Globalization trends and their challenges for regional development

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1. RECENT GLOBALIZATION TRENDS

This book investigates the challenges which emerge for local economies when faced with the new globalization trends that characterize the world economy. The novel aspect of this book lies in the particular perspective from which globalization trends are analysed. It emphasizes the changes that have recently occurred in globalization trends. Qualitative rather than quantitative changes have characterized the reshaping of the global economy and the creation of new challenges for regional growth in recent times; the globalization of production no longer only involves the offshoring and outsourcing of production phases in developing countries; it no longer simply affects the division of labour between emerging and advanced countries and developed and developing economies; and it is no longer confined to the manufacturing industries. The globalization of tasks rather than sectors, the offshoring and outsourcing of service functions, de-industrialization in favour of services, and the decentralization of intertwined functions (manufacturing and related services) are recent and established trends in globalization which are reshaping the division of labour in the sub-national economies of advanced countries, and regional economies are increasingly competing to seize the opportunities which these new trends offer (Capello et al., 2011).

Globalization is interpreted in this book as a process of internationalization of production and markets which can take various forms – such as increasing international trade or increasing foreign direct investments – all of which give rise to the growing integration and interdependency of European economies with regard to the other main world economies. When conceptualized in this way, globalization is far from being a new phenomenon, and indeed in many periods during the last century it reached very high levels which were sometimes even comparable with those of today. Moreover, it did not manifest itself as a single, catastrophic leap, as the sudden adoption by, and success of the term in political debate might suggest. What is more recent is the long-term, simultaneous acceleration of many parallel integration processes which reinforce and integrate with each other in multiple ways. International trade has been steadily growing for almost thirty years at a rate which is twice that of world GDP. Foreign direct investments, in turn, have grown at a rate which is twice that of international trade, and four times that of world GDP. Most of these investments are directed towards developed countries (80 per cent from 1986 to 1990, and around 60 per cent from 1993 to 1997) and seem to be particularly attracted by situations of acceleration in economic integration processes; in fact, at the peak of the process of the creation of the Single Market in 1991–92, the EU countries received up to 50 per cent of world FDI (UNCTAD, 1997; Camagni, 2002). Still today, most inward FDI flows are an intra-European, rather than an extra-European, phenomenon, which highlights the importance of market integration processes for these investment trends (see Casi and Resmini in this volume).

Furthermore, the mobility (and volatility) of financial capital has grown spectacularly: in 1995, financial exchanges reached $1000 billion a day, more than the foreign exchange reserves of all national governments put together. The short-term profit objective of these movements imposes serious constraints on governance of the international financial system. Finally, the nature of international trade has evolved from the pure exchange of (final) goods among national production systems to the exchange of intermediate goods through the internationalization of functions within production networks organized on a worldwide scale.

The planetary integration of the world economy opens up new opportunities and creates new threats, and it changes growth patterns at both country and regional level. World growth patterns at the country level have exhibited remarkable change since the 1950s, and in recent times, the disparities in per capita GDP between rich and poor countries have decreased, thanks to a process of convergence of the poorer economies. This trend is further confirmed if Brazil and China, the two largest emerging countries, are not included in the statistics. But for how long has this convergence trend been under way, how diffuse is it among countries, and how long will it last? The impression is that the effects of globalization have influenced a fairly large number of countries, but that there are still countries and economies which lag far behind. Analysis on how these countries might be helped to start a sustainable growth pattern is of great importance (see César das Neves in this volume).

Another issue at the forefront of our reflections is how the present economic downturn will impact on globalization trends. The global integration of national economies rapidly transformed the US financial crisis first into a global financial crisis, and then into an economic downturn. The economic difficulties of these years have drastically changed the rules of the game in the world economy, and the globalization process will probably emerge from the crisis in different forms. A 'regionalized' globalization will probably take place, with the large 'triad' areas (Europe, America, and East and South Asia) becoming more independent and more internally integrated, with a consequent reduction in the amount of external FDIs flowing into Europe, with the exception of those (such as sovereign funds) which have the purpose of taking over European businesses of a strategic character (such as technology and famous brands). European investments are less substantial, but have concentrated more on Europe and its external periphery and neighbours (including Ukraine, Moldova, Turkey, Egypt and North Africa). The consequences of the structural changes brought about by the crisis and the new, 'regionalized', globalization call for reflections on what the consequences of these structural changes will be on the economic growth patterns of regional economies (Camagni and Capello in this volume).

Another crucial issue for interpreting the opportunities offered by globalization is – in the words of Donaghy in this volume – an understanding of *what* gets produced *where*, with *which inputs* obtained from *which supply chain* and sold in *which spatial market*. In other words, globalization trends have a powerful effect on the nature of spatial commerce and spatial price competition, and a revision of the traditional international trade models *à la* Ohlin (Ohlin, 1933), and of the spatial price formation *à la* Hotelling (1929) is necessary.

All these recent globalization trends emphasize the new challenges arising for regional economies. In particular, more in-depth analysis is of especial interest for highlighting the ways in which financial capital and human capital flows are influenced by the most recent globalization trends, and how these new flows influence regional economic performance.

2. NEW CHALLENGES IN FDI FLOWS

It is important to gain deeper understanding of the future geographical reorientation of FDI, and the form that the process of delocalization might take. In fact, how FDI will develop in geographical space, and the form that it will increasingly take (horizontal versus vertical FDI; functions versus task delocalization), have implications for future regional growth patterns.

A recent analysis has shown that interesting geographical reorientation trends have emerged in Europe since the end of the 1990s (Capello et al., 2011). Over time both intra- and extra-European multinationals have become more selective in their choice of new locations, with a redirection of FDI flows from Western to Eastern regions. Among Eastern countries, Romania and Bulgaria have proved the most attractive, thanks to the accelerated pace of economic reforms and privatizations which brought Romania into the EU, and certainly contributed to boosting investor confidence (Pauwels and Ionita, 2008). Moreover, the opening up of Central and Eastern European economies was driven by the European integration process, rather than by globalization (Traistaru et al., 2003; Petrakos et al., 2000; Resmini, 2007). Intra-European foreign firms began to penetrate Central and Eastern European regions earlier than did extra-European FDI. What is interesting is that the different geographical patterns in the spread of FDI also inevitably reorient the growth opportunities related to this form of internationalization.

If the geographical direction of FDI has changed over time, the change in the *forms* through which FDI develops is even more impressive. Recently, new types of trade have been taking place which are related to the unbundling of functions into specific tasks, leading to a trade-in-task economy, also known as a new *globalization paradigm* (Baldwin, 2006). The offshoring and outsourcing of function phases have been added to the traditional offshoring and outsourcing of complete functions, and have become normal corporate strategies by which firms seek to increase productivity. Before the advent of this new paradigm, firms and sectors represented the most refined level at which the impact of globalization was felt: more open trade explained the good fortune of some firms and sectors through the exploitation of economies of scale in the production of final products in low-wage areas. Today, competition is increasingly generating effects within firms, at a task level, on a task-by-task basis, calling for and imposing new competitive strategies for firms based on a reallocation of phases of functions at the spatial level, and for territories, based on the supply of quality human factors, accessibility to information, devices which allow rapid information assessment and transcoding, and forms of coordination and cooperation (Capello et al., 2011).

The major consequence of this new globalization trend is increasing complexity in spatial terms: 'there is undoubtedly something profoundly new about new globalization' (Kenney and Florida, 2004). The North/South, centre/periphery model of the past – which implied moving activities and employment to low-cost countries, and exporting low-value added manufacturing goods from these countries – was a model which was able to respond appropriately to competition on a firm-to-firm basis seeking competitive advantage based on low labour costs of production phases. New cross-border relationships are emerging today which reflect the fact that firms require additional and more value-added local assets, such as knowledge, creativity and entrepreneurial spirit, flexibility in labour markets (rather than cost), and the presence of relational and social capital (Camagni, 2009). Moreover, with these qualitative changes, local production systems are finding themselves increasingly tied together and interdependent, mainly due to the global strategies of multinational corporations. In the face of these new globalization trends, regional development is increasingly dependent on the capacity of regions to exploit their historical strengths, and to identify opportunities for diversification and expansion of their specializations by strengthening their know-how and knowledge base.

A second recent qualitative trend in globalization is the offshoring and outsourcing of service functions. Since 1990, services have accounted for the majority of total FDI; by 2005, they accounted for almost two-thirds of the total, while manufacturing represented 30 per cent and the primary sectors less than 10 per cent. Services still maintain a large share of greenfield FDI (42 per cent in 2006, with manufacturing accounting for 54 per cent), with greenfield FDI representing one-third of total FDI. The world's import stock of services quadrupled between 1990 and 2002, from an estimated US$950 billion to over US$1.5 trillion (UNCTAD, 2011). This explosion was certainly linked to the liberalization of FDI policies, which began around the middle of the 1980s and gathered momentum during the 1990s. All this entails important consequences if one considers that services are the largest productive sector in most economies, and that their competitive (and efficient) production is crucial for the welfare of a society as a whole. One message that emerges from this book is that service FDI is playing an increasingly strategic role in explaining regional growth performance (see Casi and Resmini in this volume).

This change of service mix also reflects the different reasons behind offshoring activity. Finance and retail trading once represented the traditional host-country market-oriented services; nowadays, more complex strategies are being adopted in the search for efficiency gains based on the inter-affiliate division of labour, relying on foreign affiliates to produce components which are required not by the parent companies, but by other affiliates which specialize in other components. Therefore, in service industries as well, we are witnessing the break-up of service activities into components which are produced wherever it is more convenient to do so, with the result that certain foreign affiliates perform back-office functions of various kinds for their parent companies, or for other foreign affiliates.

The fact that most offshoring and outsourcing takes place in developed countries underscores that it does not primarily reflect a 'North–South divide', and that it mainly affects regional economies in developed countries, and within them, urban service specialized regions representing the most favourable locations for finding capable local firms.

These qualitative changes in globalization trends show that new corporate strategies are being developed at the spatial level, and that it is no longer a question of simply looking for low-cost areas. New and more complex cross-border relationships are emerging, and the spatial distribution of the new opportunities and threats are no longer a matter of a North–South divide, or of low- versus high-cost areas. More than ever, regions are competing to attract and retain advanced functions and tasks based on their intangible (more than tangible) local assets, such as human capital, local know-how, entrepreneurial spirit, and social and relational capital. In a period of globalization, local assets are becoming more significant than ever in dealing with international competition.

3. NEW CHALLENGES IN HUMAN CAPITAL MIGRATION

In the context of the opening of national barriers through geopolitical agreements, the globalization of labour, and the delocalization of the production of goods and services, the diversity and complexity of migration flows is an impressive phenomenon (see Baycan and Nijkamp in this volume). Migration has not increased in quantitative terms, since the share of international migrants in the world population has remained at around 3 per cent. What is drastically changing, however, is the nature of migration processes, which are no longer only determined by a lack of development in the country of origin. On the contrary, what is now taking place is international migration originating *from development itself*. With the exception of a few sources of refugees, the countries of origin of migrants are generally nations whose economies are growing rapidly and whose fertility rates are falling as a result of their incorporation into global trading networks. The consequence of this change is that migration is no longer taking place between neighbouring countries, as is the case with refugees, but is increasingly assuming a long-distance nature driven by economic, social and political connections. In fact, in-migration is a natural consequence of broader processes of social, political and economic integration across international borders (see Baycan and Nijkamp in this volume).

All these qualitative changes in migration require new theories able to explain the new nature of migrations. The current theoretical approaches adopted by different disciplines, from demography to sociology, economics, geography and political science, seem inadequate for interpretation of the new trends, and new interpretative paradigms are required for a more effective interpretation of the phenomena.

Another interesting aspect of the new migration processes concerns the effects of migration on the receiving countries. A phenomenon which is beginning to become significant, and to exert positive effects on receiving countries, is that of migrant entrepreneurs. These actors are having an increasingly powerful impact on the economies of cosmopolitan cities, and they represent an important driving force behind economic growth in many US cities. This phenomenon is also developing in certain European countries: the Netherlands provides an example of how migrant entrepreneurship plays a central role in the economic development of receiving countries, mainly through the creation of job opportunities for other immigrants who would otherwise be excluded from the mainstream labour market (see Sahin et al. in this volume).

Despite the significant evolution of migration in a qualitative sense, the problem of the social exclusion of immigrants from the labour market remains one of the most complex migration-related issues still to be resolved by policy makers, who must be astute enough to make changes in policy styles. This requires consideration of migration as an integral part of development, rather than as a problem to be solved (see Martins and Mendes in this volume).

4. STRUCTURE OF THE BOOK

Despite being a collection, in which each chapter is self-contained, this book allows the reader to create a coherent framework of the new trends in globalization and their consequences on both FDI and human capital flows by reading all its chapters. Indeed, the book tackles all the above-mentioned issues in detail, and provides an up-to-date picture of current developments in both foreign investments and the consequent migration of human capital, as influenced by recent qualitative changes in globalization trends.

The book is divided into three parts reflecting the logical path that we have followed in this introductory chapter (Figure 1). The book begins with three chapters which highlight the new globalization trends in detail. The object of the first chapter is to provide a picture of recent geographical patterns in globalization, and it delivers the thought-provoking message that globalization is not detrimental to disparity, as has generally been thought, given the high level of competition which it produces. Globalization drives convergence among countries, and this remains true even if China and Brazil, the largest emerging countries, are eliminated from the analysis.

The second chapter deals with the effects of the recent economic crisis and globalization trends on the possible future growth patterns of

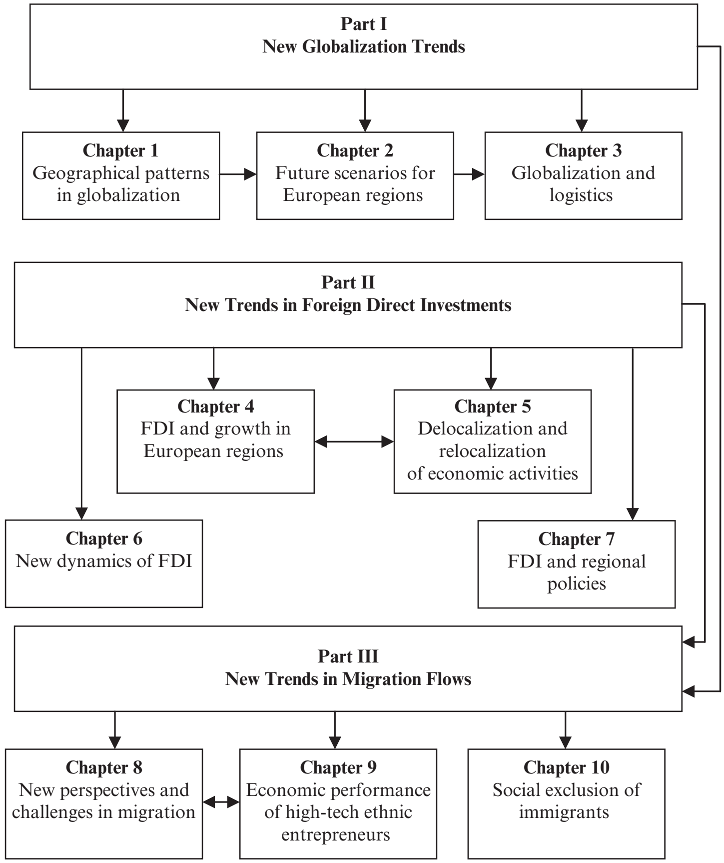

Figure 1 Structure of the book

European regions. The chapter presents alternative scenarios built under different assumptions concerning the perception of the structural changes brought about by the crisis. What is called a *reference scenario* is created on the assumption that there will be a perception that structural changes will take place, and that the extrapolation of past trends has no meaning, but that policies will be ineffective. This scenario is compared to a second one, called the *proactive scenario*, in which changes will be perceived, and even anticipated; and then with the *reactive or defensive scenario*, which is based on the assumption that changes are not fully perceived by economic actors.

The third chapter shows how the world's economies have become much more closely integrated in the past few decades, and the enormous extent to which movement among countries of goods, services, capital, knowledge and (to a lesser extent) people has increased. This closer integration has been attributed in large part to decreasing transportation costs, technological advances in information and communication technologies (ICT), and the liberalization of trade (Stiglitz, 2002). These three factors, and the logistical revolution to which they have given rise, have made possible, and induced, the fragmentation and spatial dispersion of production processes, and the growth in outsourcing and offshoring not only of the production of intermediate and final goods, but also of services and tasks. How these dynamics are resolved or evolve will have important implications for the forms that future patterns of trade and economic geography will take: that is, *what* gets produced *where* with *what inputs* obtained from *which supply chain* and sold in *which spatial market*. They will also have implications for the future welfare of communities and regions, which stand to gain or lose economic activities. The chapter provides a survey of empirical developments in logistics, trade and spatial price competition, and assesses the various attempts to accommodate them within behavioural theories. It also speculates on the extent to which all these developments might be encompassed in a more unified theory of trade and location.

Part II is devoted to the new trends in FDI, which represent the most important form of globalization in modern economies. The purpose of Chapter 4 is to provide an assessment of the various experiences of European regions and countries, as FDI has grown and evolved in terms of increasing size, regional and national concentration, and changes in composition. In order to achieve this research objective, the chapter looks empirically at the relationship between FDI and the economic performance of regions, as represented by regional growth rates. Controlling for potential endogeneity, the chapter shows that it is not the quantity of foreign investments that a region is able to attract which matters for its performance, but rather the quality of these investment flows, as shown by certain structural characteristics of the foreign firms. In particular, our findings show that intra-European FDI in the service sectors has a significant positive impact on regional performance, while foreign investment in manufacturing does not exert any effect on regional growth rates.

Chapter 5 is devoted to the delocalization of production activities, which is an expanding phenomenon. The lack of recorded data regarding these processes makes their measurement and characterization more difficult. The available empirical evidence does not allow us to determine the precise dimensions of delocalization, either in global or in regional terms. Sources of information regarding delocalization in Europe confirm that, even though there are important asymmetries between sectors and countries, delocalization is a relatively generalized phenomenon. Corporate motives for the implementation of delocalization strategies are fundamentally related to cost reduction, namely labour costs, and the possibility of accessing new markets. This chapter has two main objectives. The first is to characterize delocalization processes by expounding conceptual definition and quantification problems, and presenting recent empirical evidence. The second is to identify the most likely evolutionary trends in this area, with comments on the impact that the economic and financial crisis might have on corporate reorganization and the spatial distribution of delocalized activities. Although the discussion on the impact of the crisis was initially of a speculative nature, the tendencies we have identified are justified in accordance with probable market evolution and the macroeconomic variables which may impact on these processes.

Chapter 6 surveys the determinants of two forms of multinational activity, namely horizontal and vertical FDI. It stresses the opposite nature of the relationship between investment and trade under these forms (substitution in the case of horizontal FDI; complementarity in the case of vertical FDI), and compares the theory of FDI with a set of stylized facts on multinational activity. Finally, the chapter proposes a model of two vertically-linked firms engaging in FDI which encompasses both complementarity and substitution with trade for different values of trade costs, and reveals the non-monotonic role of transport costs in the spatial structure of the economy.

Chapter 7 considers two relatively recent trends in the development of the world economy. The first relates to the increasingly key impact of foreign direct investment (FDI) – from both perspectives, inward and outward – on many countries and regions across the globe. The second concerns the move towards more decentralized economies, either within a country or within a large regional integration context, particularly from the perspective of regional policy, where competition between similar regions to attract FDI can play a crucial role. In this chapter, the authors seek to investigate the convergence of these two major shifts, which have been very powerful in their theoretical, empirical and policy effects, but which are not yet clearly understood.

Last, but not least, Part III introduces the reader to the changes in migration flows. Chapter 8 elegantly explains the qualitative changes which characterize migration patterns in our time. More than a quantitative jump, migration trends exhibit a change in complexity and diversity: with the exception of certain refugees, migrants today mostly come from developed nations, as a consequence not of poverty, but of broader processes of social, political and economic integration across international borders. Changing patterns and processes of international migration, combined with the limited theoretical and political understanding of how economic, social, cultural and political factors affect the volume, direction and nature of migration, necessitate a shift from the old way of thinking about migration to a new one. At the policy level, the new way of thinking requires us to develop a new discourse which considers migration to be an integral part of development, rather than as a problem to be solved. The new way of thinking also requires a better understanding of the global context of migration and the emerging new mobility system, and the development of 'smart borders', rather than open or closed border policies, in order to manage the new mobility system more effectively.

Chapter 9 sets out a conceptual model of the key relationships concerning business performance and ethnic entrepreneurs. The model describes behavioural and other factors, which are grouped into four components: motivational; socio-economic contextual; policy; and business environment. After an initial examination of the relationships using ordered logit modelling, the resulting structural equation model is tested using the AMOS software. With the help of primary source data, a series of hypotheses on the relationships between the above-mentioned four components and individual firm performance are tested, with particular reference to the conditions for success of ethnic entrepreneurs in the high-tech sector. The structural equation model shows that three of the eight hypothesized paths are statistically significant. Of the three significant paths, only those between social networks and pull factors have the predicted direction, while current business location and business performance show a reverse relationship.

Chapter 10 deals with the problem of the social exclusion of immigrants from the labour market. The analysis is developed for Portugal, and is based on a distinction among various types of social exclusion, in order to address the causal factors which lead to the exclusion of a given immigrant community from the labour market, with special emphasis on the role of collective identity. Both individual capacities (such as human capital) and structural capacities (such as social capital) are shown to be important conversion factors for capability achievement which are possessed in different degrees by the Portuguese immigrants.

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