

Institution: Manchester Metropolitan University		
Unit of Assessment: C17 Business and Management		
Title of case study: Building state and societal capabilities to maximise the developmental effects of inward foreign direct investment (FDI)		
Period when the underpinning research was undertaken: 2005-2019		
Details of staff conducting the underpinning research from the submitting unit:		
Name(s):	Role(s) (e.g. job title):	Period(s) employed by submitting HEI:
Heinz Tüselmann	Professor of International Business	1991-present
Stephen Buzdugan	ESRC Fellow, Senior Lecturer in International Political Economy	2010-present
Period when the claimed impact occurred: 2014-2019		
Is this case study continued from a case study submitted in 2014? No		
1. Summary of the impact		
<p>Professor Tüselmann and Dr. Buzdugan have focused on building productive capacity in developing and developed countries to transform their economies. Working with a range of stakeholders including the United Nations (UN), they have generated new understanding of the importance of foreign direct investment (FDI) and industrial policy, as well as improved labour-investor-state relations. Their research has:</p> <ol style="list-style-type: none"> 1. Influenced reform of investment policies through the UN's Conference on Trade and Development (UNCTAD) including <i>Investment Policy Roadmaps</i>, implemented 400 times across 50 economies; and the <i>Investment Policy Framework for Sustainable Development</i> used in more than 150 countries. 2. Informed the <i>Investment Policy Toolkit for Industrial Policy</i> in the 2018 World Investment Report; with over 600,000 downloads from 171 countries, including significant impacts on Special Economic Zones in over 30 African countries. 3. Directly informed policy recommendations as part of a Parliamentary Inquiry into the Department for International Development (DIFD)'s economic development strategy. 4. Shaped the policies and practices of European trade unions and international business organisations to promote models of mutually-beneficial stakeholder labour relations. 		
2. Underpinning research		
<p>Policy-makers and investment stakeholders are currently operating in a complex and challenging global environment. They face growing pressures to increase the economic and social contributions of FDI, which are critical for developed, developing and emerging market countries, and to influence the activities of multinational corporations (MNCs) to promote sustainable and inclusive development. To address these challenges, academics at Manchester Metropolitan University Business School have carried out a substantial programme of international research since 2001 (with the University of Groningen, Copenhagen Business School, Berlin School of Economics and Law, Jönköping University, and Trinity College Dublin). Their findings are based on data analysis from their large-scale representative surveys, undertaken in the UK, Germany and Scandinavia, of foreign-owned firms from major FDI home countries (including the US, UK, France and Germany), resulting in a combined evidence base from over 3,000 MNC subsidiaries.</p> <p>The research demonstrates that building state and societal capabilities can help to channel FDI into key areas of productive capacity to promote the development of High Value-Added (HVA) activities that enhance productivity and increase skilled job creation. New approaches to maximising the benefits of FDI are also increasingly expected to be co-designed and shared across a wider array of stakeholders, such as: host countries, regions, investors and employees. Such complex changes require sound empirical evidence so that smarter policy approaches that benefit <i>all</i> investment stakeholders, and harness both public and private sector contributions, can be designed. Two interrelated strands of empirical research were developed to determine the best way of improving approaches to maximise the benefits of FDI:</p>		
New investment and industrial policies can enable better quality inward investment for development, aligning host country needs and investor objectives		

Evidence from Tüselmann's research [1-4] has generated new insights on the nexus between inward FDI, industrial policy and development. His research demonstrates that when MNCs are deeply embedded in their host economies this can play a major role in anchoring and upgrading FDI towards HVA activities. This leads to the creation of 'win-win' situations for host countries – in terms of productivity, skilled job creation and export growth – and investors, by contributing to overall MNC competitiveness and performance. However, the research also reveals that instances of deep embeddedness and FDI upgrading are relatively scarce and, therefore, the study recommends a series of conditions, which can help to address this, including promoting subsidiary entrepreneurship, strategic autonomy and deepening subsidiary-headquarters' relationships. This, in turn, underscores the need for policy-makers to have a better understanding of the complex internationalisation processes within MNCs, and to work more closely with MNC managers to avoid ineffective inward FDI policies. Underpinned by this research, and in response to an UNCTAD 2016 initiative to seek new solutions for the construction of productive capacity for sustainable development, Buzdugan and Tüselmann investigated the policy-space for a new generation of industrial policies that would attract and retain more embedded, developmental forms of inward FDI. They developed a unique conceptual policy framework [1] by linking more open-industrial policies to both societal and company benefits, creating a mutually-beneficial approach to attracting and developing HVA FDI. This entails modern, market-friendly but proactive industrial policies aligned to countries' investment policy frameworks and informed by internationalisation processes within MNCs.

Innovative partnership-type labour relations policies can result in a 'win-win' for foreign investors and employees

This strand of research addressed labour-related issues and worker participation in foreign-owned firms. It is aligned with the principles of the International Labour Organisation (ILO) Declaration on Fundamental Rights at Work (e.g. effective representation and decent work), and the European Trade Union Confederation 2015 Paris Manifesto (e.g. democracy at work, quality jobs and stronger unions). The findings show that foreign-owned firms that constructively engage with trade unions and works councils, and involve these institutions in a co-operative way in production upgrading and workplace innovation, can also yield 'win-win' situations for both investors and domestic host country stakeholders. Although such partnership-based approaches were found to be relatively rare, the research findings [5,6] show that they produce mutually-beneficial outcomes for investors, in terms of higher productivity and profitability, and for employees in the form of effective voice, better working conditions, upskilling and well-being. The research provides a sound evidence-base for investors, trade unions and policy-makers that a stakeholder model can marry to MNC business needs and the interests of labour, thus harnessing the economic and social development potential of FDI.

3. References to the research

- [1] Buzdugan, S. and Tüselmann, H. (2018) Making the most of FDI for Development: 'New' industrial policy and FDI deepening for industrial upgrading, *Transnational Corporations*, 25(1): 1-26 DOI: [10.18356/bffcf4a5-en](https://doi.org/10.18356/bffcf4a5-en)
- [2] Gammelgaard, J., McDonald F., Stephan, A., Tüselmann, H. and Dörrenbächer, C. (2012) The impact of increases in subsidiary autonomy and network relationships on performance, *International Business Review*, 21(6): 1158-72 DOI: [10.1016/j.ibusrev.2012.01.001](https://doi.org/10.1016/j.ibusrev.2012.01.001)
- [3] Gammelgaard, J., McDonald, F., Tüselmann, H., Dörrenbächer, C. and Stephan, A. (2009) Subsidiary role and skilled labour effects in small developed countries, *Management International Review*, 41(1), 27-42 DOI: [10.1007/s11575-008-0123-8](https://doi.org/10.1007/s11575-008-0123-8)
- [4] McDonald, F., Tüselmann, H., Dimitratos, P. and Voronkova, S. (2005) The strategic development of foreign owned subsidiaries and direct employment in host locations in the UK, *Environment and Planning C: Government and Policy*, 23(6): 867-882 DOI: [10.1068%2Fc0443](https://doi.org/10.1068%2Fc0443)
- [5] Tüselmann, H., McDonald, F., Allen, M., Heise, A. and Voronkova, S. (2007) *Employee Relations in Multinational Companies*, Palgrave Macmillan: Basingstoke DOI: 10.1057/9780230592001 (can be supplied on request)
- [6] Tüselmann, H., Dörrenbächer, C., Cao, Q., and Meissner, R. (2020) *Mitbestimmungsverhalten und Arbeitsbeziehungen in ausländischen Unternehmen in Deutschland*, (Co-determination behaviour and industrial relations in foreign companies in Germany) Hans-Böckler-Stiftung Book Series: Düsseldorf https://www.boeckler.de/de/faust-detail.htm?sync_id=8947

Funding and Indicators of Research Quality

- G1. 'Labour participation in foreign-owned firms', Funding body: Hans Böckler Foundation, 2014-2017 (GBP128,700) (PI: Tüselmann)
- G2. 'Labour relations in foreign-owned firms', Funding body: Hans Böckler Foundation, 2017 (GBP31,668), (PI: Tüselmann)
- G3. ESRC Fellowship, 2011-2013 (GBP50,000) (Appointed Fellow: Buzdugan, PI: Tüselmann),
- G4. Leverhulme Trust Overseas Fellowship, 2010-2011 (GBP22,000) (PI: Tüselmann)
- G5. Public and private sector services in innovation networks and their contribution to European welfare and growth, Funding body: *European Commission EU 7th Framework Project*, 2008-2011 (GBP118,000) (PI: Tüselmann)
- G6. Foreign Owned Companies in Northwest England, Funding Body: North West Development Agency (NWDA), 2008 (GBP27,000) (PI: Tüselmann)
- G7. 'Quantitative and qualitative employment effects of foreign direct investment for home and host countries', Funding Body: Anglo-German Foundation for the Study of Industrial Society, 2001-2002 (GBP33,000) (PI: Tüselmann and McDonald)

4. Details of the impact

According to UNCTAD, "FDI remains the most important source of external finance for developing countries" (2019). Despite a gradual recovery in the wake of the 2007/08 global financial crisis, FDI rates across the world have been steadily declining since 2015. This trend has been further aggravated by the recent pandemic, with global FDI flows down by 49% in early 2020. Tüselmann and Buzdugan's research has generated impacts aimed at mitigating these negative trends and harnessing the economic and social development potential of FDI at international and national levels. Their work has had an impact on policy and practice within the UN, national government departments, international business associations and labour organisations.

Influencing new investment policy approaches and investment framework reforms

Research findings have influenced the revision and further development of international investment frameworks and their interaction with modern market-friendly industrial policies. This has helped governments and their agencies to maximise positive outcomes for host countries. In 2016, Tüselmann and Buzdugan presented their policy research note on 'new' forms of industrial policies **[A]**, at UNCTAD's 'Multi-Year Expert Meeting on Investment: Taking Stock of International Investment Agreement' (IIA). Over 150 economic development ministers and policy-makers from UN member states, the World Trade Organisation, the International Labour Organisation, the European Union, NGOs and business associations attended the meeting. Their written and oral evidence shaped the Expert Meeting's policy debate and policy recommendations on FDI:

Your active participation in UNCTAD's IIA Reforms Expert Meeting and your written evidence based on your research paper...was very helpful to shed light on the industrial policy-investment agreement nexus... your contribution was of great help in the review and further development of UNCTAD's Investment Policy Framework for Sustainable Development and the Roadmap to IIA Reform. (Head of UNCTAD Investment Policy Branch) **[B]**.

This subsequently led to the further development of UNCTAD's *Investment Policy Framework for Sustainable Development* (a key investment policy tool, used in more than 150 countries). The research also helped to reform investment policies through UNCTAD's *Investment Policy Roadmaps (IPRs)*, which have been implemented approximately 400 times across 50 economies with 80% of IPR recommendations acted upon **[C]**. Most of the 72 IIAs, concluded between 2017 and 2019, contain key reform elements outlined in UNCTAD's *Roadmap to IIA Reform*, as do important regional investment policy initiatives, such as the 2016 Amendments to the Southern African Development Community (SADC) Protocol on Finance and Investment, the Pan-African Investment Code and the South American Intra-MERCOSUR Cooperation and Facilitation Investment Protocol **[C]**. Further impacts were generated through Tüselmann's position as resident Senior Advisor to UNCTAD during 2018 when evidence from his research fed into various important aspects of the 2018 World Investment Report (WIR), which is widely considered to be the most authoritative reference for investment stakeholders, including Heads of State and ministers. The 2018 WIR has generated extensive global reach with citations in over 100 countries and over 600,000 downloads from 171 countries (including 136 developing countries).

Tüselmann's research on the development and industrial upgrading contribution of FDI helped to shape one of the central themes of the 2018 UNCTAD World Investment Report (WIR):

I would like to thank you for...supporting our research for WIR 2018. Your own research on maximizing the development contribution of FDI in host country locations, the complexities of MNC subsidiary upgrading and associated productivity and skills development issues has informed the WIR theme chapter on Investment and New Industrial Policies, and your participation in our WIR Expert Group Meeting is greatly acknowledged (Director of UNCTAD's Division on Investment and Enterprise) [D].

The research [1-4] also directly influenced the development of the 'Investment policy toolkit for industrial policy models' included in WIR 2018 [E]. The investment policy toolkit based one of its key recommendations on the findings from Buzdugan and Tüselmann's research: *"that countries should harmonise investment policy and industrial policy, considering the factors that have been shown to promote the attraction of new (or the 'upgrading' of existing) FDI toward HVAs and industrial upgrading to marry the development needs of host countries with investor objectives"*. The toolkit has had the most significant impact in relation to special economic zones (SEZs) in Africa. It has informed policy discussions in the African Continental Free Trade Area (AfCFTA) – which is poised to be the world's largest free trade bloc from 2021 – on harmonising investment and SEZ rules. It has also been used in the East African Community (EAC) as an input for a common framework on industrial zones, and by South Africa for their strategic review of the Atlantis SEZ.

Impacts on domestic policy

The research above has also contributed to domestic policy debate through the work of influential think tanks. Specifically, it contributed to the recommendations of *Onward*, a UK-based public policy think tank, headed by the Special Adviser to former Prime Minister, Theresa May, on the role of inward FDI to increase skills and decent jobs in deprived areas through participation in global value chains, supported by HVAs [F].

Buzdugan's evidence linking the UK's own Industrial Strategy White Paper with the effectiveness of DFID's support to inward investment and trade, based on this research, helped to underpin the House of Commons International Development Committee's Inquiry on DFID's 2017 Economic Development Strategy [G]. At the core of DFID's strategy is greater use of inward investment as a tool to promote developmental outcomes in partner countries. The evidence was used to inform the Committee's recommendation to DFID to include the promotion of industrial policies in developing countries in DFID's economic development strategy, to maximise the benefits of the UK's investment-led development policies [G].

Shaping the policies and practices of European trade unions, bilateral trade and investment promotion institutions

The German-British Chamber embedded two key findings from the research into their 'Investment Promotion and Advisory Services' that reach approximately 750 corporate members and 10,000 firms annually. First, the Chamber based their guidelines for UK investors on how to develop a social partnership model in Germany on the research findings around employee relations (ER). This showed that the positive experience of foreign investors with the statutory works council system in Germany was key to developing 'win-win' scenarios between investors and key domestic stakeholders. Second, the research insights on the transfer of a German-style ER stakeholder model to UK locations, which was shown to generate productivity and financial performance advantages for investors, underpinned the Chamber's guidelines for German investors on the development of sustainable partnership-based ER with British unions:

Your research on employment relations in foreign owned firms in Germany and the UK has been very useful for us when advising German and UK companies on bilateral trade and investment opportunities (Director of the German-British Chamber of Industry and Commerce) [H].

The Trade Union Congress (TUC) also incorporated the findings on the performance and productivity advantages of foreign-owned firms in the UK into their 2014 'Democracy in the Workplace' Economic Report [I]. The research informed the Report's recommendations to strengthen the 'Information and Consultation of Employees (ICE) Regulations' in the UK through more participative workplace governance, and related TUC campaigns to improve its efficacy. In 2019, UNISON produced an ICE guide for its 1.3 million members using the 2014 TUC report recommendations. The UNISON ICE guide incorporated Tüselmann's evidence that increased worker participation and effective employee voice leads to higher productivity in the workplace [I]. In April 2020, the UK Government introduced new legislation that aims to improve ICE efficacy by making it easier for employees to request a formal agreement to be informed and consulted about workplace issues.

During 2017, Tüselmann provided expertise to corporate-level works councillors and unions of a major German MNC (Linde AG) at the cusp of its merger (completed 2018 and worth USD90,000,000,000) with a United States (US) MNC (Praxair). He provided evidence-based analysis for their negotiations to safeguard the German works council model and employment conditions in the post-merger phase [J].

Developing new impact pathways

In his role as Senior Advisor to UNCTAD, supported by one of the University's *MetroPolis* Lord Mandelson Chancellor Fellowships, Tüselmann has fostered impactful pathways for academic research around FDI and MNCs designed to feed directly into policy dialogue and strategic policy-making. As co-editor of the official UN refereed journal, *Transnational Corporations*, Tüselmann has 'rejuvenated' [D] it into a policy impact journal with dedicated pathways for impact on regional, national and international policy-making, including various programmes and policy frameworks on investment within the UN system [K]. The journal has a significant global audience including UNCTAD's *World Investment Network* of more than 20,000 investment stakeholders, such as senior officials of international organisations and national government ministries, heads of investment promotion agencies, parliamentarians, civil society representatives, executives of major MNCs and the international media [K].

5. Sources to corroborate the impact

[A] Tüselmann, H., and Buzdugan, S. (2016) 'Making the most of FDI for industrial upgrading and development: Harnessing International Investment Agreements (IIA) policy-space through evidence-based lessons for 'new' industrial policy', UNCTAD High-Level Expert Meeting on Reforming International Investment Agreements, (16 March 2016, UNCTAD, Geneva).

[B] Testimonial: Head of UNCTAD's Investment Policy Branch

[C] 1. UNCTAD 2018 Investment Policy Review: Implementation Reports, Lessons Learned (p.20); 2. UNCTAD 2018 Reform Package for the International Investment Regime (p.4)

[D] Testimonial: Director of the Division on Investment and Enterprise, UNCTAD

[E] UNCTAD 2018 World Investment Report: Chapter on Investment and New Industrial Policies (Chapter IV, p.127)

[F] Human Capital: Why we need a new approach to tackle Britain's long tail of low skills (p.49, fn91)

[G] 1. Buzdugan's written evidence submitted to the Parliamentary International Development Committee (8 May 2018); 2. International Development Committee's *6th Report - DFID's Economic Development Strategy* citing Buzdugan's evidence (July 2018; paragraph 52):

[H] Testimonial: Director, German-British Chamber of Industry and Commerce, London

[I] 1. Trade Union Congress (TUC): TUC Economic Report 'Democracy in the Workplace: Strengthening information and consultation', TUC Economic Report Series 2014 (page 9); 2. UNISON 2019 ICE Guide citing TUC Report (p.26)

[J] Expertise to Linde AG and confirmation Officer to the Chairperson of the Company and European Works Councils of Linde AG (can corroborate, contact details on request)

[K] Web links to: *Transnational Corporations* Editorial Statement and to UNCTAD DIAE products, services and networks <https://unctad.org/Topic/Investment/Transnational-Corporations-Journal>; <https://unctad.org/about/organization/division-investment-and-enterprise/products-and-services>