International business, cities and competitiveness: recent trends and future challenges

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Abstract

\textbf{Purpose} – This paper aims to explain how thinking regarding multinationals, competitiveness and location in cities has evolved over the past five decades and how our current understanding and thinking about future challenges is contingent on these previous shifts.

\textbf{Design/methodology/approach} – The design of the paper is a conceptual piece linking different theoretical strands.

\textbf{Findings} – Global cities are not always necessarily the key locations for future multinational investments. It depends on the activities taking place. Knowledge and technology and how they interact with the firm’s capabilities and objectives are crucial.

\textbf{Research limitations/implications} – The implications are that future multinational location choices will be driven by diversity, demography, protectionism, automation and industrial policy.

\textbf{Originality/value} – This paper provides a roadmap for scholars in the international business and competitiveness fields to understand the current and future challenges facing multinationals and their location behavior.

\textbf{Keywords} Knowledge, Technology, Policy, Cities, Multinationals

\textbf{Paper type} Conceptual paper

Introduction

Today, discussions regarding the competitive advantages associated with the location strategies of multinational enterprises (MNEs) are widespread as are discussions of the role played by global cities in modern globalization. Yet, the interest in these issues is actually relatively recent. For much of the past five decades, research on cities largely ignored the role of MNEs, while most of the research on MNEs ignored the role of cities. It was only a series of rather fragmented analytical developments allied with concurrent and profound structural changes in the global economy which spurred widespread interest in the relationships between MNEs and cities. Understanding how these analytical and structural

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changes took place is critical for us both to make sense of the current relationships and to identify the major influences on these relationships in the near future.

This paper is organized as follows. In the next section, we discuss how thinking in economic geography about cities, location and competitiveness has shifted dramatically in the past three decades after being largely ignored for several decades. In the third section, we illustrate the major features of modern globalization in the fourth section, we then combine the insights of the two previous sections in order to discuss how the field of international business (IB) subsequently began to shift its understanding of how to think about MNE location questions. The final sections then use the overall arguments presented to indicate the likely key influences on the future relationships between MNEs, competitiveness and cities.

**Evolutions in academic thinking about economic geography**

Today, there is enormous interest in the role played by cities in shaping and being shaped by the activities of MNEs. Yet, this interest is only relatively recent. To understand how we currently think about the interrelationships between multinationals and cities, it is necessary to consider how the analysis of these issues has emerged over the past five decades in the three fields of economics, geography and IB. Regarding both the analysis of cities and MNEs, previously these were three largely self-contained research fields following quite different trajectories, whereas nowadays they have become much more interrelated and on some aspects almost entirely integrated (Iammarino and McCann, 2013, 2017). However, to identify how the thinking in each of these fields has informed thinking in the others, it is necessary to understand how their trajectories have developed and why. This is also the basis on which we can consider how the thinking on these topics is likely to evolve in the coming decades.

Prior to the 1990s, the economic analysis of cities and regions was marginalized in many social sciences. The 1960s had actually seen a surge in interest in cities and regions within the discipline of economics, with major emphases on the role played by the city’s tradeable export sectors versus its domestically oriented non-tradeable sectors, its supply chain linkage structures and the city’s relationships with the wider hinterland regions (McCann, 2013). However, much of this interest had waned during the 1970s and 1980s, as economics became focused on issues regarding the microeconomic underpinnings of macroeconomics. Apart from a few exceptions (d’Aspremont et al., 1979), game theory, which dominated microeconomic thinking during this period, almost entirely ignored questions of geography and location, while the Keynesian approach to regions faded as macroeconomic orthodoxy moved toward the monetarism and rational expectations schools. Even in industrial economics, apart from the work of a few scholars (Caves, 1971; Buckley and Casson, 1976; Casson, 1987), issues surrounding the competitive behavior of complex business organizations were largely sidelined in favor of simple theoretical constructs of (mostly game-theoretic) market behavior. For two decades during the 1970s and 1980s, neither cities nor MNEs were major research themes in economics.

Similarly, in terms of the discipline of geography, while the 1960s had seen major advances in spatial modeling and statistical analysis which also complemented many prevailing economic approaches, from the early 1970s onwards, thinking about cities became dominated by a post-modern critique (Harvey, 1973), in which cities were increasingly examined as settings for class-related conflicts regarding access to capital and power. In their analyses of cities, the fields of geography and sociology became largely intertwined as to be almost indistinguishable from each other. This new hybrid tradition had no place for examining the geographical behavior of complex business groupings, and
only a relatively few scholars (Dicken, 1977, 1988; Hamilton, 1974) still maintained the
traditional economic geography approaches to the analysis of multi-location firm strategies.
Within the broad subject area of geography, the spatial investment behavior of these types
of businesses became largely absent from mainstream research as did the economic analysis
of cities, again for two decades during the 1970s and 1980s.

In the IB field, the fact that location behavior was explicitly incorporated into the
ownership–location–internalization (OLI) tripartite classification of the “eclectic paradigm”
(Dunning, 1979, 1981) might suggest that cities were a central research theme for the
analysis of multinationals. Yet, this was not the case. While the 1960s and early 1970s saw
some important insights emerging about the role of cities by leading scholars in IB (Hymer,
1972; Vernon, 1960, 1991), for the most part these issues were largely ignored (Iammarino
and McCann, 2013). The reason was that the “L” in the OLI paradigm was generally taken to
refer to a country, in a manner of a subscript, such that Luxembourg or New Zealand would
receive broadly the same analytical treatment as the USA or Japan. This situation was
justifiable because the vast majority of the prevailing research focused only on the “O” and
“I” dimensions of multinationals’ behavior. Cities, regions and the specifics of sub-national
location decisions and their impact were almost entirely absent in the IB field, again in this
same period of between the late 1960s and 1980s.

It is only since the 1990s that the situation started to shift in favor of examining the role
played by specific geographies in multinational firms’ behaviors and investment choices,
and the initial intellectual catalyst for this shift concerned the work of four scholars,
primarily Krugman (1991a, 1991b); Porter (1990); Glaeser et al. (1992) and Scott (1988), while
the second intellectual catalyst arose from the later work of Sassen (2001, 2006) and Taylor
(2004). At the same time, these catalysts were both fueling and responding to the growing
momentum arising from the much larger impacts of modern globalization which were
beginning to impinge on all aspects of modern life. These various publications gained
enormous traction, first because they threw light on key aspects of the links between
economic geography and productivity, and second because they provided explanations of
the evolving global economy, in particular on the economic geography of modern
globalization. Yet, while understanding the economy of cities was an explicit intention of all
of these scholars, understanding the role of cities in modern globalization was not an explicit
intention of the work of Krugman (1991a, 1991b); Porter (1990); Glaeser et al. (1992) or Scott
(1988). Indeed, it was too early at the time to conceive the subsequent nature and scale of
such relationships, whereas it became the pressing priority of the later contributions of

The work of Krugman (1991a, 1991b) and Glaeser et al. (1992) examined the role played
by cities in driving the economy via the effects of agglomeration economies. The research of
both the authors later spawned a very large economics literature which examined multiple
theoretical and empirical aspects of city formation and the links between the growth of
cities, trade, skills and knowledge generation. Yet, in these literatures, the firm was never
explicitly examined, rather was treated as a market construct, typically characterized as a
monopolistically competitive agent. In contrast, more detailed thinking about the actual
nature of the firm and its strategy in this geographical context was taking place in the field
of management. Porter (1990) articulated ideas from a different perspective which stemmed
from his earlier work on firm competition (Porter, 1985), which in turn linked back to some
of Caves’ (1971) early insights regarding multiplant and multinational firms. The focus of
Porter’s (1990) competitiveness analysis was the ways in which corporate investment
decisions taken with respect to the sub-national geographical scale influence national
economic performance via their impacts on innovation and competitiveness. His work
emphasized the importance played by the size and location of domestic supply chains, the geography of competitor firms and the local patterns of supporting institutions in shaping both local and national competitiveness and innovation. Porter (1990) broke with existing approaches to strategy by looking at these issues which were external to the firm, but through the lens of the firm itself, arguing that the interplay between the firm and its location setting or choice sets a critical framework for thinking about the knowledge drivers of innovation and competitiveness processes. Many of his ideas have been spurred by new generations of micro-level innovation surveys (Hong, et al. 2012). Indeed, the emphasis on the institutional setting also underpinned the ideas of Scott (1988), who argued that the nature of the competitive, technological and institutional relationships between actors throughout the supply chains was a key demarcation line defining the logic of different production systems. His work was based on multiple observations from the USA and Europe and implied that the nature of knowledge generation and transmission processes was as much a response to, as well as a driver of, the geographical and institutional context. While the work of Krugman (1991a, 1991b) and Glaeser et al. (1992) emphasized the role of cities, both Scott (1988) and Porter (1990) highlighted the importance of also considering the innovation role played by local, hinterland and regional settings embedded in, or surrounding and encompassing cities. Taken together, within the broad world of economic geography, these four authors began to transform the ways in which we think about the relationship between cities, regions, space, competition and innovation. Importantly, their work was also extremely prescient, as their ideas were emerging just at the time that the global modern globalization was itself also commencing.

At this stage, the IB literature was still not generally engaging with these debates and the links between MNEs, competitiveness and cities were still largely absent from the IB world. However, as we will see shortly, the onset of modern globalization gave an enormous spur to the IB scientific community to engage in these discussions. Yet, to understand exactly why this is the case, it is useful at this stage first to map out the key features of the current phase of globalization, especially as they relate to cities and the interaction between cities and MNEs, so as to lay the foundations on which the IB field was able to begin to engage in discussions of geography and competitiveness.

Modern globalization

Much has been written about the nature and scale of current globalization and its implications for IB (Guy, 2009), but for our purposes it is useful simply to sketch out a few key features and highlights, as they concern the interrelationships between multinationals, economic geography and cities. Following Iammarino and McCann (2013), it is clear that the advent of contemporary globalization was largely driven by a mixture of technological and institutional changes, which to some extent were connected but in many ways were also largely unrelated to each other. The opening up of both the former communist countries along with the BRICS countries (McCann, 2009) between 1988 and 1991, of which China was by far the most important, transformed the labor supply and labor prices available to international investors, although the reforms driving the opening up of each of these economies were not particularly interconnected with each other. This global opening up of markets was also accompanied by major institutional changes such as the establishment of the EU Single Market, NAFTA and the WTO in 1992, 1994 and 1995, respectively, the planning for which long pre-dated the wider opening up of the labor markets. Meanwhile for firms, the ability to take advantage of these institutional changes was dramatically increased by technological changes, such as growing containerization (Levinson, 2008) allied with roll-on roll-off logistics and satellite GPS systems, but the opportunities offered by
these transportation and communications technologies burgeoned with the establishment of the World Wide Web from 1991 onwards, which facilitated the integration of many different types of digital technologies within a common global platform (McCann, 2008). These new opportunities also included dispersed management and data control systems.

These institutional and technological changes allowed for totally new forms of corporate restructuring via out-sourcing and off-shoring and the establishment of highly integrated global value-chains and production and innovation networks, which transformed the nature and patterns of modern international trade. Not surprisingly, modern globalization was overwhelmingly driven by the behavior and responses of MNEs (Iammarino and McCann, 2013). Between the 1970s and the turn of the new Millennium, the number of MNEs grew by more than 10-fold (Iammarino and McCann, 2013), growing at 1,000-2,000 firms per annum and 10,000-20,000 MNE affiliates per annum, whereas the sales of MNE foreign affiliate were more than 2.5 times larger than global exports (McCann, 2009; Iammarino and McCann, 2013) and up to a third of the global trade of industrialized countries was simply intra-firm transactions (McCann, 2008).

Yet, these enormous changes did not lead to a simple convergence of countries and greater intensity of globalization per se. Rather the transformational technological and institutional shifts led to the formation of highly integrated global regions, in which groups of neighboring countries became more deeply intertwined with each other (Rugman, 2000). The global economy became partitioned primarily into three major trading blocs with much deeper levels of local cross-border trade integration, namely, Europe, North America and South and East Asia, to the extent that globalization is actually global regionalization. Contemporary globalization, characterized primarily by high-density and -intensity cross-border value-chains, displays a very different logic to the earlier empire era of globalization, where processes were characterized by long distances and long supply lines. Ironically, rather than making the world flatter or more even as many commentators had assumed (O’Brien, 1992; Cairncross, 1997; Friedman, 2007), these changes made the world more uneven, at least in terms of economic geography. In particular, during the 1990s, these changes gave prominence to certain types of city-regions within each of the global regions and in particular those which were already well connected into the global trade and knowledge systems. The importance of different dimensions of connectivity as drivers of global and city change underpinned the insights of Sassen (2001, 2006) and Taylor (2004), who emphasized “global cities” were those cities which displayed particular combinations of economic and social openness allied with key infrastructure and decision-making assets, thereby allowing them to act as key nodes in the newly-emerging global knowledge and trade networks. In particular, global cities are the primary homes or hosts of major MNE knowledge-related investments and this is the key defining feature of what a global city is (Iammarino and McCann, 2013, 2015). These global cities are increasingly the beneficiaries of modern globalization, being the centers of political power, corporate decision-making, knowledge generation and exchange and the movements of human capital and ideas. The evidence from the 1990s and early 2000s is unmistakable, with global city-regions emerging as the early winners in the new era of globalization (Yeung, 2009; Iammarino and McCann, 2013, 2015; McCann and Acs, 2011).

At the same time, within many of these same countries which contained the key global cities, there were also many regions which barely benefitted from the global changes, facing both increased international competition and also less state protection. The competitiveness of many of these regions appeared to be declining in some sectors. In particular, many relatively routinized activities and occupations in both manufacturing and services industries were moving overseas. These types of activities often reflected middle skills,
middle income and middle management types of roles and the out-sourcing and off-shoring of many of these roles gave rise to a greater levels of job polarization (Autor et al., 1998; Goos et al., 2009; Acemoglu and Autor, 2010; Kemeny and Rigby, 2012; Kok and Weel, 2014; Castellani and Pieri, 2015). The resulting skewed income distributional changes (Robert-Nicoud, 2008; Milanovic, 2012) tended to favor higher income groups in industrialized countries along with all income groups in the emerging economies, while the lower and middle skills cohorts within the industrialized economies faced the most difficult transitions. In many organisation for economic co-operation and development (OECD) countries, these income differences, driven by MNE out-sourcing and off-shoring, were also reflected in greater interregional differences, according to whether the local cities reflected the knowledge and trading characteristics of the global cities. Indeed, modern globalization means that the distinction between a city’s tradeable and non-tradeable sectors has recently re-emerged again as a key defining marker of a city’s economic fortunes, after having largely fallen away from academic thinking since the 1970s. Similarly, growing job polarization means that the links between the city and its wider regional hinterland area are again becoming mainstream economic discussions, after being sidelined for the past four decades. Understanding modern multinationals is thus essential for understanding these wider social and geographic changes.

International business, cities and economic geography
The shifting academic debates along with the emerging realities of the current phase of globalization have given rise to a new interest in questions about cities, regions and economic geography on the part of IB scholars, and in some sense a rediscovery of the importance of the “L” in the OLI paradigm. For many research questions, it is no longer acceptable either analytically or empirically to discuss the competitiveness of MNEs simply using the traditional framing of the “L” of the eclectic paradigm as relating just to different countries. By the late 1990s, the sheer scale of out-sourcing and off-shoring, along with the vast quantities of detailed location-specific data becoming available, highlighted the critical competitiveness role played by particular city-regions rather than countries as hosts for MNE investments. Early indications of this shift were evident in Dunning’s (1998, 2000, 2001) studies but real substance to the new impetus was provided by scholars explicitly working at the interface between IB and economic geography (Cantwell and Iammarino, 1998, 2000, 2002, 2003; Cantwell and Janne, 1999; Cantwell and Piscitello, 2002, 2005; McCann and Mudambi, 2004, 2005). These various lines of research examined the different types of geographical linkages and networks within which MNEs operate, and the ways in which these linkages and networks both shape and are shaped by MNE behavior. The emerging evidence suggested that the “goodness of fit” between the MNE’s “O—I” and its “L” dimensions are critical for competitiveness (Beugelsdijk et al., 2010; Bedreaga et al., 2018). In particular, the ways in which both the internal logic and organization of the MNE dovetail with the external knowledge relations of the local city-region are seen to be crucial (Iammarino and McCann, 2006, 2013, 2015, 2018; Malecki, 2010; McCann, 2011). Many elements of these ideas had already been partly pre-figured by the work of Penrose (1959, 1995); Teece (1977); Pavitt (1988) and others (Grindley and Teece, 1997) on firm capabilities, organizational capacity, knowledge accumulation, knowledge spillovers and appropriation, but the newly evolving research lines regarding clusters and cities explicitly began to address these issues in much more detail (Goerzen et al., 2013).

On one hand, we can regard these lines of research as attempting to investigate those elements of the “L” which had been largely neglected for more than three decades. On the other hand, however, many of the new lines of research on cities and clusters uncovered
issues which had never before been articulated in IB research, even in a very sketchy manner. What becomes apparent from these lines of research, which were essentially aiming to marry conceptual ideas with the emerging empirical realities of modern globalization, is that “good” investment location decisions in the “correct” cities play a key role in driving both the activities and competitive performance of the MNE’s subsidiaries as well as its overall corporate performance. The dynamics of modern globalization means that issues of ownership, organization and internalization cannot be divorced from location questions (Guy, 2009). Yet, following the seminal insights of Krugman (1991a, 1991b), Porter (1990), Glaeser et al. (1992) and Scott (1988), identifying which are the “correct” city-region choices for MNEs typically requires us to step out of the traditional “O”- and “I”-dominated lines of IB thinking and to explore the evidence emerging from economic geography regarding the dynamics of the wider geographical context. Issues regarding different notions of distance (Beugelsdijk et al., 2017; Boschma, 2007), local patterns of technological relatedness (Boschma and Iammarino, 2010), the nature of knowledge diffusion processes (Ortega-Argilés, 2012; Cozza et al., 2012; Prenzel et al., 2017), cities and agglomeration-related knowledge spillovers (Iammarino and McCann, 2013), local entrepreneurial settings (Acs et al., 2015) and the quality of local governance systems (Charron et al., 2013; Ascani et al., 2016), are all nowadays regarded as being important influences on both the MNE location decision and also the decisions regarding the specific role of each MNE subsidiary. In turn, the renewed interest on the role played by tradeables, as well as connectivity in driving the performance of places, has also spurred interest on the part of economic geographers regarding the investment drivers of MNEs (Dimitropoulou et al., 2013; Wren and Jones, 2012) and the consequence for local economic development and territorial equality (Crescenzi and Iammarino, 2017). These growing two-way exchanges of knowledge between the fields of IB and economic geography in some ways themselves mirror the modern locational dynamics of MNEs. Yet, not all cities benefit from MNEs and not all MNEs benefit from cities (Simmie, 1998). Identifying which cities and regions are likely to benefit from hosting which particular types of MNEs remains a major challenge, especially for calibrated territorial policy approaches, as is the identification of which types of MNEs will benefit from investing in which types of cities and regions.

Competitiveness challenges for MNEs and cities
As we have seen, the convergence of many lines of thinking regarding the relationships between MNEs, competitiveness and cities has been an emerging process over more than two decades. Yet, while there are now many common and agreed elements in the literature, there are also still major analytical and empirical challenges ahead relating to which types of MNE–city combinations are beneficial. These questions are extremely broad and will heavily depend on the context, but for our purposes here we can point to five emerging challenges which in the coming years will be facing all MNE-city investment choice combinations: namely, diversity, demography, protectionism, automation and industrial policy.

In terms of industrial diversity, the economic geography consensus in the early 1990s (Glaeser et al., 1992) appeared to be that sectorally diverse cities provide better growth and investment settings in the long term. This is because the more diverse patterns of knowledge spillovers afforded by these environments offer a wider array of partially uncorrelated investment possibilities (Mills, 1972), greater learning opportunities and therefore a greater adaptability and resilience to shocks. Yet, more recent empirical evidence (de Groot et al., 2009; De Melo et al., 2009; Beaudry and Schiffauerova, 2009) suggests that this is not the case and that either specialized or diverse cities can both offer long term
advantages. From the perspective of the MNE, it depends on what the MNE establishment is aiming to achieve and how these objectives can be met by locating in a particular city. In particular, certain MNE activities may be very specialized and therefore locating a particular establishment or function in a similarly specialized location may help the MNE achieve its objectives, whereas MNE activities reliant on wider and general purpose knowledge may benefit more by locating in diverse cities. Moreover, it also depends on the internalization strategies of the firms, because MNEs may wish to carefully control the flows of knowledge across the firm’s organization and ownership boundaries, and this would be especially important in terms of limiting any unintended knowledge outflows (Grindley and Teece, 1997; Iammarino and McCann, 2006; McCann and Mudambi, 2005). In addition, as well as choosing between diverse or specialized cities, the variety of MNE location possibilities also ranges from locating in certain types of clusters which are not necessarily in cities (Maskell et al., 2006), through to locating away from large urban agglomerations in cases requiring secrecy (Simmie, 1998). Global cities tend to be sectorally and structurally diverse, but this logic suggests that only certain types of MNEs and MNE affiliate activities are likely to be attracted to global cities, with a large share of MNE investments also being targeted at other types of places. Indeed, the overall geographical pattern of MNE investments may come to somewhat mirror the geographical distribution of different city types, as Hymer (1972) had originally suggested (Iammarino and McCann, 2013).

The skills profiles of cities are increasingly related to their demographics (MGI, 2016), with younger cities tending to be characterized not only by more skilled labor markets (OECD, 2015; McCann, 2017) and higher graduate inflows, but also by more outward-looking and international populations, with the global cities being the most marked in this regard (Florida, 2017). In the most advanced economies at least, the differing cultures of cities and regions are likely to become increasingly important as locational determinants, especially where MNEs engage in knowledge-seeking strategies. Today, MNEs are increasingly moving away from top-down organizational structures to those involving more two-way corporate knowledge and decision-making flows, facilitated by highly autonomous subsidiaries acting as corporate knowledge-gathering assets. As such, the location choice of which cities to invest in will become increasingly specific for each MNE, but in general younger cities and city-regions with advantageous skills-demographics profiles will still tend to be more attractive to MNEs.

There is now a great deal of interest in the potential impacts of increased automation, robotization and the use of big data on the economy (Dobbs et al., 2015), and these changes are likely to impact on MNEs and their location behavior in two main ways. First, most of the advances in artificial intelligence technologies and big data are themselves spearheaded by multinational firms, so the investment and location decisions that MNEs take are likely to heavily influence the geography of the knowledge spillovers generated by these new technologies. Second, automation is likely to alter the cost-benefit calculations undertaken by MNEs in their own location choices because the relationships between capital, land and labor are likely to be significantly altered in a variety of different ways for different MNE functions. Increased automation is likely to lead to changes in both the quantity and quality of labor inputs required in both manufacturing and service industries relative to capital, and the locational effects of these changes are unlikely to systematically favor global cities. In fact, artificial intelligence advancement may allow MNEs to better identify and exploit specific technological and market niches, and innovations driven by the exploitation of these niches will require more specific alignments of knowledge assets and factor inputs, all of which are brought together in a changing portfolio of geographical contexts. Furthermore, recent research has shown that the effects that foreign manufacturing MNEs exert on
stimulating job-creation in services via demand linkages in local labor markets can act as a powerful catalyst of regional structural change (Massini and Miozzo, 2012; Ascani and Iammarino, 2017). The geography of MNEs and their affiliates will thus evolve according to how the geographical distribution and portfolio of these knowledge-related niches and structural shifts emerge during the coming decades. In the same way that the global geography of MNEs changed dramatically between the pre- and post-1990s periods in response to technological and institutional changes, there is no reason to suggest that global cities will necessarily be the major winners of global production and innovation networks in the coming decades, even though they have been the main beneficiaries during the last two decades (Alfaro and Chen, 2014). Indeed, there is growing evidence to suggest that catch up processes in intermediate cities (OECD, 2012) are driving increasing shares of economic growth and the emerging geography of MNEs may well reflect these trends.

These issues regarding diversity, demographics and automation also lead directly to the question of industrial policy. For nearly four decades since the 1970s through to the post-2008 crisis period, industrial policy was very much on the back-burner both as an analytical issue and also as a policy schema. However, the turmoil caused by the 2008 crisis allied with new lines of thinking (Rodrik, 2007) have given rise to a renewed interest in, and a sense of urgency regarding, the need for revised and novel industrial policies to complement market processes and to help nations, regions, cities and localities better cope with the consequences of the ongoing globally disruptive changes. Some of the key themes of modern territorial industrial policies (McCann and Ortega-Argilès, 2013a; Iammarino et al., 2017), such as the “smart specialization agenda” of the EU (McCann and Ortega-Argilès, 2013b, 2013c), include promoting greater technological embeddedness within places and greater technological connectivity between places and within global value-chains (McCann and Ortega-Argilès, 2015), driven in part by enhanced technological and knowledge networks between SMEs and MNEs (Coe et al., 2008; McCann and Ortega-Argilès, 2016). On the other hand, on a macro level, growing evidence on the existence of several different modes of regional economic performance and competitiveness in Europe, responding to different development challenges and opportunities, requires a renewed policy approach: one that would strengthen global cities and core regions, pursuing at the same time new ways to promote opportunities and foster capabilities in industrial declining and less connected cities, regions and industrial clusters (Iammarino et al., 2017). However, given that connectivity and positioning in global value-chains are such central considerations, the new generation of policies will also need to take account of the issues regarding a region/city’s evolving diversity, demographics and technological trends just described above to be appropriately tailored to the national and local contexts (Bannò et al., 2015).

Yet, whether modern policies can be realistically made specific to local contexts – “place-sensitive” – while also allowing for a region/city’s positioning in global value-chains, in addition depends on the disruptive effects of populist and protectionist pressures, especially those originating from within the UK and the USA (The Economist, 2017). In this regard, the different cultural attitudes of cites are likely to play a different role in, and also respond differently to, the current populist political trends towards trade and people flows’ protectionism. Although it is not clear how these trends are going to play out in the coming years, we do know that global trade has slightly fallen since the 2008 global financial crisis, although these falls have been more or less offset by further out-sourcing. The result is that global trade-GDP shares have remained more or less static since 2010 (Timmer et al., 2016). The cities that are likely to emerge strongest from these trade-related shocks, in addition to the structural, demographic and technology-related pressures, are those which are best able to accommodate the needs of MNEs. Again, a simple story would suggest that the already-
global cities are those which are best-placed to play these roles. Yet, the local pressure on land prices and availability, infrastructure bottlenecks and tight labor markets in most global cities would suggest that many second and third-tier emerging cities and city-regions may actually be the real winners of further globalization in the coming decades. In particular, those second- and third-tier cities and regions with open and internationalist cultures and a strong local knowledge and skills base are likely to provide ideal investment locations for many foreign MNE activities, at the same time promoting connectivity through the internationalization of domestic firms, both large and small (Crescenzi and Iammarino, 2017).

The one major exception to these general archetypes is the case of African mega-cities. Many of Africa’s cities have faced rapid population growth in recent decades and are now counted amongst the largest cities in the world. Yet, their development path has not followed the path typically observed in East Asian cities, Latin American cities or even cities in central Europe. In these cases, urbanization and industrialization were dominated by manufacturing industry, with service activities subsequently being developing on the back of the goods’ production sectors. Indeed, this development path is implicit in most economic geography, international trade and IB models, and multinationals are widely understood as being critical drivers of these industrialization processes (Markusen and Venables, 1997). Yet, many African cities outside of South Africa have largely skipped over the manufacturing-industrialization phase (Collier and Venables, 2017) and moved straight toward a service-dominated economy. The result is urbanization and city growth with almost no productivity growth, and with a very limited urban presence of multinationals in any productive activities. There is a strong presence of primary and extraction-related multinationals in many of these countries, and while the local headquarter functions tend to be in the major cities, most of their activities are elsewhere. The only other multinational presence in these cities is those firms servicing local consumption markets. The case of African cities in which there are no real production activities and no real presence of multinationals in these sectors challenges much of our conventional thinking, although an analysis of these issues is beyond the scope of this paper.

Conclusions
Interest in the links between MNEs, cities and regions and competitiveness is relatively recent and has arisen because of analytical breakthroughs primarily outside of the field of IB, along with profound structural changes in the global economy. The welcome shifts in thinking which we now observe within some strands of IB research also allow us to consider the likely future trajectory of MNE locational behavior. When we consider the possible roles played by diversity, demographics, automation and artificial intelligence technologies, industrial policy and protectionism on the future geography of MNEs, the common elements which consistently emerge are the knowledge and technological bases of the cities. Different cities and regions may come to play important and also rather differing roles in globalization than has been the case in the previous two decades. It is well known that a significant and growing share of economic growth in the future will emerge from developing and emerging countries (MGI, 2011), so the geography of MNEs will automatically change due to these increasing movements from the OECD countries of the Global North to and from the cities of the Global South (Crescenzi et al., 2016). Yet, even within the former, there may well be profound changes because of a variety of different influences, and there is no reason to suppose that only the global cities will be the main winners in these processes. Global interdependence and connectivity make public policy – both in the Global South and in the Global North – all the more important (Phelps, 2013; Neilson, 2014; Iammarino et al.,
By redefining the basis for how to deal simultaneously with maintaining competitiveness and addressing uneven territorial development at the center of policy efforts, nations, cities and regions could start to redress some of the economic, social and political challenges which are eroding their capacity to lead at the global scale, and which have become all too evident as sources of social division and conflict in the most recent years.

References


**Further reading**


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