



ECONOMIA MARCHE Journal of Applied Economics

Vol. XXXIX, No. 2, December 2020

The Role of MNEs on Local Markets

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Abstract

The paper aims at individuating the impact that multinationals' foreign direct investments (FDIs) have on local markets. Although many econometric researches have been performed in the field, the view of the academics about FDIs spillovers is discordant. In a scenario where the global economy experiences high growth rates in FDIs flows, countries strive to attract foreign investments and multinationals are committed to protect their knowledge, while enterprises require certain capabilities and organizational structures to face the global competition. This paper reviews a collection of research, which discuss the positive and negative consequences of FDIs on local markets, focusing especially on the Italian and Marche's marketplaces.

JEL Classification: *F10, F23, R11*

Keywords: *MNEs, FDI, Internationalization*

Affiliations and acknowledgments

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Suggested citation

Tarini, L. (2020), The Role of MNEs on Local Markets, *ECONOMIA MARCHE Journal of Applied Economics*, XXXIX(2): 72-86.

1 Introduction

Multinational enterprises (MNEs) are one of the most appropriate depictions of the results of globalisation and play a fundamental role in international commerce. They stand out for their capability to outperform domestic and foreign rivals by being intensive in capital, skilled labour, intellectual property and boasting relative technological superiority. For these reasons, they are often considered as a source of progress for the host economies (Hanson, 2001).

By making use of several scientific articles, this paper analyses the repercussions of the MNEs' presence on the surrounding marketplace. There is no question about their power to innovate and their actual capacity to invest on R&D. Nevertheless, the view of academics on the effects of MNE's spillovers is not unanimous, which brings to light the uncertainty of their role on the local economy. During the last decades, the global economy has experienced high growth rates in foreign direct investment (FDI) flows and the European Union has held a great concentration of multinationals' activities since the early 1990s. In this scenario, Italy has been able to attract less FDIs compared to other EU countries. This paper analyses the factors which deter foreign MNEs to locate their subsidiaries in the country, also focusing on the difficulties of the Italian regions in their internationalization path.

2 International environment

The diffusion of MNEs in the different areas of the globe has radically changed in recent years. Since the Second World War, the majority of FDIs were located in the Triad, consisting in North America, Europe and Japan, while international investments towards developing and transition countries played a marginal role. The scenario changed from the second half on the 1990s, when the latter economies started to gain more and more importance in the attraction of FDIs (Iammarino, 2016).

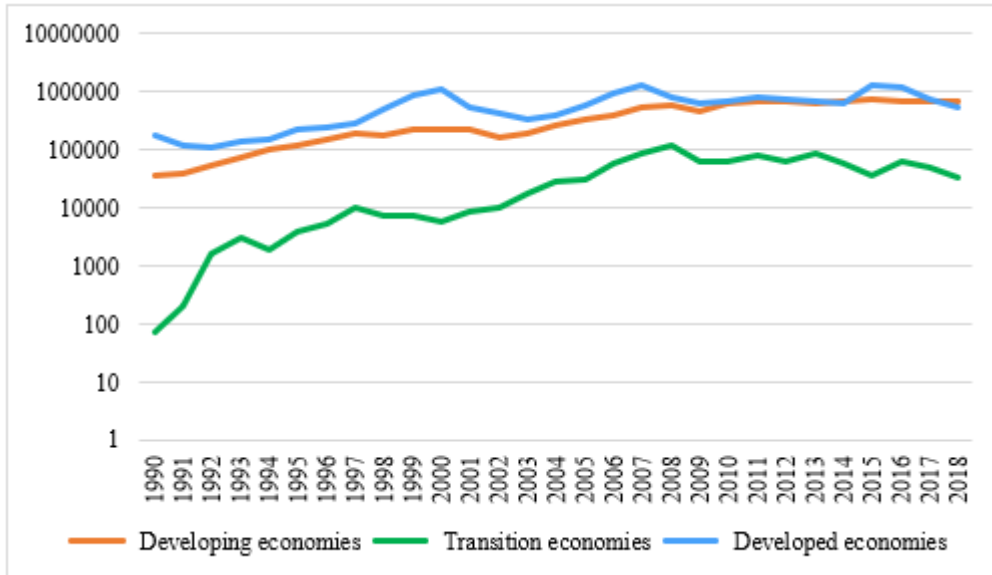
In 2018, the FDI flow in developed economies registered the lowest results since 2004, with a decrease of 27% compared to the previous year (See Figure 1). In particular, the European Union countries observed a decrease of 18.5% in the 2017-2018 period. On the other hand, the FDI flows in the developing economies for the same period have risen of 2.3%, registering 54% of the global flows (See Figure 1). Flows towards Asia have increased 6% and are mainly concentrated in China, Hong Kong, Singapore and Indonesia. African inward FDI flows register +10% and Egypt is the main destination country, despite its fall of 8% for the 2017-2018 period. Inward FDI flows of transition economies are experiencing a deceleration since 2009 in fact, in the 2016-2018 interval, it is possible to observe a decrease of 47% in this area.

Despite the -8% of inward FDI flows in the 2017-2018 interval, the USA is the most attractive location in the world, collecting 24% of the global inward FDI stocks, followed by China, Hong Kong and Singapore. The Netherlands is the most attractive country of Europe and registers a growth of 20% between 2017 and 2018.

Taking into consideration the global economy in 2018, the outward FDI flows have registered a fall of 28%. It is estimated that a large part of this record is linked to the repatriation of profits made by the USA MNEs as a consequence of the fiscal reform of the end of 2017. The impact of such occurrence can be noticed in Figure 2, where the value for the FDI flows related to the developed economies displays a clear decline (nearly -40% in the 2017-2018 interval). For what concerns outward FDI, Japan plays a prominent role, followed by China

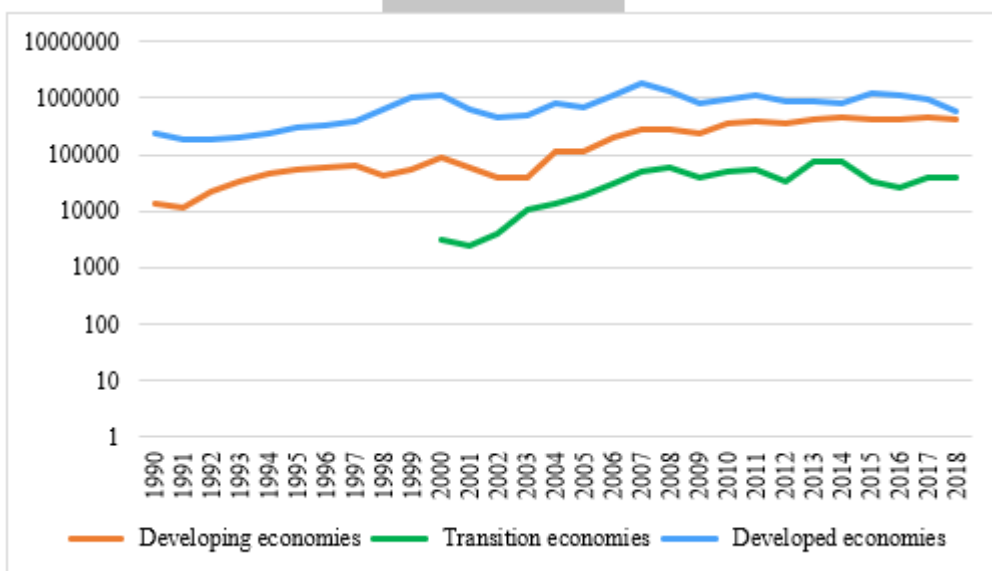
and France, which has more than doubled its outward FDI flows between 2017 and 2018. FDI flows regarding transition and developing economies remained almost stable in the 2017-2018 period (see Figure 2).

Figure 1: *Iscrizioni, cessazioni e saldo per provincia nel primo semestre 2020*



Fonte: Elaboration of UNCTAD data (<https://unctadstat.unctad.org>).

Figure 2: *Outward FDI Flows (values expressed in logarithms of US dollars at current prices in millions)*



Fonte: Elaboration of UNCTAD data (<https://unctadstat.unctad.org>).

Table 1: *Conditions contributing to FDI success*

Conditions contributing to FDI success
Quality of local infrastructures (especially communication and transportation facilities)
Large supply of skilled labour
High levels of technological capacity by domestic firms and presence of absorptive capacity by the hosting economy
Substantial concentration of industrial firms, linked to existent FDIs
Industrialised economy and developed financial systems
Large market
Large stock of initial FDI

Fonte: [Hanson \(2001\)](#), [Gorg and Greenaway \(2004\)](#) and [Lucas \(2000\)](#)

3 How MNEs affect the local economy

The protection of knowledge within a corporation seems to be the strongest reason at the basis of the decision to expand abroad rather than export directly or license products and technology. Nevertheless, it is complicated for a multinational that locates a subsidiary in a foreign country to prevent local firms from imitating its practices. Those spillovers can potentially raise the productivity of the host economies in presence of a certain level of absorptive capacity to take advantage of them ([Gorg and Greenaway, 2004](#)). Under this point of view, the presence of FDIs, especially in emerging markets, can be considered as an opportunity for the receiving economy to improve under a technological perspective. It must be considered that multinationals also own a private interest in transferring technology along the supply chain in a way that allows a strategical transfer of technology to local vendors. They do so with the intention of improving the productivity of their suppliers but, at the same time, they must face the issue of knowledge-protection. Nevertheless, it can be claimed that spillovers are mostly directed to local suppliers rather than to local competitors ([Blalock and Gertler, 2008](#)).

Foreign direct investments and the related spillovers appear to be quite sensitive to host country characteristics. Table 1 collects the main factors that contribute to the success of FDIs' performances.

Although many econometric researches have been performed in the field, the opinions of academics on the subsistence of positive production spillovers in the host economies are strongly heterogeneous and there are no clear results that domestic firms unambiguously gain from the presence of multinationals. Some econometricians argue that the current statistical methods and data sets are unable to detect them and they are part of the residual that appears in the growth equations. Another problem can be individuated in the heterogeneity of spillovers, which makes it difficult to identify a method to study them in their entirety, combined with the bad quality data sets available for multinationals ([Gorg and Greenaway, 2004](#)). A stream of thought highlights how the creation of forward and backward linkages made by the arrival of multinationals have the power to enhance the process of industrial development of the host country. The idea here is that multinationals give less developed economies access to the stock of knowledge proper of more developed economies, with the effect of making the host economy more productive. The contribution of FDIs may attain to the increase of the national welfare level by bringing foreign technology and other resources into an economy, which raises the productivity of domestic factors ([Gorg and Greenaway, 2004](#)).

Table 2: *Host economies' advantages and disadvantages related to the entry of FDI in the domestic market.*

Advantages generated by inward FDI	Disadvantages generated by inward FDI
Access to knowledge through technological spillovers	The technology superiority of MNEs make the domestic productivity standards obsolete (the assimilation of spillovers, even when positive, is costly)
Increase in the firms productivity through the imitation of MNEs' best practices	Loss in profits for domestic firms (for instance by driving them into less profitable market segments) and related possible market exit
Higher demand of raw materials increases domestic welfare (if sourced in the host economy)	Loss in national welfare consequent to the reduction of labour demand after the exiting of domestic firms from the market
Incentives for domestic firms to enter the industry of intermediate products, resulting in a decrease of inputs price (if MNEs source locally)	Attraction of talents away from local firms by MNEs' offering higher wages and consequent raise of labour costs for all firms in the market

At the same time, there are those that draw attention to the creation of unfavourable conditions. Stronger evidence of the negative effects created by the enter in the market on MNEs are described by [Hanson \(2001\)](#) that finds weak evidence that FDI generates positive spillovers for host economies and supports the idea that domestic firms are wiped out of production by multinationals. In fact, the researcher claims that there is little proof at plant level that FDI raises the productivity of domestic enterprises and it appears that plants in industries with a larger multinational presence display lower rates of productivity growth, by driving them into less profitable market segments ([Hanson, 2001](#)).¹

Moreover, empirical studies display that MNEs presence sometimes appears to depress the productivity of domestic plants. In addition to this, the labour demand of multinationals often does not cover the workplaces lost after the exiting of domestic firms from the market, leading to a loss in national welfare ([Hanson, 2001](#)). In addition to this, foreign firms may hire talent away from local firms and, by paying higher wages, may raise the labour costs for all firms in the market ([Blalock and Gertler, 2008](#)).

Table 2 collects the above-mentioned points on the effects of FDI in the domestic market according to the empirical researches performed about the issue.

It can be derived that multinationals are potential sources of advantage and create growth opportunities by entering the domestic market. Nevertheless, the increase of efficiency and competitiveness in the host industry mostly depends on the presence of some conditions of the receiving economies, first and foremost the capabilities of domestic firms to take advantage from FDI spillovers ([Zanfei, 2012](#)).

¹ Aitken and Harrison analysed data on Venezuelan manufacturing plants and found that productivity growth in domestic plants is negatively correlated with foreign presence in the sector. In detail, they estimated that a domestic plant in a sector with 50% of employment in foreign-owned plants have on average 13% lower annual productivity growth than a domestic plant in a sector with no foreign firms ([Aitken and Harrison, 1999](#))

Table 3: *Problems related to the attractiveness of Italian regions*

Threats to FDI attraction in Italy
Inefficiency of public administration and bureaucracy
Lacking conditions of infrastructures
Scarce R&D investments
Problems mostly related to Southern regions
Insufficient level of tertiary education and low concentration of qualified employees
Weak local demand
Widespread criminality

4 Inward and Outward FDI in the Italian market

It has been possible to demonstrate that Italy possess the appropriate institutional and structural features to benefit from MNEs presence.² In detail, the characteristics of the national marketplace that positively and significantly contributed to the domestic productivity in Italy are the population density and the local innovative performance (Ascani and Gagliardi, 2013; Castellani and Zanfei, 2003). Nevertheless, the entry of MNEs with superior technological, managerial and organizational skills often implicates the market exit of local firms and affects the structure of the local production system, to which follows the weakening of the local potentials (Ascani and Gagliardi, 2013). For these reasons, the collaboration between MNEs and smaller local firms is an essential factor for the prosperity of the hosting country (Cozza *et al.*, 2018).

It emerges that Italian regions are able to attract 40% less FDI compared to other similar European areas. The distribution of such investments is low in all Italian regions with exception for Lombardy. It is probable that such observations are linked with a sort of country-effect. The major problems related to the Italian marketplace regard the inefficiency of public administration, but also the lacking conditions of infrastructures and the scarce R&D investments discourage the localization choices of MNEs (Basile *et al.*, 2005). The southern regions of Italy are those that suffer the most the FDI attraction difficulties (Barba Navaretti *et al.*, 2009). Features strictly connected with Southern areas are in fact the insufficient level of tertiary education and the combination of the low income and the high labour cost. The low concentration of infrastructures, qualified employees, corporate services and the weak local demand cause the deterioration of the possibility for setting up economies of aggregation, which would represent a very powerful strength for the attraction of further investments. In addition, social and environmental factors, such as the widespread criminality and the complicated institutional context, discourage inward FDI in the south of Italy (Barba Navaretti *et al.*, 2009). Table 3 collects the key points of the issue related to the low presence of FDI in Italy compared to its potentiality.

² Analysing the effects of FDI spillovers on the domestic market in Italy, Spain and France it could be possible to verify that Italy, out of the three countries, is the only one to benefit from MNEs presence. Externalities from foreign MNEs are in fact positive only in the Italian case and it is possible to argue that the impact of inward FDI on total factor productivity is strongly connected with institutional and structural features of the economy (Castellani and Zanfei, 2003).

4.1 Inward Foreign Direct Investments towards Italy

Inward FDIs register 18.5% of the total industrial national turnover and represent 8 of the Italian employment. They are mainly concentrated in the service sector, in particular, in commerce, rental, travel agencies and business support services. By analysing the profiles of the production and selling activities realised by the foreign MNEs in Italy, it is possible to notice that, in the 2017-2018 period, about 47% of subsidiaries of the industrial sector developed in Italy significant innovation and research contents (ISTAT, 2019).

The economic factors and the national context influence the economic programming of firms, particularly in the decisions concerning whether confirming the presence abroad and the potential expansion of the business in Italy. Foreign MNEs consider positively the presence of technical and specialised competencies in the labour force (93.8%) and the managerial and adaptability skills (92.5%) (ISTAT, 2019). On the other hand, foreign MNEs judge negatively the factor costs present in Italy (such as the labour cost, taxes and incentives) and the restrictions imposed by the regulation. Moreover, foreign MNEs, especially the ones operating in the service sector, report problems connected to the quality of infrastructures (i.e. roads, bridges but also favourable contexts for the research, development and innovation) (ISTAT, 2019).

By elaborating data for the stocks of FDIs towards Italy, it is straightforward to calculate the related growth rate for each country of origin. In Table 4, continents are sorted by volume of inward FDIs in 2018 and the first three countries of those areas are reported following a descending order. The Table 4 also displays the growth rates of the 2014-2018 period.

The biggest part of inward FDIs comes from European countries, especially from France, the Netherlands and Luxembourg. Furthermore, the investments from Europe register considerable growth rates in the 2014-2018 period (+18%). Particularly, it stands out the growth of the volume of investments performed by French firms: nearly 65%. Despite the high volume of FDIs observed in 2018, Luxembourg displays a fall in the growth rate equivalent to -14.6%. For what concerns the American continent, the USA is the biggest player in terms of volume of investments and the related growth rates for 2014-2018 increased by around 18%. Japan is the country where the larger Asian FDIs come from (ISTAT-ICE, 2019).

4.2 Outward Foreign Direct Investments from Italy

The Italian outward FDIs are mainly concentrated in the industrial sector, where they have greater economic relevance in terms of number of employees and turnover (ISTAT, 2019).

Table 5 reports data about outward FDIs volumes and growth rates in the 2014-2018 period sorted by destination areas. The Netherlands is the country with the highest stock of investments in 2018 but displays a decrease in the attraction of Italian investments compared to 2014. Investments in Luxembourg rank in second position and remain nearly unchanged in the 2014-2018 period. Germany is the third most important destination country for Italian outwards FDIs and the volume of investments experienced an increase of 17.5% between 2014 and 2018. The continents that display the greater foreign direct investments growth are Africa and America, with an increase of nearly 60% each. Asia experienced growing importance under this point of view, too. On the other hand, outward direct investments in Europe undergo very little growth rates (1.4%).

Among the firms that underwent delocalisation, 69.3% has transferred activities or functions that support the main operations of the company, while 43.4% have transferred the main

Table 4: *Inward FDI volume and growth rates in the 2014-2018 period sorted by area of origin (all values in million Euros)*

FDIs origin areas	FDI volume in 2018	Growth rate 2014-2018
EUROPE	450.785	18.10%
France	98.658	64.85%
The Netherlands	95.723	26.87%
Luxemburg	78.425	-14.64%
AMERICA	15.632	16.68%
United States	11.813	17.84%
Brazil	760	22.38%
Argentina	638	67.89%
ASIA	9.220	16.37%
Japan	3.367	22.35%
China	1.213	14.54%
South Korea	668	18.86%
AFRICA	1.769	40.17%
Ethiopia	520	84.40%
Algeria	357	71.63%
Tunisia	135	110.94%
OCEANIA	575	13.41%
Australia	540	16.63%
New Zealand	31	-26.19%

Fonte: Elaboration of ISTAT-ICE data (ISTAT, 2019).

activities. However, the tendency towards the delocalisation of business activities or functions is decreasing. In 2015-2017 period only 3.3% of medium-big enterprises has transferred its operations abroad while in 2001-2006 interval they were 13.4% of the total (ISTAT, 2019).

Two are the main factors that the biggest Italian MNEs seek when they establish new subsidiaries abroad: the improvement of the quality and the development of new products (22.5%) and the access to new technological competencies and specific knowledge (19.4%) (ISTAT, 2019).

5 Inward and outward FDIs in the Marche Region

The Marche is one of the most industrialized regions of Italy and holds a strong economical advance, boasting fields of excellence in many sectors. Its main entrepreneurial activity is embodied by micro and small enterprises and a large portion of the area is characterized by a big concentration of family-owned businesses with a very close connection between the socio-personal reality and the economical context (Dini, 2009).

The Marche Region has not embraced the globalization process yet since it seems that its economy is still immersed in the traditional commerce system, where businesses are mainly

Table 5: *Outward FDI volume and growth rates in the 2014-2018 period sorted by destination area (all values in million Euros)*

FDI destination areas	Volume of FDI in 2018	Growth rate 2014-2018
EUROPE	414.907	1.40%
The Netherlands	78.379	-6.28%
Luxemburg	52.460	0.58%
Germany	49.377	17.47%
AMERICA	73.896	58.34%
United States	40.177	40.50%
Brazil	11.812	68.41%
Chile	8.755	429.32%
ASIA	59.958	44.85%
China	11.944	48.17%
United Arab Emirates	11.165	53.94%
India	6.419	4,25%
AFRICA	26.421	59.46%
Algeria	10.288	71.61%
Egypt	7.822	36.37%
Tunisia	2.064	63.68%
OCEANIA	2.823	35.59%
Australia	2.608	2,62%
New Zealand	82	36.67%

Fonte: Elaboration of ISTAT-ICE data (ISTAT, 2019).

focused on trades, rather than on investments. From a long-term point of view, this state of things can potentially damage the regional economy because the openness to foreign markets allows greater competitive advantages (Potter *et al.*, 2010). However, it must be considered that delocalizing also has some considerable disadvantages on the local market, first and foremost, those who would suffer for such strategies are specifically the subcontractors and the service companies of the area, more precisely the micro businesses and the labour force (Paradisi, 2004; Marcolini and Turato, 2004).

The largest firms represent the major players for the internationalization path of the region. The smallest businesses find the biggest difficulties in implementing internationalization strategies and experts express the need for greater support to encourage their expansion abroad. A greater openness to foreign markets may be the key for SMEs for overcoming the stagnation of domestic demand. Taking into consideration the fact that the EU market demand is slowly shrinking, the current opportunities come from the extra UE market segment but it remains inaccessible for the small operators, having regard to the difficulties that these entities face under this aspect. The concerns they have with a potential internationalization can be individuated in some limits inherent in the nature of the small company, such as the organizational issues and the growing competitiveness (Iacobucci *et al.*, 2018). The need for

a significant change in the organizational structure is undeniable. To compete at high levels internationally, there is a great need to equip the governance with modern and adequate models. This does not mean abandoning the traditional model of family-owned businesses but the separation of the ownership from the management. Indeed, this latter role should be entrusted to competent professionals. For many of the Marche's firms, this very challenge is not to be found in products or technologies but rather in the capacity to innovate their organization system (Iacobucci *et al.*, 2018).

The role of the manufacturing sector in the Marche region is considerable and the majority of firms registers high levels of turnover and has larger companies compared to other sectors (Dini, 2015). Driven by the heavy national and international competition, the manufacturing industry displays a greater propensity to efficiency and innovation, registering 75% of the total R&D expenditure within the region (Fondazione Aristide Merloni, 2019).

Supporting and promoting incisively inward and outward FDIs represents a good expedient to enhance the companies growth, beyond the intensification of the flow of knowledge through the local economy. In fact, the domestic market may benefit from the companies' internationalization if it is able to take advantage of the contamination of knowledge through the means of collaboration (Potter *et al.*, 2010).

5.1 Inward Foreign Direct Investments towards the Marche

Foreign investments have recently targeted the Marche, including technologically advanced sectors, but they still represent a small share of the economy. The poor road and rail infrastructures seem to be one of the major issues that discourage inward FDIs, besides representing a weighty constraint for the regional economy development (Potter *et al.*, 2010).

An important contribution to foster foreign firms to expand in the Marche may come from the regional government. On a regulatory and programmatic level, new promotional plans have been issued by the Region with the purpose of empowering the openness towards the internationalization process of the entire system. These programs aim at combining the drivers of internationalization, promotion, innovation and attraction of investments (ICE, 2018). A new way to promote inward FDIs has taken root in the Region: it consists in the promotion of original touristic experiences together with the experience of the productive system of excellence of the region, fusing together the economic and the cultural sphere (Potter *et al.*, 2010).

The European countries and North-America represent the primary areas of origin for the inward FDIs in the region. The manufacturing confirms its prominent role within the region, well exceeding the performances of the other industries. In fact, 40% of foreign enterprises that entered the Marche's market operated in this sector, employing 81% and registering 79% of the turnover generated by the inward FDIs in the region. In particular, the electrical and household equipment industry is the manufacturing sector that registers the best turnover and employment results: 43% of employees and 49% turnover of the total inward FDIs of the Marche. The wholesale and retail trade sector is second in importance, registering 21% of firms, 8% employees and 11% turnover of the total inward FDIs (data elaboration from Politecnico di Milano – ICE (2015)).

The international presence in the Marche is growing, as it is possible to observe in Table 6. The presence of foreign firms that performed FDIs in the region increased by 8% between 2012 and 2017, the number of employees and turnover face an even higher growth: +34% and +42% respectively. These figures may confirm the attractiveness of the entrepreneurial system of the region but also the need of Italian firms to cede the activities to foreign investors. Northern

Table 6: *Growth rates of number of firms, number of employees and turnover for inward FDI in Central Italy, 2012-2017*

	Firms	Employees	Turnover
Central Italy	4%	-1%	-16%
Tuscany	13%	32%	25%
Umbria	1%	9%	66%
The Marche	8%	34%	42%
Lazio	0%	-11%	-25%
Italy	5%	10%	0%

Elaboration of Politecnico di Milano- ICE data (Politecnico di Milano – ICE, 2015).

America appears to be the main investor in the Marche for what concerns turnover generated by FDIs, in particular the main American earnings originate from the electrical and household equipment industry.

5.2 Outward Foreign Direct Investments from the Marche

The Marche is experiencing some internationalization processes, where the medium-big companies undergo delocalisation strategies in order to find lower labour costs or foreign partners. As expected, the largest enterprises have undergone a greater openness towards the international markets thanks to the more effective managerial structure they hold. The largest part of the financial-fixed-assets is composed by acquisitions of controlling interests in other companies (Goffi, 2013). The regional government is implementing a number of interventions with the aim of directly helping firms in their internationalization projects with particular attention to the SMEs, considering their tangible difficulties in undertaking these strategies. It is estimated that in 2018 the support activities for the internationalization promoted by the region amount to 2.8 million Euros, registering a very strong increase with respect to the previous year (+211%) (ICE, 2019). Furthermore, the Region is also supporting the creation and consolidation of some stable networks between those operators in order to face the challenges of the global market. The objective of this kind of measures is helping the local SMEs to expand their boundaries or consolidate their presence in the foreign markets through the concession of grants. This financial support allows the purchase of services aimed at assisting the internationalization processes and are supplied by professionals of the Temporary Export Manager (TEM) (ICE, 2018). In addition to this, the so-called Voucher for the internationalization has had good results in the diffusion of the critical skills to foster the competitiveness on foreign markets. The Marche's firms demonstrated their enthusiasm in the initiative, being the region with the greatest number of vouchers distributed in Central Italy, with 174 beneficiaries, as a proof of the increasing desire to grow abroad of the Marche's companies (ICE, 2018).

Observing the aggregate data, the Marche faces a difficult period if compared to the other regions of the same geographical area. Table 7 displays the growth rates for some significant indicators of FDIs trends for the 2012-2017 period. Aggregate data regarding the central regions and the whole Italy display a growing number of firms, while growth rates are negative for both the number of employees and turnover. The Marche follows a similar trend but its rate of decline is much stronger. In detail, during the five years taken into consideration, the

Table 7: *Growth rates of number of firms, number of employees and turnover for outward FDI in Central Italy, 2012-2017*

	Firms	Employees	Turnover
Central Italy	5%	-15%	-41%
Tuscany	6%	-6%	8%
Umbria	10%	8%	32%
The Marche	7%	-55%	-69%
Lazio	4%	-10%	-44%
Italy	5%	-9%	-12%

Elaboration of Politecnico di Milano- ICE data ([Politecnico di Milano – ICE, 2015](#))

Marche experienced an increase of 7% in the number of firms present abroad and this figure is in line with the central Italy average. Nevertheless, the records registered for the number of employees and turnover are worrisome. In fact, the region observes a strong decrease in the number of employees (-55%) and in the turnover levels (-69%), registering the worst results for the area.

Considering the number of enterprises located abroad, Asia is the preferred destination of Marche's firms (with 9.297 firms). However, the area where the highest turnover for FDI comes from is the Middle East (with 36.418 million Euros) mainly linked to the contribution of the electrical and household equipment sector (data elaboration from [Politecnico di Milano – ICE \(2015\)](#)). The manufacture is the most significant sector within the region also concerning its foreign direct investments performances: it holds the majority of shares for the quantity of firms (71% of the total), number of employees (68% of the total) and turnover (72% of the total). In detail, the manufacturing branch with more fortune abroad is the one that deals with electrical and household equipment (20% of the total Marche's firms performing outward FDI, 29% of total employees and 38% of total turnover registered for Marche's FDI). Wholesale and retail trade sector is second for importance, registering 24% of the total firms located abroad, 22% of the total people employed by Marche's firms abroad and 23% of turnover coming from outward FDI (data elaboration from [Politecnico di Milano – ICE \(2015\)](#)).

6 Conclusions

The paper aimed at individuating the impact that foreign direct investments performed by multinationals have on local markets. Although many econometric researches have been performed in the field, the view of the academics about spillovers is not unanimous. Considering numerous empirical researches, it emerged that FDI can have both positive and negative implications. The investigations show that inward FDI give access to knowledge through technological spillovers and generate an increase in the firms' productivity if local companies are able to imitate MNEs' best practices. Moreover, multinationals may raise the demand of raw materials and thus increase domestic welfare. Besides that, many are the adverse consequences since the FDI presence often coincides with loss in profits and the market exit of local firms, which suffer the technology superiority of MNEs. Furthermore, when such phenomena spread on a larger scale, it may generate loss in national welfare and have negative consequences on

the labour market.

Nevertheless, it can be claimed that the impact of MNEs on local markets strongly depends on the characteristics of both MNEs and the hosting economy. Empirical research demonstrates the presence of critical conditions to benefit from positive FDI externalities: high technological opportunities offered by foreign firms and a level of absorptive capacity, which allows host country firms to benefit from multinational presence. The two conditions coexist in Italy, which is a good example of a country that can benefit from MNEs' presence due to the institutional and structural features of its economy. However, this country suffers some FDI attraction problems. Nonetheless, a negative competition effect due to the entry of MNEs with superior technological, managerial and organizational skills often implicates the market exit of local firms and affects the structure of the local production system.

Not every local enterprise has been able to move forward in a scenario where the openness to international trading requires certain capabilities and organizational structures. The entrepreneurial system of the Marche, for instance, lacks adequate competencies and visions, oriented to the modification of the economic behavior of business people. On one hand, the scenario in the Marche region displays an increase in the number of firms that invest abroad but are also experiencing a sharp deterioration of their turnover. On the other hand, there are an increasing number of inward FDIs. The findings can be interpreted in two ways: they may confirm the attractiveness of the entrepreneurial system of the region or denote the strong need of local firms to be acquired by foreign investors to survive.

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