

Preface

My interest in the operations and effects of multinational enterprises and foreign direct investment (FDI) in developing countries originates from a research trip that I took as a student in 1995 to the border region between the US and Mexico. During this trip, organised by Utrecht University, we visited a number of FDI firms in the north of Mexico. After having read many articles and positive and negative opinions on the importance of foreign-owned firms in developing countries, I found it fascinating to see first hand how these firms actually operated and what impact they appeared to generate in their local environments. In 1996, I found myself in Mexico again, working as visiting researcher at the ITESM University in Monterrey. During that year, I carried out a project on the economic impact of FDI firms in the north east of Mexico. I visited and interviewed a large number of foreign-owned firms in this region, obtaining information on and analysing a range of effects that these firms could be linked to, including direct and indirect employment effects, exporting activities, multiplier effects via the use of local suppliers of inputs and technological learning effects among Mexican firms.

In the late 1990s, I became interested in particular in the latter type of effect. I realised that if I wanted to improve my understanding of the impact of FDI in developing countries, I needed to start concentrating on more detailed aspects of this impact. One of the reasons that I started to focus on externality effects is that at the time there was a surge in quantitative research on so-called FDI spillover effects, referring to productivity effects among domestic firms in a host economy that result from the presence and operations of FDI firms. My interest in the concept of externalities was stimulated further by the growing popularity of analysing the roles of externalities in processes of growth and development at sub-national levels. In particular, I became increasingly convinced of the validity of ideas on the significance of agglomerations of economic activity as generators of place-based externalities and the importance of geographical proximity for the generation and transmission of spillover effects. As I continued to read and think about these ideas on the geography of externalities, I found it striking that the research field on FDI externalities continued to develop with only very few direct links to the literature on spatial dimensions of externality effects. I found this omission particularly striking given the important challenges that this field was (and is) facing. Despite the clear theoretical notion that FDI firms are likely to act as source of new knowledge and technologies to domestic firms in host economies, the evidence on the occurrence, nature and determinants of FDI externalities has remained very heterogeneous in nature. As a result, there is little consensus on these externalities, clearly indicating the need to develop improved research strategies.

Within this context, I started to work on the idea that the incorporation of spatial dimensions in the estimation and analysis of FDI externalities might improve the empirical identification of these effects and advance our understanding of when, why and how these effects materialise. Although several recent studies have started to explore spatial dimensions of FDI spillovers in some shape of form, they are representative of the tendency not to link into the broad literature on the geography of externalities. Perhaps the best example of this is that only a very few studies look at possible effects of industry agglomeration or geographical proximity between firms on FDI productivity effects. Empirical research on effects from agglomeration shows clearly that the tendency of firms to concentrate geographically in space can be linked to the materialisation of place-based externalities that are directly linked to the existence of an agglomeration of economic activity. Surely, such a finding hints strongly at the possibility that the externality impact of FDI firms will be affected when FDI firms operate in such an environment that is conducive to the creation and transmission of externality effects. In fact, findings from studies on FDI location behaviour contain strong indications that FDI firms are attracted to agglomerations of economic activity within host economies, suggesting that the relation between agglomeration and FDI spillovers is an important one to investigate.

The purpose of this book is to present a variety of empirical research on FDI externalities in the host economy of Mexico, whereby I place a special focus on identifying and understanding the spatial dimensions of these FDI effects. One of the questions to which I try to find an answer is whether and how agglomeration affects FDI spillovers. Also, I address the important question whether effects from FDI vary at different levels of geographical aggregation. FDI externalities are generated and transmitted via competition effects, processes of labour turnover between FDI and domestic firms, input-output linkages between FDI and domestic suppliers and via demonstration effects. As it is very likely that geographical proximity or agglomeration affects the workings of these channels to a different degree, it seems plausible to assume that estimations of FDI effects need to be carried out at different levels of geographical aggregation in order to identify better the range of externality effects from FDI. In extension of this, I also address the question whether and to what extent FDI externalities occur across geographical space. A central lesson from research on knowledge spillovers is that geographical proximity between firms enhances these spillovers. This does not mean however that inter-regional spillover effects from knowledge-creation do not occur. In fact, recent empirical evidence on the causes and effects of knowledge creation in both the EU and the US contain strong indications that such inter-regional effects do indeed materialise. Given these findings, I expect that the inclusion of inter-regional FDI effects in the estimation of FDI externalities is very likely to generate a more accurate and complete capturing of these effects.

I have been very fortunate to have received the support and advice from many colleagues and friends during the years that I have been conducting the research for this book. With the risk of forgetting people (my apologies if you are one of them!), I would like to thank the following persons in particular. First of all, I would like to thank my parents, who made it possible for me to pursue my Masters and PhD degree, during which my initial interest in FDI, geography and externalities was formed. I am also very grateful to staff members of the department of Geography and Environment at the London School of Economics and Political Science. Paul Cheshire and Gilles Duranton helped and motivated me during the design and execution stages of many parts of the research project. Together with Henry Overman, Steve Gibbons, Christian Hilber, Ian Gordon and Andrés Rodríguez-Pose, they provided many constructive and helpful comments. Special thanks go to Vassilis Monastiriotis and Eduardo Rodríguez Oreggia y Román, who provided many valuable comments over the years and became good friends during the process. I also thank Abel Pérez Zamorano, Javier Sánchez Reaza and Jorge Vera García, who were a valuable source of information on Mexico and good mates to relax with. I also appreciate the good discussion that I had with Ron Martin and Jonathan Haskel about my work and their many critical yet very constructive comments.

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