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# Review of Foreign Direct Investment and the Regional Economy

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**Foreign Direct Investment and the Regional Economy,** by Jonathan Jones and Colin Wren. 2006. Aldershot, U.K. and Burlington, Vermont: Ashgate. 248 + ii. ISBN 0-7546-4522-3, $99.95.

There is a broad consensus that foreign direct investment (FDI) confers economic advantages on local economies. FDI brings capital investment, new jobs, new technologies, and a host of other goodies wherever it goes, so it is naturally considered an unadorned good thing. Look at China, after all, or at India, or Ireland, where rapid economic growth is clearly associated with rising levels of foreign investment. Viewed from this perspective, studies of the impact of FDI serve largely to offer statistical details that can be cited to justify the warm glow everyone feels when a large foreign firm announces it is coming to town.

Jones and Wren simply refuse to share the good feeling about FDI without first processing some numbers. In doing so, they take a detached and serious look at the consequences of foreign direct investment in one area, the northeastern region of England. They have access to excellent data on the regional operations of foreign-owned plants from 1985 to 1999, and use these data to answer important questions about FDI in the region. How large are the benefits that FDI brings, as measured by new plant and equipment investment? How many jobs were created or retained? Did foreign investors create as many jobs as they promised the government when starting their investment projects? And did FDI come to stay, or perhaps instead contribute to regional economic instability by opening new operations only to close them shortly afterward?

The evidence is mixed. Yes, foreign investors made significant new capital investments in the region (about £1 billion per year during this period, corresponding to 4–5 percent of regional GDP), contributing to the local economy and creating significant employment opportunities. The activities of foreign investors were relatively capital-intensive, however, and thereby created fewer employment opportunities than was characteristic of similar investments by domestic firms. Despite this tendency, more than 35 percent of the manufacturing labor force in northeast England worked for foreign-owned firms by 1999. Aggregate employment in foreign-owned plants in 1999 was only 80 percent of that promised initially. And foreign investment tended to be rather footloose, one quarter of foreign plants shutting down within 10 years of initial investment, and three quarters shutting down within 15 years.

The big question, of course, is whether regional FDI is worth the government subsidies, regulatory laxity, and high-profile attention that politicians lavish on it. The book does not actually offer an answer, which is a pity, and even a bit surprising. It seems that one should be able to sum the benefits of FDI, compare to the costs, and deliver an assessment. The absence of a sharp bottom line may frustrate some readers who feel that after slogging through all the data description, statistical estimation, and other quantitative analysis, it is only fair that they be rewarded with an answer. To be sure, there are hints here and there that maybe the consequences of FDI are not nearly as rosy as popular opinion would have it, but a cold hard tally of what you get and what you give seems to be missing.

So what is the answer—is regional FDI worth the hype? Any careful assessment of the merits of encouraging FDI needs to consider what would happen in the absence of favorable treatment. That is very hard to do, and Jones and Wren do not really attempt it. There is, for example, no effort to identify what regional employment would be in the absence of FDI, or any net effects of FDI on other aspects of regional economic activity. The authors rely on a brief and rather uncritical survey of the published FDI literature to conclude that there is no systematic evidence of beneficial economic spillovers from FDI. While this is a fair summary of the conclusions of much of the surveyed literature, the discerning critic has to be uneasy with drawing much of an inference at all from this body of evidence. Using their detailed data on regional FDI activity, the authors might have offered their own estimates of FDI spillover effects, but alas, they do not. Hence, it would be fair to say that the literature does not tell us, and unfortunately, we still do not know the extent to which FDI improves regional economic outcomes.

This is not the only frustration that readers of the book will encounter. Individual words are clearly missing from the text in several places, and one memorable paragraph (the first on page 158), omits all of the upper-case letters. While it makes an excellent parlor game to fill in the vacancies, it is probably a distraction from the serious business at hand. More importantly, the book's skimpy and rather quirky index offers patchy assistance to readers seeking information on individual topics. Evoking images of a séance, the index includes entries for "knowledge," and "foreseen events," but not for "wages," "profits," or "subsidies." One of the nice functions of this book is to serve as a guide to the FDI literature, but here the index is distinctly unhelpful. While the book's bibliography includes cited works by hundreds of authors (even counting Mira Wilkins as a single person, despite her two separate listings in the bibliography), the index directs readers only to a handful of text references, chosen apparently on the basis of perceived prominence of the authors.

Despite these frustrations, it is an important and useful book, one to be kept in an easily accessible spot on the shelf. We are starving for good information on foreign direct investment, and the book is crammed full of information. The story of northeastern England—a declining manufacturing job base being replaced slowly and unevenly with service sector employment—is a story retold all over the developed world. What happens to these places during the decline of manufacturing, and what role foreign investment plays in softening the adjustment process, are critical questions for all our futures. This book does not provide the answers, but it offers juicy nuggets that readers can savor and digest on their own ways to finding the answers.

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