by what is going on within them, but also through wider sets of relations of control and dependency, of competition and markets … increasingly occur at the international scale…

the strategic coupling of global production networks and regional assets may (or may not, depending on the context) facilitate the processes of the creation, enhancement and capture of value upon which regional development ultimately depends”

(Coe et al, 2004, p.469)

Key observations:

– MNCs are ‘lead firms’ orchestrating GPNs
– Regional development as ‘value capture’ from engagement with GPNs
– Strategic coupling as a process mediated by local institutional actors (a fact largely unacknowledged in the IB literature)

C. IB, cities and (uneven) development
  – some (inter-related) themes for future work…
**Theme 1.**

**City-regions and analysis of FDI (and offshoring) location decisions**

a) In the context of ‘fine-slicing’ and increasingly complex geographical and firm boundary decisions, a need for greater attention / further research on **location decisions at the city-region scale**?

   – Example: Bunyaratavej et al.'s (2008) study of the offshore services location choices of US MNEs, indicators of location-specific advantages and factor costs are **only considered at the country level**, even for countries like India that are clearly characterised by **huge sub-national variations**

Although Dunning acknowledged the relevance of sub-national location factors, notably ‘clusters’ there has been **relatively little attention to sub-national (especially city-scale) location decisions** in the IB literature (exception: Goetzen et al, 2013 – focus on Japanese MNCs’ propensity to locate in world cities – quite specific).

   – Yet practitioner literature includes the notion of **Tier 1, 2, 3 cities in offshore (destinations) countries**

   – FDI consultants are very focused on ‘cities’ as the key unit of analysis in MNC location choices

• **We need more IB studies on the location of different value chain activities at a city-region scale**, since this changing geography of FDI has major **implications for development**
**Theme 1.**
*City-regions and analysis of FDI (and offshoring) location decisions*

b) **Cities as ‘active’ participants in the location decision-making process** - informed by the ‘strategic coupling’ concept from the GPN literature in economic geography?

- *Local institutional actors* have been shown to play a key role in ‘coupling’ specific places (typically city-regions) with wider global production networks (e.g. TNC lead firms).

- The role of these host economy *actors* largely overlooked in the IB literature, which typically adopts a firm-centric perspective, with bounded rationality assumptions.

• We need for more IB studies that recognise and examine the interactions between *local actors in specific places* (e.g. cities) and MNC strategies within GPNs

  - e.g. To what extent, and how, can/do local actors influence MNC locational strategies and affect *development outcomes*? What development strategies can/should be pursued and on what basis?

  - **Methodological challenges** – may necessitate more qualitative, case study approaches (possibly longitudinal) to examine dynamics and uncover underlying processes
**Theme 2.**

**City-regions and MNEs’ (spatial and organisational) strategies**

- Contrast analysis of FDI location decisions (UoA = specific investment decisions / projects) with a more holistic perspective on MNC location strategies, whereby individual FDI location decisions are seen as part of a wider (changing) geographical and organisational footprint, related to firm strategy.

  - This issue seems to be largely overlooked in the existing (esp. recent) IB literature on location issues.

  - Contrast with seminal work of Bartlett & Ghoshal on MNC strategy and organisation (which examined the strategy and organisation of specific firms like P&G, Philips, etc); a few more recent examples would include Mudambi’s exposition of the Apple iPhone ‘value smile’, Kraemer & Dedrick’s work on Dell.

  - Some interesting articles in GSJ (2011) on ‘assembling the global enterprise’ demonstrate some of the issues and avenues for research on this theme. But there is a need to explore the sub-national scale in future work.

  - An interesting research question: *Is the ability to identify and exploit different sub-national (city-region scale) location-specific advantages (becoming) a distinctive firm-specific advantage for leading MNCs?*

- We need IB studies that take a more holistic perspective on MNCs (changing) locational strategies, in the context of fine-slicing, offshoring and outsourcing.

  - Methodological challenges – may necessitate more qualitative, case study approaches (possibly longitudinal) perhaps focusing on specific sets of firms and specific industry sectors.
Theme 3.
Beyond ‘World Cities’ for a more comprehensive look at IB & city-regions

• Recent recognition of the importance of cities IB has so far focused primarily on world cities, especially ‘alpha’ cities (NY-London), as locations of command-and-control, following the lead of authors in economic geography and other social sciences.
  – There is a tendency for research to privilege ‘world cities’ but this also reflects a certain ‘selection bias’ due to the focus on HQ functions and their co-location with advanced financial and business services.
  – There is also a lot of focus on innovation and knowledge sourcing by MNCs.
  – Given the ‘fine-slicing’ and offshoring/outsourcing tendencies, what about the rest of the value chain? This has significant implications for the development of many places!
  – e.g. interesting recent paper by Mans (2014) looks at ‘end-nodes’ as well as ‘hub-nodes’ in GPNs/WCN, (focusing on the case of Khartoum in the oil industry).
• We need IB studies that examine a wider range of city-regions and expose their varied roles in IB activity (MNC location strategy) – and consider the implications for development.
**Theme 4.**

*(Changing) City-region roles within the semi-globalized economic system*

- Following on from the previous point, there are many unexplored issues concerning the *roles played by lower-tier cities within the IB landscape*; e.g. Tier 2 and Tier 3 cities in large emerging countries, or cities beyond national capitals in developed countries.
  - e.g. Coe & Yeung (2015, p.186) identify *eight types of ‘regional coupling with GPNs’* – of which, ‘global cities’ are but one (e.g. innovation hubs, offshore jurisdictions, logistics hubs, commodity source regions)
  - A trend towards *functional role (rather than sectoral) specialisation* has been noted by urban economists (e.g. Duranton and Puga, 2005) and this seems consistent with noted recent trends in IB strategy.

- There is a need for greater investigation and understanding of the *varied roles played by different city-regions* within the evolving international division of labour – and development implications!

- A related question concerns *how and why these city-region roles evolve over time*.
  - e.g. how and why have city-regions like Dublin, Singapore, Bangalore evolved so radically in a few decades
  - Already significant body of work on these issues in urban and economic geography but this could be enhanced by a greater focus on, or linkage to, core IB issues (e.g. MNC strategy and organisation)
  - Possibility to link work on MNC location strategy with the concept of ‘upgrading’ within the GVC literature?