The Role of FDI from a Local Perspective: the Cases of the West Midlands and Shizuoka-Aichi

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Structure

- Theme setting
- Globalisation, Regional integration and the local perspective
- Methodology: a comparative study
- Globalisation trends
- Industrial Agglomeration Area
- Comparison of the WM and SAP
  - Geographical concentration
  - International dimension
  - Agglomeration characteristics
  - Policy issues
- Discussion and conclusion
- Future research

FDI, Hollowing out and cluster policy

- The strength/weakness of the home environment influences both outward- and inward FDI: significance and impact
- Hollowing out in the context of European integration and globalisation: UK MNEs restructuring vs. Japanese MNEs for expansion
- The role of ‘cluster’ policy?

Literature Background

- Globalisation / Regional Integration

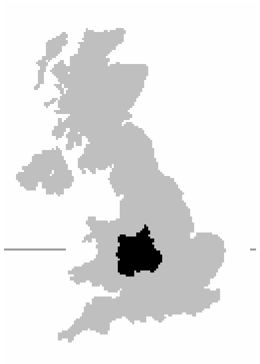
vs

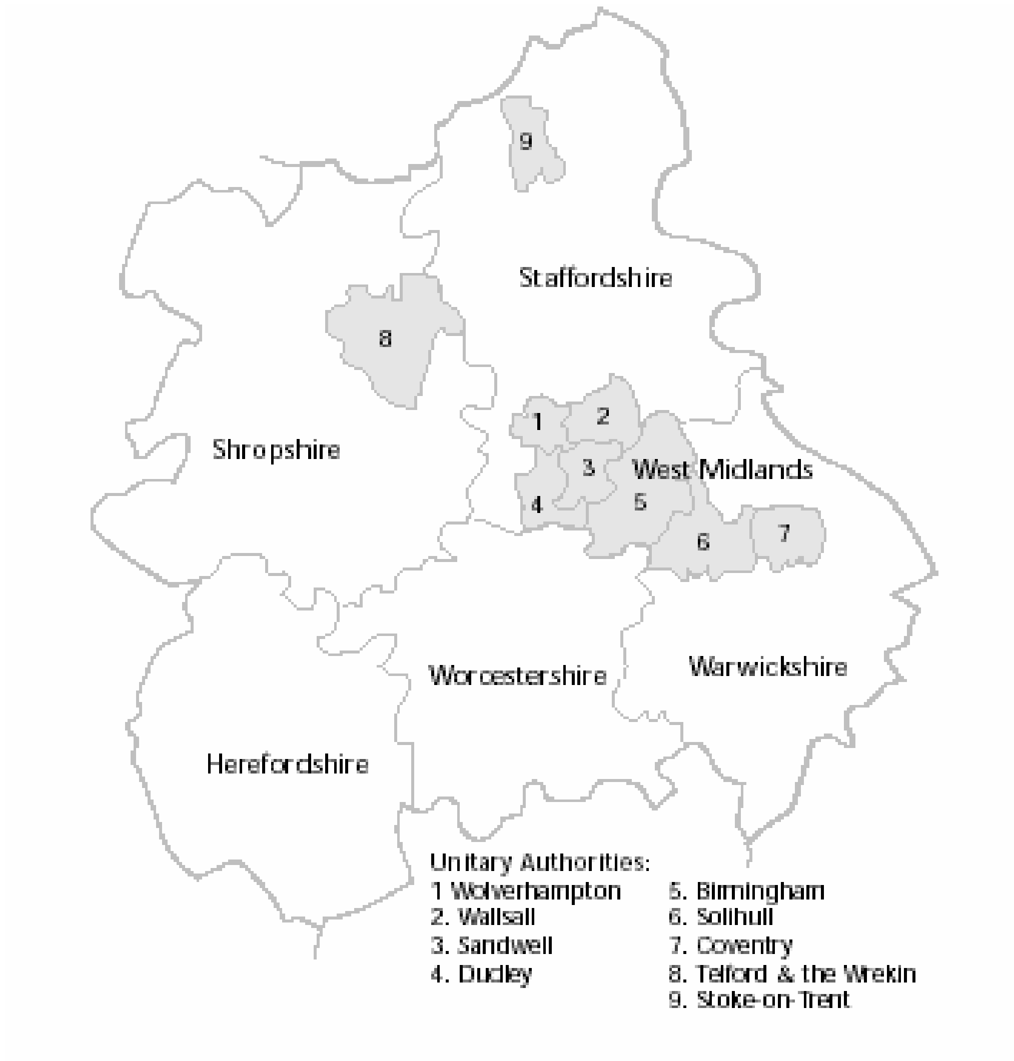
- Significance of the national and local dimension
- Industrial restructuring: hollowing-out, de-industrialisation, upgrading
- A surge of industrial cluster policy

Methodology

- Case study comparison between West Midland (WM), UK, and Shizuoka and Aichi Prefecture (SAP), Japan
- Focus on the automotive sector
- Interviews and questionnaire survey
- Secondary source information

The West Midlands

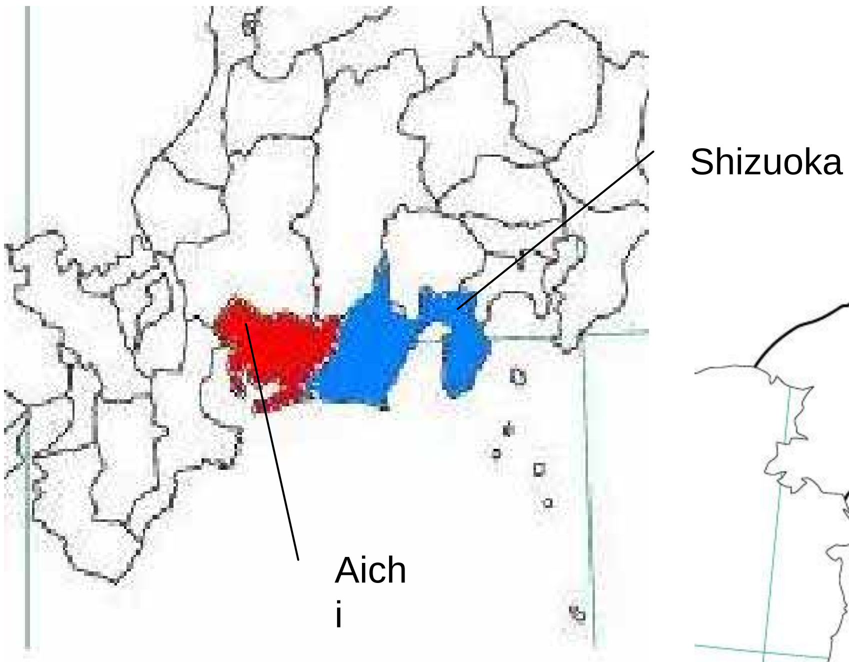




Population 5.3m (9.3% of the UK pop)

Largest city: Birmingham (1.1 m people, the 2nd in the UK)

Shizuoka and Aichi Prefecture (SAP)



Population (mil.):

Aichi:7.192, Shizuoka: 3.795

GDP: (bil ¥):

Aichi:24,370, Shizuoka: 12,194

Global Automotive Industry

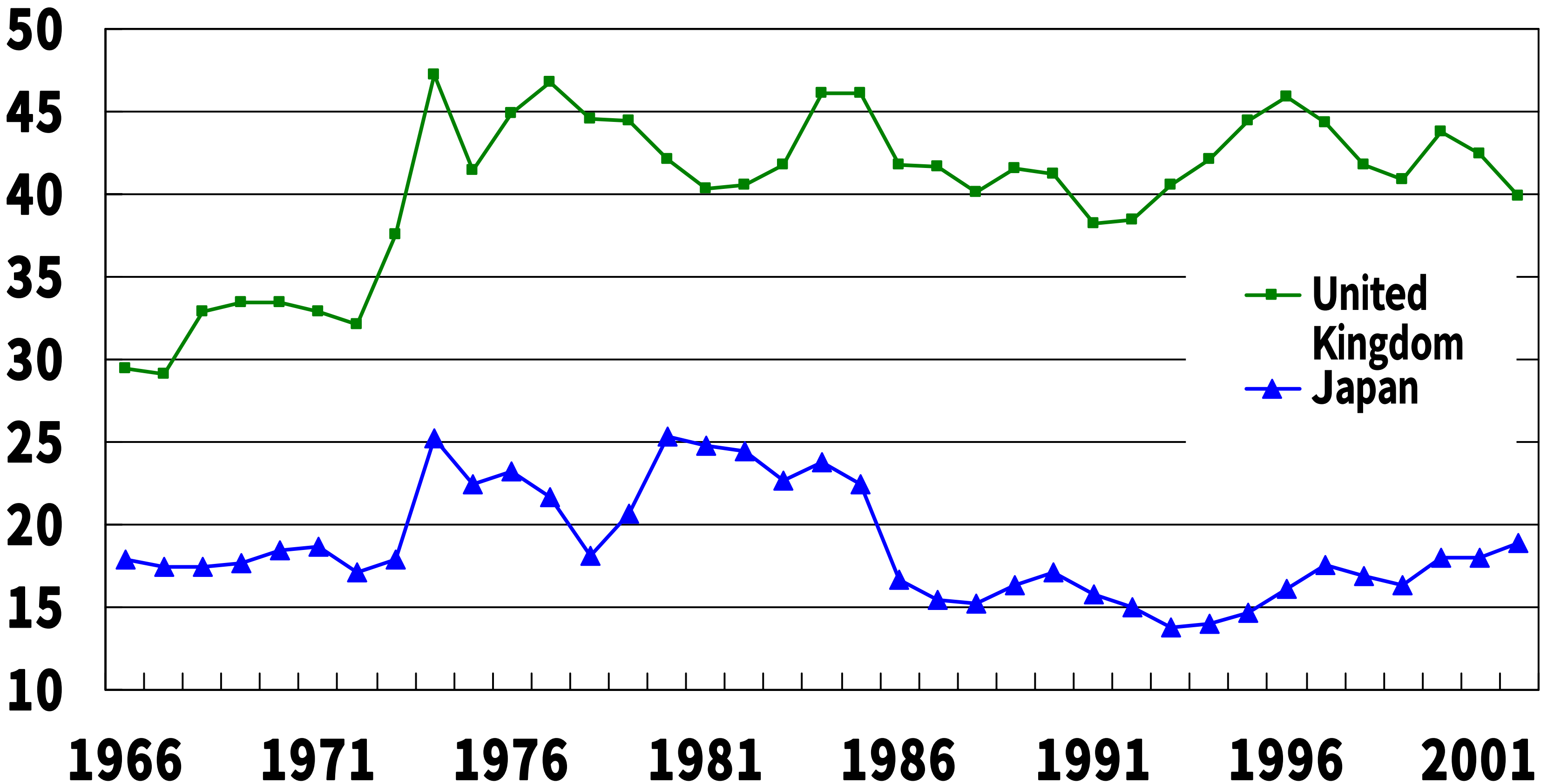
	World	UK	Japan
Production (unit, 2003)	42,868,852	1,657,558	8,478,328
Inward FDI position (2004), (share in mfg & total FDI)	-	7,685 mil. **£** (-, 2.3%)	n.a.
Outward FDI position (2004), (share in mfg & total FDI)	-	12,507mil. **£** (-, 2.0%)	5,242.9 bil.¥ (16.8%, 6.8%)
Export (unit, 2003)	17,238,893	1,146,078	4,080,494
Import (unit, 2003)	-	2,184,724	243,996
R&D Expenditure by Big Firms (Share in total industry)	38,390 mil. **£** (18.8%)	171 mil. **£** (1.0%)	11,037 mil. **£** (24.1%)
Auto sector manufacturing employment	-	181,302	745,667

Source: SMMT (2004), UNCTAD (2004), OECD (2003), JAMA (2003)

Globalisation Trends

- Trade
  - Global, UK and Japan
- FDI
  - Global, UK and Japan
- Impacts of national and local economy
  - Convergence between countries
  - Divergence within a country
- More significant impact at local level

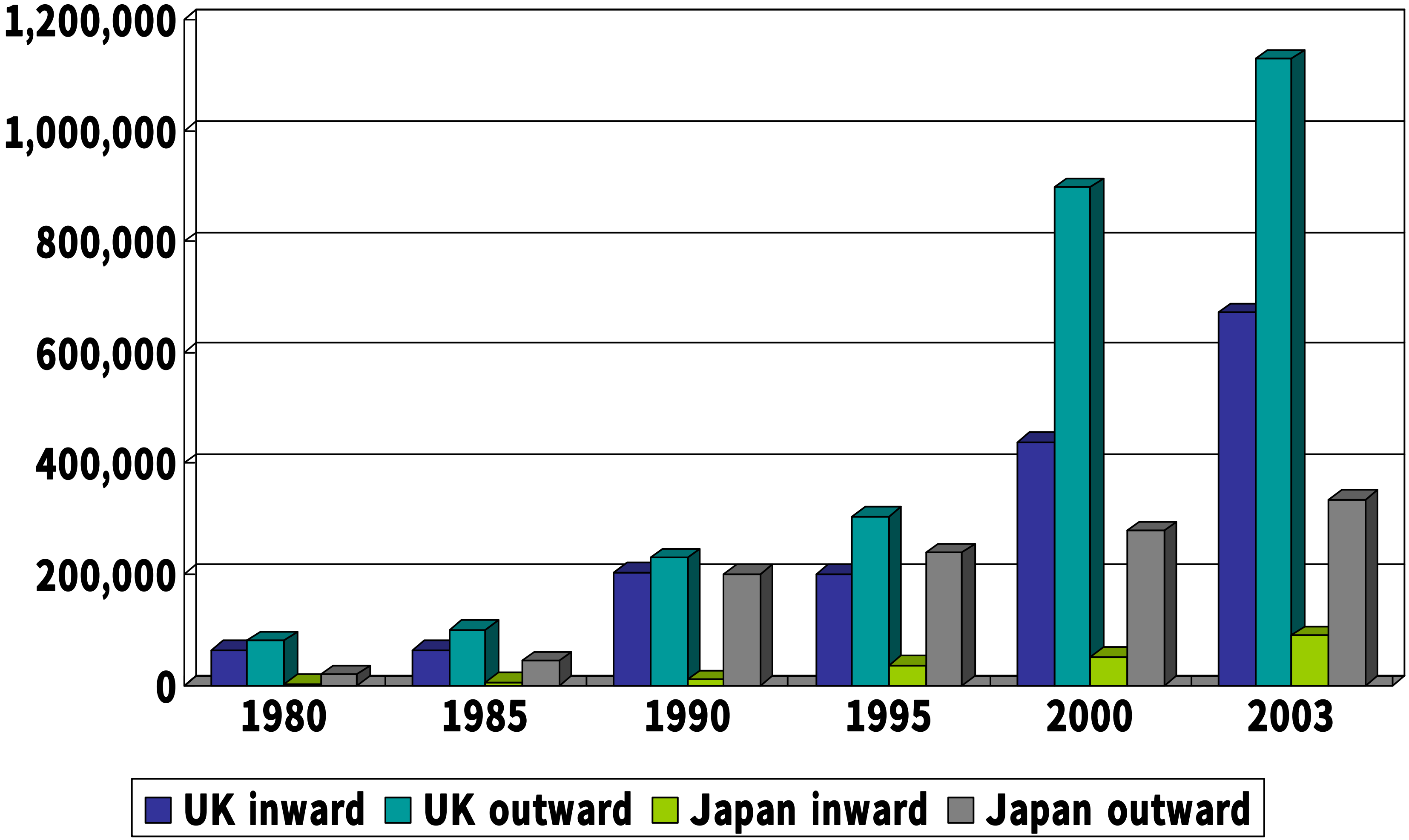
Trade* in goods (% of GDP)



*: exports + imports

Source: World Bank (2004)

Investment Position of UK and Japan (millions US $)



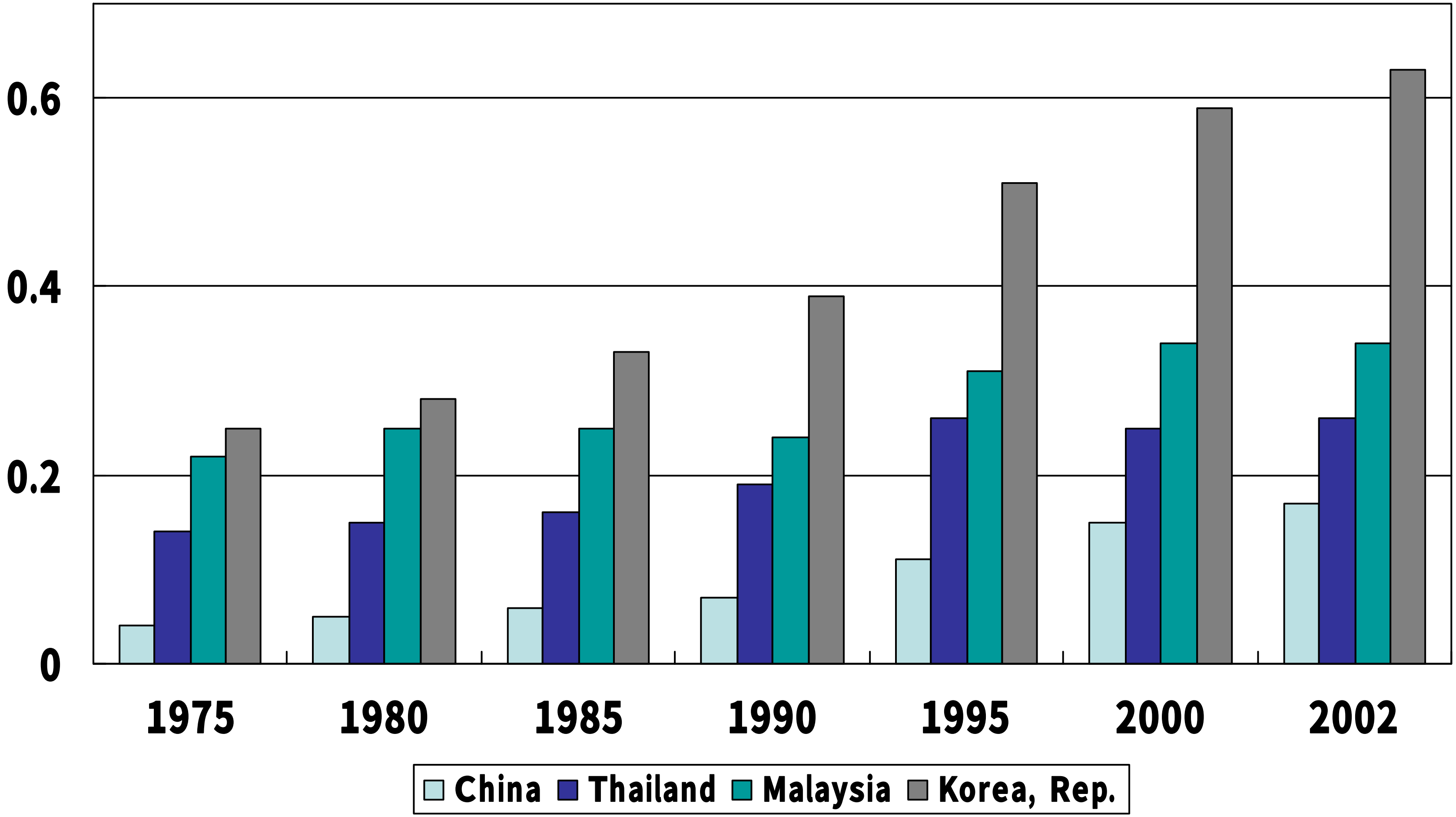
Source: UNCTAD (2004)

Economic divergence within the EU

		1970	1980	1990	1995	1998
Upper 5%／Lower 20%		2.01	1.73	1.77	1.73	1.86
Gini coefficient		0.320	0.299	0.301	0.303	0.309
Theil index	within country	0.152	0.130	0.142	0.142	0.152
	between countries	0.017	0.016	0.012	0.008	0.008
	Total	0.169	0.146	0.154	0.150	0.160

Source：Sapir（2004）p.80

Economic Convergence Index of Asian Emerging Markets to Japan (Japan=1)



Source: World Bank (2004)

Gini Coefficient* in Japan

1986	1991	1994	1997
0.252	0.260	0.265	0.273

*: Coefficient toward 1 means the divergence of income.

Source: Statistics Bureau, Japan

Comparison of Globalisation between the UK and Japan

- UK is more advanced with all aspects:
  - trade, inward- and outward-FDI, and knowledge seeking
- Reasons of British globalisation:
  - European integration, surrounding developed countries, liberal policy
- Japan may follow the UK
  - FTA, development of neighbour countries, more liberal policy approach
- Japan can learn from both opportunities and risks of British globalisation

Industrial Agglomeration Area

- Geographic concentration:
  - Main firms, production, employment
- International dimension:
  - FDI, international trade
- Agglomeration characteristics:
  - Externality, supply chain/network, local issue
- “Cluster” policy:
  - Target industry, role of policy, FDI policy, policy tool

Geographic Concentration of the Automotive Industry in the WM

Main MVMs	Peugeot (PSA Peugeot Citroen), Land Rover, Jaguar, Aston Martin (Ford), MG Rover (Phoenix Venture Holdings Ltd –closure)
Main first tier suppliers	Visteon Corporation, Goodyear, Lear, Denso, Johnson Controls, Dana, TRW, Valeo, Aisin Seiki, ArvinMeritor, Federal Mogul, Faurecia, Magneti Marelli, Siemens, Eaton, Mayflower, Smiths Industries, Tomkins, GKN, Pilkington
Nb of firms **Nb of Employee / Turnover value (£m)**	2 major MVMs, 5 niche MVMs, 398 component suppliers, some 2,000 firms involved 65,238 (31.8% UK) 12,771 (34.1% UK)
Roots industry	End of the 18th century as one of the birthplaces of the industrial revolution / metalworking and the manufacturing of railway carriages → bicycle and motorcycle making, tyre manufacturing and electrical engineering → Automotive

Sources: Farshchi and Janne 2003, EFILW 2004

Geographic Concentration of Automotive Industry in SAP (2003)

Motor vehicle manufacturer	Toyota, Suzkuki, Mitsubishi
First tier supplier	Denso, Toyota Industries, Aisin, Yamaha, Yutaka Giken, etc, JAPIA member firms:106 (24.7% in total number)
Number of firms (Share in Japan)	3,428 (36.0%)
Number of Employees (Share in Japan)	310,325 (41.6%)
Value of manufactured goods shipment (Share in Japan)	21,521.7 bil.¥ (47.8%)
Roots industry	Japanese industrial revolution started with textile industry, and contribute to building the industrial machinery industry, in which Sakichi Toyoda in Hamamatsu, Shizuoka played significant role / The technology for industrial machinery was used for the engineering of transport equipments, both motorcycle and automotive / In Shizuoka, the auto sector developed through the evolution from motorcycle industry , while in Aichi this process was passed.

Source: METI

WM&SAP: International dimension

- International trade
- Inward FDI
  - WM: dominant foreign ownership
    - liberal approach, EU integration,
  - SAP: few foreign companies
    - Early protection, closed system, strength of local firms
- Outward FDI
  - WM: global oriented first tier suppliers, domestic oriented SMEs
  - SAP: global oriented MVM and first tier suppliers, domestic oriented SMEs

FDI in the WM

MVMs (group ownership) Large mainly foreign-owned firms with global operations	**Automotive Component Manufacturers** Few indigenous major first tier suppliers
Peugeot (PSA Peugeot Citroen / France): 206 production uncertainty, investments in FR, CEECs (PSA/Toyota JV)..	First tier suppliers: high productivity, global markets, production in lower cost countries (e.g. GKN,..)
Land Rover andJaguar, Aston Martin (Ford -US): restructuring and rationalisation, Jaguar and Land Rover may further move outside the region..	2nd and 3rd Tier suppliers: small suppliers: productivity deficiency, mainly intra-UK activities
MG Rover (Phoenix Venture Holdings Ltd –UK): recent collapse..	

FDI in SAP

(units)

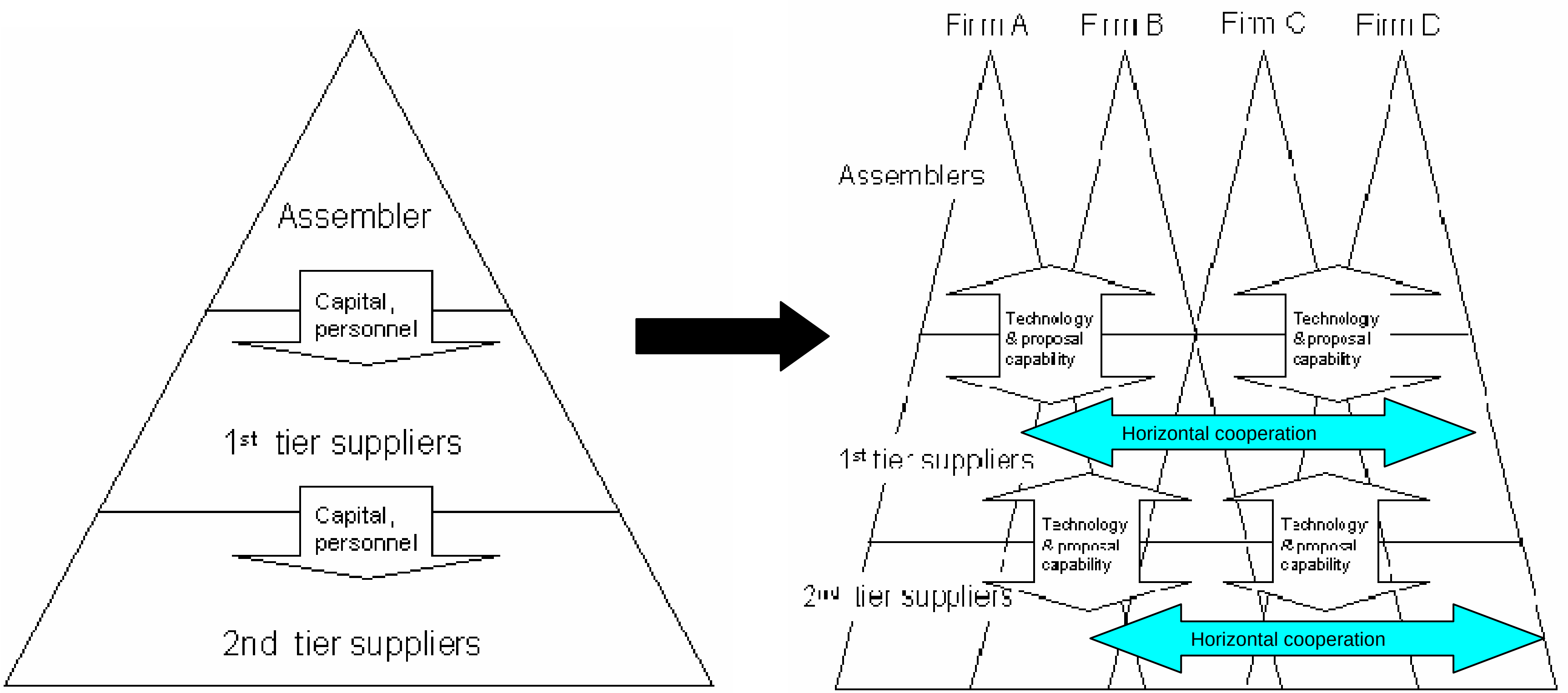
		Shizuoka	Aichi
Plant number owned by foreign firms		59	n.a.
Local firms	Number of parent company holding foreign affiliates	347	536
	Number of foreign affiliates (manufacturing sites)	1,085 (280)	2,417 (1,119)

Source: Shizuoka Prefecture Government (2004), and
Aichi Prefecture Government (2005)

WM&SAP: Agglomeration characteristics

- Role of externalities:
  - WM: proximity to demand, availability of labour, infrastructure
  - SAP: proximity to demand, propensity to innovate, technological competence
- Supply chain/network
  - WM: vertical disintegration
  - SAP: vertical co-operation
- Regional issues:
  - WM: eroding traditional advantage to upgrading
  - SAP: shortage of human resources for global expansion

Change of Keiretsu to more co-operative form



Source: (Ohno, 2004, p.18), interviews

WM&SAP: Policy issues

- Industrial cluster policy:
  - WM:
    - automotive-specific:, exploitation and development of innovation capability: involving main actors, upgrading of SMEs, improving supply chain
    - diversification
    - inward FDI concerns of hollowing-out
  - SAP:
    - automotive sector: least concern
    - diversification for next generation industries
    - inward FDI promotion
    - support for SMEs through knowledge exchange framework

Role of policy in WM

Interviews of firms:

Consistently highly ranked policies over time:

- Supporting education and training
- Improving quality development
- Developing the physical infrastructure

Least relevant policies:

- Supporting firms to locate outside the West Midlands

Interviews of local actors :

Perceived relevance current of policies for:

- Physical infrastructure development
- Start-up, incubators of small firms
- Environment

Perceived needed policies:

- Research and technological development
- Labour recruitment
- Environment

Least relevant policies:

- Supporting firms to locate outside the West Midlands

Role of policy in SAP

Interviews of firms:

Bit automotive firms do not rely on local government very much, due to their superiority

National policy such as environment and safety regulation is more significant

Interviews of local actors :

Perceived relevance current of policies for:

- Physical infrastructure development
- Research and technological development
- Technological and financial support for SMEs

Perceived needed policies:

- Preparing for retirement of baby boomer in 2007

Least relevant policies:

- Supporting firms to go abroad, but provide if requested

Discussion and conclusion

- The WM experience:
  - Dominant foreign ownership
  - Restructuring through increased influence of FDI within the EU and globally
- The SAP experience:
  - Little foreign penetration
  - Expansion through increased FDI globally, and internationally integrated networks
- Hollowing out of the WM?
- Future restructuring of SAP?
- Context specific vs high-tech cluster policy?

Future research

- The dynamics and problematic of globalisation led by MNEs raise different concerns for the WM and SAP, both automotive ‘heartlands’ in their country. Future research may address the impacts of MNEs on emerging economies such as Eastern Europe and Asian countries.