

Foreign Direct Investment and location strategies: multinational firms in the automotive components industry in Piedmont and Northern Italy

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This paper builds on a research project conducted by Ires Piemonte, the Regional Institute for Economic and Social Research of Piedmont (Italy), aimed at supporting regional policy design in a context of profound industrial restructuring. The focus is the automotive components industry in Northern Italy, with particular attention to the Piedmont cluster, historically centred on Turin by the presence of FIAT, now incorporated into the Stellantis group. The downsizing of the local original equipment manufacturer (OEM), combined with the ongoing technological transition of the car sector towards electrification and digitalisation, raises critical questions about the role of multinational enterprises (MNEs), especially in such mature industrial regions.

Over recent decades, the automotive industry has undergone a deep reorganisation marked by the international fragmentation of value chains and a core-periphery restructuring of production geographies. Within this framework, Italy – and the Turin automotive cluster in particular – appears to be moving towards what has been described in the literature as a “semi-peripheral” position. Automotive production remains significant, but in the absence of national OEMs. As a result, territories increasingly compete simultaneously with low-cost countries for manufacturing activities and with core economies for high value-added functions such as R&D and advanced business services, which tend to remain concentrated near corporate headquarters.

In this context, foreign-controlled MNEs play a prominent role. In Piedmont, they account for a substantial share of employment and turnover within the automotive components sector, mainly among Tier-1 suppliers. Recent evidence from IRES Piemonte research (*La componentistica automotive piemontese di fronte alla transizione verso la nuova mobilità sostenibile, digitale e connessa*, IRES Piemonte, 2024) indicates that among the largest firms in the regional automotive cluster, the majority is controlled by foreign groups, which employ roughly two-thirds of the local workforce. This concentration is more pronounced than in other major Northern Italian automotive regions (Lombardia, Emilia Romagna and Veneto), where the presence of foreign MNEs is significant but comparatively more balanced with Italian-controlled groups.

Our analysis on a sample of almost 900 “core” automotive firms across Piedmont, Emilia Romagna, Lombardia and Veneto shows that in Piedmont 30% of the firms are controlled by foreign multinational groups, and approximately two-thirds of total employment is concentrated in foreign-controlled companies. In Lombardia, but mostly in Emilia Romagna and Veneto, the incidence of foreign MNEs is substantially lower, both in terms of number of firms and employment share, pointing to a more balanced ownership structure. Additional evidence (*Osservatorio sulle*

trasformazioni dell'ecosistema automotive Italiano, Edizioni Ca' Foscari, 2025), based on a 2024 survey, seems to confirm this pattern: in Piedmont, foreign MNEs account for 75% of total employment in the cluster, and 60% of Tier-1 suppliers are foreign-controlled, unlike other regions where Italian and foreign groups are more evenly represented.

Moreover, in terms of innovation, MNEs display, on average, a stronger propensity to innovate and concentrate the majority of graduates and knowledge workers. However, in Piedmont nearly 48% of foreign MNEs report no planned innovation investments, raising concerns about the medium-term strategic commitment of these firms. Consistently, comparisons with other regions show Piedmont as the least dynamic cluster in value added and investment growth, with weaker performance particularly evident among foreign-controlled firms.

The policy question underpinning our research is the following. First, in a mature sector undergoing technological discontinuity, does a high concentration of MNEs systematically generate a performance “premium” in terms of productivity, wages, and investment? Second, under what conditions might such firms reduce or withdraw their investment commitment in the region? While literature quite often identifies positive spillovers from foreign direct investment, conditional on absorptive capacity and the qualitative nature of FDI, less attention has been paid to mature clusters facing structural decline and technological transition.

To address these questions, we adopt a mixed-method approach. The quantitative component relies on firm-level balance-sheet data for a panel of core automotive firms located in the four Northern Italian regions over the last decade. We estimate a correlated random effects (CRE) panel model following the Mundlak specification, which allows the inclusion of time-invariant variables while controlling for unobserved heterogeneity correlated with regressors. Dependent variables include investment intensity and value added per employee, used as a proxy for firms' productivity.

Preliminary estimations using a simple dummy indicating “MNE status” suggest a productivity and wage premium for multinational firms relative to independent domestic firms, but no statistically significant advantage in terms of investment. When distinguishing between foreign-controlled MNEs, Italian-controlled MNEs, and independent firms, both categories of MNEs display higher productivity, with foreign MNEs showing the strongest effect. However, the investment results become slightly differentiated: Italian-controlled MNEs exhibit a positive but statistically insignificant coefficient, while foreign-controlled MNEs display a negative and increasingly significant coefficient.

The most significant findings emerge from the full CRE–Mundlak model with regional interactions. In particular, the interaction term for foreign-controlled MNEs located in Piedmont is negative, sizeable, and statistically significant with respect to investments. Holding other firm characteristics constant (size, age, sector, year effects), foreign MNEs in Piedmont invest significantly less than their counterparts in Emilia Romagna (benchmark region).

These results must be interpreted with caution. The balanced panel includes less than 300 MNEs across four regions, limiting generalisability. MNE status is treated as time-invariant, preventing analysis of entry and exit dynamics. Complex interaction terms may also introduce collinearity concerns. Nonetheless, the absence of a systematic “MNE premium” in high-foreign-presence territories, combined with the relative decline in investment effort by foreign MNEs in Piedmont, raises important policy implications.

One possible interpretation is that the risk of disengagement may be concentrated precisely in regions with historically deep and long-term specialisation, where dependency on legacy industrial configurations is strongest. In Piedmont, this pattern may reflect both the reorganisation of the supply chain following the creation of the Stellantis group as well as broader uncertainties affecting European automotive markets, including regulatory pressures such as the 2035 phase-out of internal combustion engine vehicle sales in the European Union.

While the quantitative analysis does not support the existence of a uniform MNE premium in the automotive sector, foreign multinationals remain pivotal actors for cluster upgrading. Their position within global value chains, concentration of knowledge-intensive functions, and access to capital resources make them potentially crucial for technological reconversion and skill transformation.

For this reason, the second strand of our research develops an analytical framework to assess the “disengagement risk” of foreign MNEs at the firm level. Drawing on a series of case studies conducted over the past two years, a set of empirical indicators was constructed, aimed at evaluating territorial embeddedness and vulnerability to divestment. Key dimensions include: technological autonomy and the substitutability of local plants within the group’s internal network; product specialisation in segments at risk of technological obsolescence; the presence and intensity of R&D and innovation investments; and the strength of connections with the local ecosystem, including suppliers, research institutions, higher education, clients, and public support structures.

Most of the foreign investments observed in the cluster originate from brownfield acquisitions rather than greenfield projects, frequently motivated either by market access or by the acquisition of technological know-how. Following the acquisition trajectories vary: some firms achieve technological upgrading, while others experience a reduction in strategic autonomy. By combining information on investment motives, technological capabilities, and local embeddedness, we derive an index-based estimate of disengagement risk.

From a regional industrial policy perspective, the key issue is therefore not merely the presence of multinational firms, but the quality, depth, and durability of their investment in the region. Understanding the determinants of such embeddedness is essential for designing selective incentives and governance mechanisms capable of sustaining long-term investment and supporting the structural transformation of semi-peripheral industrial clusters.