

Institution: Aston University
Unit of Assessment: 19 Business and Management Studies
Title of case study: Inward Investment in the UK and Europe: influencing policy and improving policy analysis
<p>1. Summary of the impact (indicative maximum 100 words)</p> <p>Aston's research on inward investment has had considerable reach and significance, improving economic policy analysis on the effects of foreign direct investment (FDI). The research has:</p> <ul style="list-style-type: none"> • Influenced the development of economic policy for the Manchester and Birmingham City Regions. • Changed awareness and understanding within the Department for Business, Innovation and Skills and UK Trade and Investment of the effects of inward investment, allowing them to judge <i>ex ante</i> whether certain types of inward investment are likely to benefit the UK economy. • Changed the strategic thinking underlying the European Union's framework for evaluating the impact of outward FDI on EU countries.
<p>2. Underpinning research (indicative maximum 500 words)</p> <p>The attraction of inward FDI has been at the heart of industrial and regional policy across Europe for the last thirty years. However, with a huge reduction in funds available for the attraction of internationally mobile capital, national and regional policy makers are seeking to re-evaluate their models and approaches in order to better target their interventions. Research at Aston has played a significant part in this regard and consists of building on "Who really gains from inward investment?" (funded by the ESRC, April 2004 to March 2006), related scholarship and subsequent policy analysis. There was subsequently an ESRC follow-on-fund award allowing the team to help develop an inward investment strategy for the Greater Birmingham and Solihull LEP.</p> <p>The "who really gains" research was led by Professor Driffield (Aston, January 2004 - present), working with Professor Love (Aston, October 1998 - December 2010; April 2012 - present); Dr Du (lecturer/senior lecturer; Aston, May 2007 - present) Professor Hart (Aston, September 2008 - present), and Dr Temouri (lecturer; Aston, August 2010 - present). The project (Ref 3.1) examined the impact of inward investment on wages, productivity and employment and provided an evaluation of the impact of inward investment on the UK's competitiveness. It made a number of contributions in economics and management. These included methodological ones, incorporating threshold analysis and simultaneous equation modelling to the analysis of FDI and firm performance, but also conceptual developments, analysing the links between the motivation for FDI and its impact on host economies. Key outputs from this research are Refs 3.2, 3.3 and 3.4. Among the key findings were:</p> <ul style="list-style-type: none"> • The UK gains from productivity spillovers where the incoming investor has some form of technological advantage ("technology exploiting"); • Technology-exploiting FDI has a positive effect on demand for skilled labour in the UK, especially where there is no labour cost advantage in the UK; • Technology-sourcing FDI (where the incoming investor enters the UK to <i>gain</i> some

technological advantage) reduces the demand for skilled labour in the UK, especially where the UK has lower labour costs;

- Technology-sourcing FDI increases demand for unskilled labour where unit labour costs in the UK are lower than in the home country.

Building on the initial ESRC project, the researchers carried out further empirical studies. The first, for the Manchester Independent Economic Review (MIER) in 2008 (**Ref 3.5**), evaluated the trends and determinants of investment within the Manchester City Region. We considered two distinct issues. First, the determinants of capital investment, and the extent to which these vary across sectors and between foreign-owned and locally-owned firms. Second, the extent to which inward investment generates spillovers that boost the productivity of domestic firms. An ESRC follow-on-fund award allowed the team to help develop an inward investment strategy for the Greater Birmingham and Solihull LEP.

The second study, for UK Trade and Investment (UKTI) (**Ref 3.6**), investigated the impact of UKTI support on business investment in Research and Development (R&D). This was carried out in 2009-10. It found evidence that trade support generates additional R&D of around £65k per firm. The research also confirmed that innovative and growing firms were most likely to show positive R&D impact and there was clear evidence of UKTI service complementarity, with the R&D impact stronger for multiple service use.

3. References to the research (indicative maximum of six references)

3.1 ESRC end-of award report for who really gains from inward investment.

<http://www.esrc.ac.uk/my-esrc/grants/RES-000-22-0468/read/reports>

3.2 Driffield N and Love J H (2005) 'Who gains from whom? Spillovers, competition and technology sourcing in the foreign-owned sector of UK manufacturing', *Scottish Journal of Political Economy*, 52, 663-686. [38 citations] Available on request

3.3 Driffield N and Love J H (2007) 'Linking FDI Motivation and Host Economy Productivity Effects: Conceptual and Empirical Analysis', *Journal of International Business Studies*, 38, 460-473. [122 citations] Available on request

3.4 Driffield N, Love J H and Taylor K (2009) 'Productivity and Labour Demand Effects of Inward and Outward FDI on UK Industry', *Manchester School*, 77, 171-203. [32 citations] Available on request

3.5 Growing inward and indigenous investment: Report for Manchester Independent Economic Review (2008) : <http://www.manchester-review.org.uk/projects/view/?id=721>

3.6 Driffield N, Du J, Hart M, Love J H and Tapinos E (2010) A Comparative Evaluation of the Impact of UK Trade & Investment's R&D Programme and other UKTI Support that Impacts R&D. Report for UKTI 2010

http://www.ukti.gov.uk/fr_fr/uktihome/aboutukti/ourperformance/evaluation/comparativeandcrosscutting.html

Ref 1 is an ESRC end-of-award report. Refs 2-4 are articles in peer reviewed journals: figures in square brackets are citations listed in Web of Science. Refs 5 and 6 are official reports, both subject to external peer review before publication by MIER and UKTI respectively.

4. Details of the impact (indicative maximum 750 words)

The key impacts of our research as cited in S2 and S3 are:

- Influencing the development of the economic policy for Manchester City Region and the recently-created Manchester Local Enterprise Partnership (LEP), and the development of inward investment policy for Greater Birmingham and Solihull LEP.
- Changing awareness and understanding within the Department for Business, Innovation and Skills and UK Trade and Investment of the effects of inward investment, and allowing them to judge *ex ante* whether certain types of inward investment are likely to bring benefits to the UK economy.
- Changing the strategic thinking underlying the EU's framework for evaluating the impact of outward FDI on EU countries.

Manchester City Region and Greater Birmingham and Solihull LEP

The *Financial Times* (Ref 5.4) described the Manchester Independent Economic Review project (Ref 5, S3) as “the most comprehensive study of its type done in Europe”. The report explored the relative impacts of inward and domestic investment in the city region, and drew heavily on the Aston analysis contained in Refs 1-4 above. It was presented to large groups of stakeholders on a number of occasions, including in March 2009 to 500 economic development professionals, representatives from the nine councils making up the Manchester City Region, Regional Development Agencies and journalists (details of the events are in Ref 5.1).

The report developed “a shared evidence base which can be used to underpin policy choices regarding future priorities for strategic investment and to bridge some of the persistent gulfs in understanding that exist in the Manchester City Region (and in other City Regions), about how regional economies grow” (Ref 5.1). The key lesson was that regions should rely more on building indigenous capacity as well as on inward investment: this has had considerable impact on the development of economic policy in Manchester. For example, the document making the case for the establishment of the Greater Manchester Local Enterprise Partnership (GM LEP) drew specifically on the Aston element of MIER in calling for a policy of “enhancing the international connectivity of our businesses through increased inward investment and international trade.” (Ref 5.2). The MIER analysis was subsequently developed by the GM LEP into the *Greater Manchester Strategy* (Ref 5.3), two of the strategic objectives of which derived directly from the Aston research:

1. *Target firms in the city region with the highest potential to expand internationally.*
2. *Increase the level of foreign direct investment (FDI) into the city region.*

As a result of the MIER project, members of the Aston team were invited in 2011 to offer advice on inward investment policy and regional development to Birmingham. This was instrumental in Driffield being invited to join the economic strategy group of the Greater Birmingham and Solihull LEP. In 2012, Driffield, Love and Du subsequently obtained an ESRC follow-on award (*Maximising the benefits of inward investment*) to develop an inward investment strategy for Birmingham City Council and the Greater Birmingham and Solihull LEP. This has fed into the Greater Birmingham Project (see Refs 5.5 and 5.6)

BIS/UKTI

The ESRC project “Who really gains from inward investment” has resulted in impact with considerable policy-oriented reach and significance at both regional and national level. A key finding of this research is that employment creation and technology transfer through inward

Impact case study (REF3b)

investment are typically mutually exclusive, although policy usually hopes for both to occur simultaneously. Crucially, therefore, this work has changed awareness and understanding at BIS and UKTI of the effects of inward investment in the UK, and policy makers at BIS and UKTI have observed that this finding has changed how they think about inward investment policy. For example, BIS/UKTI produce a regular “case for intervention” which is their analysis of the important academic contributions to UK policy on inward FDI. The 2011 publication (**Ref 5.7**) cites and discusses 12 publications from the Aston team, including **Refs 3.2, 3.3, 3.4 and 3.6**.

The European Commission

The thrust of the 2012 European Competitiveness Report (**Ref 5.8**) is on globalisation and FDI. Chapter 4 presents a framework for evaluating the impact of outward FDI on EU countries: the Aston research has significantly influenced the Commission’s thinking on this topic. Table 4.7 in this report is adapted from the conceptual framework in **Refs 3.3 and 3.4** and is acknowledged as such. The discussion of the possible detrimental effects of FDI is taken from the ESRC final report (**Ref 3.1**). Finally, the discussion of employment effects of FDI discussed in the Competitiveness Report is taken from **Ref 3.4** and is cited as such.

5. Sources to corroborate the impact (indicative maximum of 10 references)

5.1 The Manchester Independent Economic Review

<http://www.manchester-review.org.uk/>

5.2 Greater Manchester LEP – a Proposal to Government.

<http://www.agma.gov.uk/local-enterprise-partnership/index.html>

5.3 Greater Manchester LEP (2009), *Prosperity for All: The Greater Manchester Strategy*

Available from <http://www.agma.gov.uk/local-enterprise-partnership/index.html>.

5.4 Focus on big local companies, policymakers told. Financial Times, 6th February 2009

<http://www.ft.com/cms/s/0/3225c632-f3f0-11dd-9c4b-0000779fd2ac.html#axzz2qSzTWdoV>

5.5 The Greater Birmingham Project: the path to local growth

http://centrefenterprise.com/wp-content/uploads/2013/03/GBSLEP-Report-version_complete.pdf

5.6 Letter from Deputy Chair of Greater Birmingham LEP outlining the importance of our contribution.

5.7 Department for Business, Innovation and Skills (2011), *International Trade and Investment: the Economic Rationale for Government Support*

<http://www.bis.gov.uk/assets/biscore/economics-and-statistics/docs/i/11-805-international-trade-investment-rationale-for-support.pdf>

5.8 European Commission: European Competitiveness Report 2012 (chapter 4)

http://ec.europa.eu/enterprise/policies/industrial-competitiveness/competitiveness-analysis/european-competitiveness-report/index_en.htm

Documents 5.1-5.8 above are also available from Aston in pdf format.