

Urban Challenges  
and Sustainable Technological Revolution



## Special Session Proposal

### Foreign Direct Investments, trade and local development: drivers and impacts

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#### Abstract

Trade and the fragmentation of the multinational enterprises (MNE) activities along the value chain are making the world increasingly interconnected. Policies attracting Foreign Direct Investments (FDI) are central in the public debate, and a growing literature supports the belief that FDI yield positive spillover effects on domestic firms in terms of job creation, entrepreneurship and technological transfer within and across industries. In this framework, the EU has even recognized FDI as a development cooperation tool within its Partnership policy.

The documented role of localized knowledge spillovers, factor endowments and, to some extent, demand conditions in attracting FDI, calls for a highly geographically disaggregated scale of analysis. Accordingly, empirical regional and even urban-level studies are gaining prominence with respect to traditional country-level approaches.

In spite of the wealth of studies focusing on the drivers and economic impact of FDI, many aspects remain to be explored. Open questions can be identified at both the theoretical and empirical levels. A non-exhaustive list includes the following. Accounting for the increasing fragmentation of MNE activities along the value chain is among the key theoretical challenges. The growing role of intra-MNE trade makes the evolving relationship between trade and FDI another topic of interest. On the empirical level, positive effects of FDI on the host economies

are mainly documented for leading advanced economies, while the literature has focused less on other contexts and with more heterogeneous results. The impacts of FDI on the performance of domestic affiliates are found to be highly heterogeneous by sector of activity and type of linkages, i.e. whether horizontal or vertical, to the investing MNE. The relationship of FDI to regional structural change, to technological change and to shifts to the green economy are other emerging aspects of the debate. Scant evidence is available for developing countries, in spite of the growing share of these economies in global capital movements.

In this framework, studies highlight the importance of fine-tuning investment promotion and attraction policies to specific developmental objectives to ensure that they reach their targets.

This special session welcomes theoretical and empirical contributions with a sub-national focus on:

- Drivers and mediators of the location of FDI in advanced, emerging and developing countries
- Aspects of the economic impact of FDI on advanced, emerging and developing countries
- The geography of FDI and trade
- Substitutability between trade and FDI
- Impact evaluation of FDI attraction policies