Guest editorial: FDI and cities: city location attractiveness for FDI, the dynamics and co-evolution of FDI and urban development

Introduction

The Special Issue in *Competitiveness Review* brings together latest empirical research on the phenomenon of FDI and Cities from across the globe. While research on FDI inflows to – and outflow from – cities as a unit of analysis is not new, the means and mechanisms by which cities compete for a global share of FDI have changed. So too has the environment for FDI flowing into and out of cities, and with it the implications both for city competitiveness and urban development. These changes have been happening in an era of China's rise, global health pandemics, digital transformation and global economic uncertainty. The Special Issue was inspired by these changes and an observation that "city" as a unit of analysis has been underplayed in many FDI studies. We held a one-day workshop at the University of York in April 2022 to discuss these changes, exploring FDI and cities from both an academic perspective and a policy perspective. The Special Issue represents a collection of studies, some of which were presented at the York workshop in an earlier form, that bridge both academic and policy perspectives and offer new insight into FDI location as "city".

Location is of course a central interest in both international business (IB) and economic geography research (Alcacer and Chung, 2007; Krugman, 1991; Markusen, 1996; Porter, 2001). Where multinational firms locate their FDI activities has been an important issue in IB literature over many decades (Chan *et al.*, 2010; Dunning, 1998; Rugman and Nguyen, 2014), this mainly paying attention to country-level determinants. Focusing on a country level, however, overlooks the heterogeneity in sub-national locations within countries and how specific characteristics of sub-national locations affect investing firm strategy, operations and performance. This concern has spurred interest in sub-national locations and FDI location strategies. Scholars have recognized that sub-national heterogeneity matters, calling for a more fine-grained analysis of locations in FDI research (Basile *et al.*, 2008; Bel and Fageda, 2008; Belderbos *et al.*, 2017).

The work that does examine multinational firms' location decisions at the city or metropolitan area level is growing in size and shape (Bel and Fageda, 2008; Belderbos *et al.*, 2017; Castellani *et al.*, 2022; Goerzen *et al.*, 2013; Ma *et al.*, 2013). Much attention has been paid to how economic factors at city-level influence FDI location choice – such as wage levels, economic growth, corporate tax rates and resources, as well as contextual factors such as institutions, connectivity and human capital within cities.

Yet, we need to go further. Firstly, we need to examine more precisely how MNE activities contribute to and shape city development and growth. Secondly, we need to understand investments within the context of broader value chain activities, including the interconnectivity of cities with other locations around the world. Thirdly, we need to be cognizant of city heterogeneity and the fit between MNE motives and needs, and the attractiveness of cities in different tiers, particularly in emerging economies. Fourth, it has been recognized that a more interdisciplinary approach for researching the relationship between FDI and cities is needed, linking IB, urban studies and economic geography

Competitiveness Review: An International Business Journal
Vol. 33 No. 3, 2023
pp. 505-511

1059-5422
DOI 10.1108/CR-03-2023-192

research. This Special Issue aims to respond to these issues and advance our understanding of the relationship between FDI and cities in the modern era.

The importance of cities in FDI

Major cities are viewed as engines of growth in the world economy (Henderson, 2007; McKinsey and Company, 2013) and have played a key role in globalisation. According to the so-called "global city hypothesis" (Friedmann, 1986; Sassen, 1991), global cities are important drivers of the global economy, operating through interurban networks that span national borders. Global cities have distinctive characteristics – a cosmopolitan environment, an intensive agglomeration of producer service firms, a high level of connectivity with other locations, a high level of advanced producer services and a high degree of innovation and creativity (Beaverstock *et al.*, 1999; Belderbos *et al.*, 2017; Currid, 2006; Goerzen *et al.*, 2013). They possess outstanding location-specific advantages, attracting a disproportionate share of the world's FDI. According to a report by KPMG and the Greater Paris Investment Agency in 2018, the top 35 global cities attracted nearly 45% of the world's total FDI in 2017 (Beaudouin *et al.*, 2018; Chakravarty *et al.*, 2021). The attractiveness of global cities has been ascribed to economic and contextual factors such as skilled labour, economic growth, corporate tax rates, a cosmopolitan environment, ethnic and cultural diversity, connectivity and a strong knowledge base that allow firms to access important markets and superior infrastructure (Belderbos *et al.*, 2017; Du *et al.*, 2022; Castellani *et al.*, 2022).

Global cities' innovation characteristics and connectivity also have been highlighted in the literature. Global cities are knowledge and innovation hubs. Studies have found global cities to attract investment in strategic and knowledge-intensive assets, including headquarters and R&D functions (Belderbos *et al.*, 2017; Du *et al.*, 2022; Du and Williams, 2017). They possess academic and technological strengths that attract early-stage research activities, not just later-stage development and sales activities (Du *et al.*, 2022). Global city connectivity – the connections among cities built through infrastructure and organizational ties – plays a very important role in attracting FDI (Belderbos *et al.*, 2017).

However, other smaller and less prominent cities are also attractive locations for FDI. When it comes to R&D investments, firms are attracted by concentrations of scientists, technology talent, as well as the presence of high-quality research and educational institutions (Colovic, 2011). These are not exclusive to global cities. The presence of innovation clusters plays an important role in this (Birkinshaw, 2000; Birkinshaw and Hood, 2000; Sutherland *et al.*, this issue). Investment in production facilities, for which a substantial quantity of land is normally needed, is often a reason why MNEs are attracted by smaller-sized cities and suburbs. Smaller cities are usually cheaper and are therefore attractive to cost-conscious firms.

Attracting inward FDI into global and smaller cities is highly competitive. Global cities compete not only with each other but also with smaller ones. Indeed, almost all cities worldwide have been actively engaged in attracting FDI through various investment and promotional agencies and economic development agencies. Private consultancies have offered advisory services and programmes for helping all types of cities (as clients) to attract FDI.

Contributions of this Special Issue to the FDI and cities literature

This Special Issue includes six articles that collectively contribute to our understanding of FDI and cities, both global cities and less prominent ones. Firstly, the studies advance theory through an interpretation of empirical evidence at city level across diversified geographies across the globe. The studies offer development of varied – but inter-related – conceptual lenses. These include extending the co-evolutionary perspective (Bathelt, Buchholz and Cantwell) and dynamic knowledge community perspectives (Du and Krusekopf), lenses that place an emphasis on development and evolution of cities over time. They include social networks involving multiple types of actors (Turkina and Sultana) and city innovation networks (Sutherland, Wu, Peng and Anderson) logics, these placing an emphasis on knowledge networks in cities. And they include investment motive (Danes, Van Eijck, Lindeque, Meyer and Peter) and entry mode (Kaltenecker Retto de Queiroz and Montoya) perspectives, arguably more traditional lenses but ones that can give IB theory new meaning at city, rather than country level. In addition to these lenses, the studies consistently point to differences between cities, whether this is based on high- versus low-income, stage of development and approach in terms of FDI attraction or the compatibility of city with sector of investing firm and the type of activity to be performed.

Secondly, the studies in the Special Issue contribute important policy insights for FDI in cities. This includes policy surrounding Chinese greenfield investment in cities outside China (Sutherland, Wu, Peng and Anderson), ways to promote Latin American investment into global cities (Kaltenecker Retto de Queiroz and Montoya), public sector investment to upgrade skills in cities for jobs created by outward FDI (Bathelt, Buchholz and Cantwell), how to build knowledge communities that support inward FDI into cities (Du and Krusekopf), and the need to attract large international firms with capabilities in cleantech into cities (Turkina and Sultana). These policy insights are varied but speak to the mechanisms by which cities can compete and grow in a highly competitive landscape.

Thirdly, the studies provide insights for researchers of FDI and cities from a methodological perspective. Quantitative FDI data has not been as complete at city-level as it has been at country-level, perhaps explaining why so much FDI study has been published at country-level compared to city-level. Nevertheless, the studies show it is possible to explore and test new research questions and hypotheses on FDI and cities with available data. On the one hand, explorative studies use case data with mainly qualitative data from interviews with key actors in cities (Du and Krusekopf) as well as case studies with mainly quantitative data from different sources (Danes, Van Eijck, Lindeque, Meyer and Peter). On the other hand, studies use purely quantitative analysis and regression models with large sample sizes (Sutherland, Wu, Peng and Anderson) and descriptive analysis of quantitative data on large samples (Kaltenecker Retto de Queiroz and Montoya). And in between these poles, we include studies that tell the story through quantitative and qualitative description (Bathelt, Buchholz and Cantwell) as well as a study that uses mixed methods that involve social network, regression and interview data analysis (Turkina and Sultana). What this shows is how a whole spectrum of methodological choices are available to researchers interested in FDI and cities, and while traditional regression techniques are possible, much new insight can be gained in this emerging field through descriptive and careful interpretation of data of multiple types and from multiple sources. Indeed, it is this "story-telling" style that forms the lion's share of the method choices in the current issue.

Overview of the papers in the Special Issue

Bathelt, Buchholz and Cantwell challenge the conventional view that outward FDI from a city region has a negative impact on it because it shifts jobs and income to another location. Their study examines the home-region impact of outward FDI. Using US urban data it shows that non-efficiency-seeking outward FDI will actually have a positive impact on a source location. This is attributable to local capability building as a consequence of international expansion of knowledge-intensive business functions that creates opportunities for greater interconnectivity and innovation. The authors go further and explore how this effect differs according to the type of urban location from where the outward FDI originates. Their finding that this effect is more prominent for high-income cities compared to low-income ones adds to our understanding of inequality between cities as the richer cities forge ahead at a greater pace than the poorer ones. The implications of these different cycles of development for different types of home-country cities are important because of the heightened polarization that will occur. The authors offer some important pointers to address this, including the need for low-income cities to establish ways to capture and harness the experiences of transnational professional communities that form as a consequence of outward FDI.

Sutherland, Wu, Peng and Anderson compare Chinese MNEs (CMNEs) and developed country MNEs (DMNEs). They examine whether the FDI behaviour of CMNEs is different from that of DMNEs and whether the sub-national location choice determinants play a role in CMNE FDI projects in the same way as they do for DMNEs. Based on an empirical study on nearly 100,000 greenfield investments, the authors demonstrate that CMNEs are more attracted than DMNEs by research-intensive cities. They also find that global cities negatively moderate this relationship for CMNEs, while positively moderating the relationship for DMNEs. This suggests that specific knowledge-intensive regions that feature innovation clusters but that are not part of the global city network are important investment nodes for CMNEs. This finding points to the need to further expand research on investigating the location strategies of emerging country multinationals and how the location patterns fit in the catch-up strategies of these firms.

In their paper studying Montreal's cleantech cluster, Turkina and Sultana focus on the relationship between MNEs and regional firms and how this relationship facilitates regional cleantech innovation. Based on extensive empirical evidence, the authors argue that MNE FDI played a key role in the emergence of the cleantech cluster in Montreal. Using social network and regression analyses, the authors map and analyse Montreal's cleantech cluster and show that FDI acts as a broker and a bridge between diverse actors present in the cluster. FDI also appears crucial in boosting innovation of local firms. This is because MNEs are embedded in numerous locations worldwide, having access to diverse knowledge and technology that they transfer to Montreal's local firms. This suggests that, whilst MNEs are attracted by locations in which they can gain new knowledge and technology in a specific sector (in this case, cleantech technology), they also act to develop and upgrade local knowledge present in a particular location. This study provides a valuable contribution to the understanding of the interplay between FDI and cities and how new technology clusters can be born within cities through the joint action of public authorities, MNEs and local firms.

Du and Krusekopf explore the development of two innovation zones in different Chinese cities as they seek to compete for a share of inward FDI entering cities in China. The two locations are the non-hub cities of Suzhou and Tianjin. These make the basis for an interesting comparison because of their different stages of development with respect to inward FDI stocks, alongside the fact that they are not seen as global cities in the same way that Beijing and Shanghai are. Through site visits and interviews, Du and Krusekopf show how innovation zones within cities are an important feature of a city with respect to the attraction of advanced inward FDI. The key element in establishing such an innovation zone is institutional: how the city is able to use the innovation zone to nurture and grow dynamic knowledge communities involving numerous local and global actors. This is seen as an active community-building capability within the city that helps to underpin within-city and cross-city connectivity that becomes the key point of attraction for inward FDI.

Danes, Van Eijck, Lindeque, Meyer and Peter adopt a case study research design to examine city-level location choices and FDI motives of six automotive and six commercial banking companies. Classifying 218 city locations into three city types, i.e. Tier I, Tier II and Tier III, and using data from company FDI in cities across the extended Triad of Europe, North America and Asia-Pacific, the authors show that different classes of cities tend to attract specific types of FDI and that these patterns vary across industries. They find that automotive MNE city location choices are positively impacted by related and supporting industries and partners existing in a city location, while commercial banks are attracted to cities where there are acquisition targets and an attractive customer base. Their findings underpin the importance of classifying cities into different types in the examination of FDI motives and FDI location choices.

Kaltenecker Retto de Queiroz and Montoya focus their attention on the FDI of multinationals from Latin America – multilatinas. Compared to MNEs from other regions, multilatinas have received relatively little attention to date, one important reason being their relatively late entry to foreign markets and the challenging home-country institutional environments in which these companies operate. Some multilatinas have grown to become world players in their sectors, such as Brazil's Vale, Mexico's CEMEX and Argentina's Tenaris. In this paper Kaltenecker Retto de Queiroz and Montoya study FDI in cities by multilatinas from Brazil, Mexico, Argentina and Chile – the leading economies in Latin America. The findings suggest that, depending on the sector and the type of activity, multilatinas choose different types of cities. Tertiary sector multilatinas internationalize predominantly through highly and moderately connected cities, whereas secondary sector multinationals (manufacturing) internationalize through smaller and less well-connected cities. Global cities, therefore, appear attractive for those multilatinas in search of knowledge and those aiming at increasing their efficiency.

Future research directions

Each of the studies in the Special Issue offers new avenues for research on FDI and cities. We also suggest a number of directions in which research on the relationship between FDI and cities could go, based on our collective reading of the studies as well as the workshop held in York. The first direction relates to the consequence of FDI. Studies examining precise consequences of both inward and outward FDI on cities are still lacking. Future research may examine the effects on city development in new ways and with more fine-grained methods, such as interviews and case studies, and with a more precise focus. For example, scholars could look beyond income levels and at questions such as how inward and outward FDI impacts the natural environment and natural capital of cities. They could also examine the effects on other features important to UN Sustainable Development Goals, such as rights for women, quality education and responsible production and consumption. More work could be conducted on how inward and outward FDI impacts local firms, NGOs and even the public sector operating in the same city.

A second research direction is related to city connectivity. In the FDI and cities literature, the connectivity of cities has raised significant interest (Belderbos *et al.*, 2017; Castellani *et al.*, 2022), and this theme emerges strongly in the current Special Issue too. Future research can expand the concept of global city connectivity by including non-global cities into the city network connectivity measure. By measuring a broader city connectivity, scholars can examine how MNE investment strategies are influenced by city connectivity in a broader context. Future research can examine how connectivity heterogeneity of different tiers of cities influences MNE FDI strategies in those cities.

A third direction for future research concerns how cities foster corporate international entrepreneurship following the initial investment. Prior studies have highlighted that global cities are hubs of knowledge and innovation, attracting knowledge-intensive (R&D) activities (Du *et al.*, 2022; Castellani *et al.*, 2022) and how global cities' co-invention linkages stimulate innovation (Belderbos *et al.*, 2022). However, there is a lack of attention to the role of cities in fostering corporate international entrepreneurship in the months and years following the initial investment. Corporate international entrepreneurship allows for an existing firm to discover and exploit cross-national opportunities to develop new businesses, products or services to create value and generate new revenue growth for the firm (Mainela *et al.*, 2014; McDougall and Oviatt, 2000; Oviatt and McDougall, 2005). Given the intense competition amongst cities around the world, the entrepreneurial potential of MNE FDI is an important basis for differentiation. We believe there is future potential in this area of research.

Helen S. Du and Ana Colovic
Strategy and Entrepreneurship Department, NEOMA Business School, Mont-Saint-Aignan, France, and

Christopher Williams
School for Business and Society, University of York, Heslington, UK

References

Alcacer, J. and Chung, W. (2007), "Location strategies and knowledge spillovers", *Management Science*, Vol. 53 No. 5, pp. 760-776.

Basile, R., Castellani, D. and Zanfei, A. (2008), "Location choices of multinational firms in Europe: the role of EU cohesion policy", *Journal of International Economics*, Vol. 74 No. 2, pp. 328-340.

Beaudouin, N., Missoffe, A. and Scheidhauer, C. (2018), "Global cities investment monitor: new rankings, trends and criteria, in KPMG report 2018".

Beaverstock, J.V., Smith, R.G. and Taylor, P.J. (1999), "A roster of world cities", *Cities*, Vol. 16 No. 6, pp. 445-458.

Bel, G. and Fageda, X. (2008), "Getting there fast: globalization, intercontinental flights and location of headquarters", *Journal of Economic Geography*, Vol. 8 No. 4, pp. 471-495.

Belderbos, R., Benoit, F., Edet, S., Lee, G.H. and Riccaboni, M. (2022), "Global cities' cross-border innovation networks", *Cross-Border Innovation in a Changing World*, Oxford University Press, Oxford. pp. 160-185. ISBN: 019887006X.

Belderbos, R., Du, H.S. and Goerzen, A. (2017), "Global cities, connectivity and the location choice of MNC regional headquarters", *Journal of Management Studies*, Vol. 54 No. 8, pp. 1271-1302.

Birkinshaw, J. (2000), "Upgrading of industry clusters and foreign investment", *International Studies of Management and Organization*, Vol. 30 No. 2, pp. 93-113.

Birkinshaw, J. and Hood, N. (2000), "Characteristics of foreign subsidiaries in industry cluster", *Journal of International Business Studies*, Vol. 31 No. 1, pp. 141-154.

Castellani, D., Lavoratori, K., Perri, A. and Scalera, V. (2022), "International connectivity and the location of multinational enterprises' knowledge-intensive activities: evidence from US metropolitan areas", *Global Strategy Journal*, Vol. 12 No. 1, pp. 82-107.

Chakravarty, D., Goerzen, A., Musteen, M. and Ahsan, M. (2021), "Global cities: a multi-disciplinary review and research agenda", *Journal of World Business*, Vol. 56 No. 3.

Chan, C.M., Makino, S. and Isobe, T. (2010), "Does subnational region matter? Foreign affiliate performance in the United States and China", *Strategic Management Journal*, Vol. 31 No. 11, pp. 1226-1243.

Colovic, A. (2011), "Towards a better understanding of multinational enterprises' R&D location choices", in Contractor, F.J. Kumar, V., Kundu, S.K. and Pedersen, T. (Eds), *Global Outsourcing and Offshoring: An Integrated Approach to Theory and Corporate Strategy*, Cambridge University Press, New York, NY, pp, 168-190.

Currid, E. (2006), "New York as a global creative hub: a competitive analysis of four theories on world cities", *Economic Development Quarterly*, Vol. 20 No. 4, pp. 330-350.

Du, H.S., Belderbos, R. and Somers, D. (2022), "Research versus development: global cities and the location of MNCs' cross-border R&D investments", *Regional Studies*, Vol. 56 No. 12, pp. 2001-2018, doi: 10.1080/00343404.2022.2033198.

Dunning, J.H. (1998), "Location and the multinational enterprise: a neglected factor?", *Journal of International Business Studies*, Vol. 29 No. 1, pp. 45-66.

Du, J. and Williams, C. (2017), "Innovative projects between MNE subsidiaries and local partners in China: exploring locations and inter-organizational trust", *Journal of International Management*, Vol. 23 No. 1, pp. 16-31.

Friedmann, J. (1986), "The world city hypothesis", *Development and Change*, Vol. 17 No. 1, pp. 69-83.

Goerzen, A., Asmussen, C.G. and Nielsen, B.B. (2013), "Global cities and multinational enterprise location strategy", *Journal of International Business Studies*, Vol. 44 No. 5, pp. 427-450.

Henderson, J. (2007), "Understanding knowledge spillovers", *Regional Science and Urban Economics*, Vol. 37 No. 4, pp. 497-508.

Krugman, P. (1991), *Geography and Trade*, MIT Press, Cambridge, MA.

McDougall, P. and Oviatt, B. (2000), "International entrepreneurship: the intersection of two research paths", *Academy of Management Journal*, Vol. 43 No. 5, pp. 902-906.

McKinsey and Company (2013), "Urban world: the shifting global business landscape".

Ma, X., Delios, A. and Lau, C.M. (2013), "Beijing or Shanghai? The strategic location choice of large MNEs' host-country headquarters in China", *Journal of International Business Studies*, Vol. 44 No. 9, pp. 953-961.

Mainela, T., Puhakka, V. and Servais, P. (2014), "The concept of international opportunity in international entrepreneurship: a review and a research agenda", *International Journal of Management Reviews*, Vol. 16 No. 1, pp. 105-129.

Markusen, A. (1996), "Sticky places in slippery space: a typology of industrial districts", *Economic Geography*, Vol. 72 No. 3, pp. 293-313.

Oviatt, B. and McDougall, P. (2005), "Defining international entrepreneurship and modeling the speed of internationalization", *Entrepreneurship Theory and Practice*, Vol. 29 No. 5, pp. 537-553.

Porter, M. (2001), "Regions and the new economics of competition", in Scott, A. (Ed.), *Global City-Regions: Trends, Theory, Policy*, Oxford University Press, Oxford, pp. 139-152.

Rugman, A.M. and Nguyen, Q.T.K. (2014), "Modern international business theory and emerging market multinational companies", in Cuervo-Cazurra, A. and Ramamurti, R. (Eds), *Understanding Multinationals from Emerging Markets*, Cambridge University Press, Cambridge, pp. 53-80.

Sassen, S. (1991), *The Global City: New York, London, Tokyo*, Princeton University Press, Princeton.