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The spatial redistribution of Japanese direct investment in the United Kingdom between 1991 and 2010

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Japanese firms have a firmly established reputation as influential foreign investors, originating from the surge of foreign direct investment into North America and Europe during the 1980s. This paper examines trends in Japanese corporate behaviour in the United Kingdom, a key investment destination for Japanese firms, over the period 1991 to 2010. Our ‘demographic’ analysis of Japanese firms’ investments includes both investment and exit strategies. It is found that Japanese firms have reconfigured their UK presence in response to a rapidly changing market environment, with an enduring proclivity to cluster, notwithstanding government incentives intended to channel investment towards specific regions of the country.

Keywords: Foreign direct investment; Japanese multinational enterprises; spatial distribution of foreign direct investment; economic geography; UK business environment

1. Introduction

For many industrialised economies, foreign direct investments (FDI) by Japanese companies have long been important sources of employment, technology transfer and linkages to local businesses.¹ Consequently, the governments concerned have sought to attract Japanese FDI using a variety of incentives and policy measures. Many of these measures have been linked to regional assistance and support schemes which were aimed at fulfilling certain national economic objectives and, in particular, the economic recovery and rejuvenation of particular regions that have underperformed economically relative to the rest of the country, often because of the decline of traditional industries. However, the global financial and economic crisis of 2008 onwards has caused divergent trajectories of national economic growth around the world, such that corporate retrenchment and subdued growth in the developed economies has been matched by economic resilience and growth in large emerging markets. Many Japanese firms have responded by reorganising and rationalising their business activities in the industrialised countries, and by increasingly looking towards large emerging markets for future growth opportunities. It is therefore timely to re-evaluate the familiar drivers of Japanese investments (and divestments) in the industrialised countries and to reassess the location decisions of

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Japanese companies in the context of the effectiveness of policy measures implemented by industrialised country governments to attract Japanese investments.

With this in mind, we address in this study the following research questions: (i) what is the nature of the geographic distribution of Japanese operations in the United Kingdom?; (ii) is this behaviour evolving over time?; and (iii) to what extent have Japanese firms adjusted their engagement in the UK in response to shrinking markets and economic downturn on the one hand, and the availability of regional assistance schemes on the other? Because one of the notable features of Japanese companies abroad is the propensity to cluster or agglomerate in particular sub-regions of countries, we incorporate the spatial dimension into our study.

The remainder of this paper is organised as follows. In the next section, we justify the choice of the UK as a setting in which to examine the sub-national location decisions of Japanese Multinational Enterprises (JMNEs) in industrialised countries. We then review the literature on the determinants of location choice of JMNEs, placing particular focus on agglomerative behaviour and the role of regional industrial policies and incentives in the UK. From this, we develop two propositions that inform our analysis of the spatial distribution of Japanese FDI in the UK from 1991 to 2010. Using firm-level data, we investigate in the third section the evolution of sub-national expansion and contraction patterns among Japanese investors in the UK. By analysing the geographies of Japanese-owned operations over time, we test conventional wisdom concerning the location determinants of JMNEs in the industrialised economies against the contemporary realities of their market presence. In particular, we reveal how investment incentives have influenced investment behaviour among Japanese firms. Finally, we contextualise the consequences of these changes and reflect on the possible future contours of Japanese corporate engagement in industrialised economies.

2. Research context

Japanese FDI around the world has attracted considerable research attention. The rapid expansion of Japanese firms in the 1960s and 1970s and the purported uniqueness and superiority of the Japanese management system challenged much of the entrenched management thinking of the time in the USA and Western Europe.² Subsequently, numerous studies have investigated the internationalisation of Japanese firms, and understanding about the 'when', 'why' and 'how' of Japanese outward investment is now relatively advanced. The competitive advantages of JMNEs³ have generally been portrayed in terms of: (i) responsiveness to trade restrictions and exploitation of exchange rate fluctuations;⁴ (ii) agglomeration, organisational abilities and the fine-slicing of international production networks;⁵ (iii) information processing capabilities, long-term orientation and managerial pragmatism;⁶ and (iv) market orientation, marketing superiority and R&D capabilities.⁷ As a major recipient of Japanese investment, the UK features strongly within this literature. Here, extant studies tend to be concerned with the rationale for market entry, location determinants and regional distribution;⁸ the contribution of JMNEs to regional regeneration, employment creation and diffusion of 'superior' management systems and techniques;⁹ and the role played by institutions, technological infrastructure and R&D capacity.¹⁰

Much of this work, however, pertains to the heyday of Japanese investment in the industrialised countries in the 1980s and 1990s.¹¹ More recent studies on the internationalisation activities of JMNEs have generally focused on investments in large emerging economies such as China or India.¹² To date, little attention has been given to contemporary developments concerning location choice and strategies of JMNEs in developed economies and, especially, the UK.

The countries of Western Europe, and the UK in particular, have long benefited from the strong presence of JMNEs¹³ – which has been fuelled, at least in part, by pan-European and domestic regional development programmes. In 2010, the UK was one of the world's largest national recipients of FDI,¹⁴ whilst Japan, on the other hand, had the second largest stock of outward FDI in the world.¹⁵ In the same year, Japan was ranked second as an FDI source country for the UK.¹⁶ However, ongoing economic integration and market expansion in East Asia have reduced the relative attractiveness of industrialised markets in Europe as both market and production locations.¹⁷ The UK was the 'first choice' as an investment destination for Japanese firms in Europe for many years, for reasons of government openness, language, market size, and as a 'soft' target due to its moribund economic state.¹⁸ However, recent surveys of the investment intentions of JMNEs¹⁹ indicate a shift towards the emerging economies and away from Europe in the medium term, and in the Japan Bank for International Cooperation (JBIC) survey (of 2011) no industrialised country figured in the top 10 list of preferred investment destinations. Many Japanese manufacturers have downgraded the attractiveness of the UK as a business destination. Since 2000, the number of Japanese firms in the UK has declined considerably, with UK Trade and Investment reporting an appreciable slowdown in interest from Japan in the latter years of the time period we investigate.²⁰

Arguably, the relocations of manufacturing plants from the UK to manufacturing fringes in Eastern Europe and East and South East Asia by Japanese electronics manufacturers in the late 1990s were harbingers of an epochal adjustment of the UK's position in the corporate strategies of JMNEs.²¹ These early pioneers of Japanese engagement in Europe, along with more recent Japanese investors, faced a number of challenges, not least a restructuring of operations and management structures at home,²² dramatic changes in the competitive environment (e.g. new competitors from Asia), increased investment destination options (which coincided with rising production costs in the UK), and exchange rate imponderables (as evidenced by non-participation of the UK in the Eurozone, for example). These changing preconditions may have translated into a slowdown to the consolidation and expansion of Japanese firms in the UK. Examples of Japanese companies that have ceased operations in the UK since the late 1990s include Aiwa, JVC and Pioneer. At the same time, successive firm exits were complemented by investment opportunities foregone.²³ With its decelerating trajectory for Japanese investment inflows, the UK arguably exemplifies a reorganisation of the activities of corporate Japan in the industrialised economies amid global competitive pressure, limited growth opportunities and shifts in market attractiveness.

The British authorities attributed a vital role to Japanese investors as instigators of regional economic regeneration in the UK because of their association with managerial superiority, technological leadership and presumed long-term commitment.²⁴ This means that the UK represents a useful context in which to reassess the sub-national investment behaviour of Japanese companies in industrialised economies since the early 1990s. As FDI typically contributes positively to the economic growth of a host country, divestment scenarios become especially relevant to those economies characterised by high FDI stocks. Multilayered economic and socio-political consequences of divestment from host countries include industrial 'hollowing out' (the departure of previously important firms and industries), rising unemployment and financial destabilisation. Hence, our investigation of JMNEs in the UK represents a timely context for analysing contemporary shifts in foreign firm behaviour in the industrialised economies more generally and, especially, on the divestment behaviour of JMNEs in response to expanding business opportunities elsewhere.

3. Development of research propositions

International business theory posits that market imperfections and transaction costs first trigger FDI,²⁵ and that interactions between firm-specific requirements (e.g. transport infrastructure, labour costs) and spatial determinants (e.g. procurement potential, production capability, market proximity, industry agglomeration) then influence location decisions.²⁶ Despite increasing flexibility of firm behaviour and fluidity of FDI flows,²⁷ location choice remains a multidimensional decision process, with long-term strategic consequences.²⁸ With cost and profitability considerations as key drivers,²⁹ location decisions are now an established component in the theory of international corporate expansion.³⁰ If location *per se* contributes to the competitiveness of MNEs, then an analysis of sub-national location determinants is likely to provide more realistic and indicative insights into the investment decisions of firms.³¹ However, research generally aggregates data on location-specific factors in a manner that disregards sub-national diversity as a determining factor.³² A number of studies have investigated the determinants of sub-national location choice in the context of JMNEs.³³ These studies highlight a variety of factors which contribute to the attractiveness of investment locations among JMNEs, including political and economic stability, market size, market growth, wage levels, production costs, educational attainment, institutional framework, standards of living, labour reliability and infrastructure quality. Most of these findings pertain to Japanese corporate behaviour in developing economies and the findings are by no means unanimous or conclusive. However, within this body of work two factors have been shown consistently to positively affect the probability of Japanese sub-national engagement regardless of the level of development of the investment destination. These are regional economic policy and firm agglomeration, and the interplay between them.

Long-term orientation is at the core of the Japanese business system.³⁴ This tenet has also been documented in the context of Japanese FDI.³⁵ Beyond the scale and scope of Japanese investment, it is the stability, durability and effectiveness of Japanese investment that have led to its significance in recipient economies,³⁶ including the UK. Our points of departure to gauge recent developments in the sub-national distribution of Japanese firms in the UK are, on the one hand, the reorganisation of the activities of corporate Japan in the industrialised economies, amid global competitive pressure, limited growth opportunities and shifts in market attractiveness and, on the other, the notorious difficulties associated with assessing the sustainability of inward investment support schemes. Subsidiary relocation, the reconfiguration of production networks and the downward investment trajectory³⁷ all give rise to the question of whether regional industrial policy has been effective in establishing an enduring corporate base among JMNEs. The proclivity of Japanese firms to locate in Assisted Areas, however, does offer some explanatory guidance, as we discuss below. Substantial changes to the external economic environment (reflected both in recent divestment cases and changes in regional eligibility criteria) as well as the declining relevance of business support schemes in channelling Japanese investment allow us to develop two research propositions around the themes of 'industrial support policy' and 'agglomeration effects'.

Industrial support policy

The first commonality concerning Japanese investment determinants and sub-national distribution is that of institutional openness. The institutional environment shapes location determinants and, consequently, has the potential to enable and support FDI.³⁸ The existence of business support schemes *per se* explicates favourable conditions to foreign investors, facilitating and promoting entry decisions.³⁹ There is ample evidence in extant literature to suggest that industrial policy incentives feature prominently in Japanese

investment decisions.⁴⁰ Financial and non-financial incentives such as corporate tax deductions, subsidies, grants, fast track approvals, ‘one-stop’ agency assistance, the existence of industrial zones or research parks, and profit repatriation regulations have all been shown at various times to influence positively the investment decisions of Japanese firms.⁴¹ Although not the predominant factor in bolstering location attractiveness,⁴² proactivity by the British government helped tilt the distribution of Japanese FDI in Europe in favour of the UK.⁴³ From the late 1980s, government-led incentive schemes have targeted the promotion of sustainable growth, the revitalisation of moribund industries, employment creation, improvements to regional economic development, the reduction of regional economic disparities and the promotion of technological and managerial spill-overs.⁴⁴ Discretionary financial assistance available to (mainly – but not exclusively – foreign) investors was concatenated to regional economic development objectives. Designated Assisted Areas were initially located in Scotland, Wales and northern England. With labour market performance and manufacturing ratios as selection criteria, revisions in 1993 and 2000 channelled grant availability towards more disadvantaged areas and specified firm- and regional-level grant ceilings.⁴⁵ The most recent regional assistance scheme – the European Regional Development Fund (ERDF) (2007 to 2013) – sub-divides grant availability into eight ceilings, ranging from unaltered support (following on from its predecessor scheme), a phasing out of support over time, through to a cessation of support. With the overarching objectives of economic convergence and cooperation in the economic development of the EU, discretion at a local level allows for matched fund prioritisation according to the needs of a specific area or region.⁴⁶

The introduction of initiatives to promote regeneration at a sub-national or regional level – ‘Regional Selective Assistance’ (RSA) and ‘Regional Development Assistance’ (RDA) schemes – coincided with the expansion of Japanese investment into the UK. It is well documented that these governmental support schemes had strong effects on the sub-national location of Japanese firms in the UK during the 1980s and early 1990s.⁴⁷ Notwithstanding the evident relative success of regional economic policy in attracting and de-agglomerating Japanese FDI, the effectiveness of these financial incentives has increasingly been questioned.⁴⁸ Against this backdrop, gradual changes in Japanese investment behaviour in the UK, as well as consolidation of their local operations,⁴⁹ highlight the need to reassess the catalytic role of business support schemes for attracting Japanese firms – shifts in effectiveness that have already been observed in emerging country contexts.⁵⁰ It is at the juncture of the adjustment of Japanese investment patterns, the fluidity of entry and exit scenarios, and the impact of regional industrial policy schemes that our first research proposition is situated:

Proposition 1: Assisted Areas in the UK have declined in attractiveness as a sub-national location determinant for Japanese firms.

Agglomeration effects

Agglomeration economies have been reported as the most prominent explanatory determinant for Japanese investment behaviour.⁵¹ In line with the large body of geographical literature on economic agglomeration,⁵² the presence of prior foreign investment by JMNEs or other nationalities of foreign firms, or manufacturing density (measured using employment quotients) have all been shown to be positively related to Japanese FDI. The self-reinforcing nature of concentrated FDI is associated with positive network effects derived from a number of benefits, including information sharing, access

to infrastructure, availability of input factors, accessing pools of skilled labour and technological spill-overs.⁵³ The inherent characteristics of Japanese organisational structures, encapsulated by Aoki's concept of the 'J-System',⁵⁴ and also 'compatriot' cohesiveness, both augment this location behaviour.⁵⁵ Despite a lack of consensus about the self-perpetuating tendency of agglomeration – Japanese firms may be less influenced by the earlier location choices of prior investors but rather share similar location needs – extant literature suggests a particular Japanese proclivity to agglomerate, most notably due to: (i) the replication abroad of 'Keiretsu-type' vertical and horizontal organisation of firm activities; (ii) 'follow the leader' effects (with the core manufacturer in a Keiretsu structure typically requesting or requiring suppliers used elsewhere to follow it to a foreign location); (iii) information sharing and common infrastructure requirements for Japanese expatriate managers and workers (often associated with the schooling of children, social clubs for spouses, Japanese business and financial services providers, leisure and sporting amenities, and cultural considerations); and (iv) *Sôgô Shôsha*-type (Japanese trading house) investment facilitation.⁵⁶ Bridgehead operations (that is, knowledge-gathering investments by early entrants) and tariff-jumping considerations have also been identified as strategic drivers of the location behaviour of Japanese firms in Europe in general, and in the UK in particular.⁵⁷ An indigenous European setting, with different countries competing to attract inbound investments from Japan, has played a multifaceted role in creating a distinct, more integrative profile of Japanese manufacturing presence here.⁵⁸ Nevertheless, responsiveness to spatial clustering effects historically has been an important dimension of Japanese manufacturing investment in the UK.

Although the picture is a complex one, the transfer of production operations, management practices, intra- and inter-firm divisions of labour and the concomitant extension of subcontracting relationships and local supply chains resulted in the early 1990s in the sub-national clustering of JMNEs in the UK, especially in South Wales, Central Scotland, West Midlands and the North East regions.⁵⁹ It has been shown that this agglomerative tendency was augmented by manufacturing density, 'capital city' effects and prior investment cases.⁶⁰ However, and as described above, the antecedents of Japanese investment in the UK are in flux, not least because of the broader context of reform of the Japanese production system, and, in particular, the changing nature of inter- and intra-corporate business networks, together with changes to the international marketing environment.⁶¹ The paucity of information about the contemporary composition of firm locations has given rise to a new agenda of research on the geographical distribution of Japanese-owned operations in the UK, which includes both investment and divestment perspectives.

There is compelling evidence that the responsiveness of Japanese firms to government policies during the initial investment stages led to a concentration of Japanese firms in Scotland, Wales and the North of England; that is, 'outside' the traditional gravitation towards the South of England. In other words, regional industrial policies may have successfully acted as centripetal investment stimuli when viewed at a national level. Thus, it is plausible to argue that the expansion of Japanese firms in the UK can be characterised as 'de-agglomerative'. Paradoxically, this was underpinned by an idiosyncratic and self-perpetuating agglomeration of JMNEs at the firm level. As a consequence, cultural cohesiveness and pragmatic production network considerations help to explain the clustered distribution of Japanese firms in the UK. Toyota, for example, expects its supply network members to locate in the proximity of the main production hub so that transport times do not exceed one hour, a recent interview with one of the authors revealed. However, the aforementioned shifts in the economic environment may have also had an impact on changes to the agglomerative behaviour of JMNEs.

If RSA or RDA schemes acted as catalysts of Japanese de-agglomeration at a sub-national level, then both the reconfiguration of Assisted Areas and their reassessment by Japanese firms themselves may have resulted in the re-emergence of firm concentration towards traditional gravity centres in southern regions of the UK. We therefore posit:

Proposition 2: The distribution of Japanese investment in the UK has been influenced by agglomeration effects.

4. Research method

We capture the assumed regional elasticity of Japanese investment from three angles. First, an analysis of the longevity of Japanese firm presence in the UK provides insight into how sustainable Japanese FDI is in the UK. The inclusion of investment and divestment cases helps us to make a realistic assessment of Japanese investment profiles. Second, using geographic information system (GIS) analysis techniques, we link investment cases to their specific UK locations. By charting and analysing the spatial distribution of Japanese firms against Assisted Areas over time, we reveal the impact of support schemes on the concomitant behaviour of Japanese firms from a time series perspective. Third, in the absence of more recent information on Japanese firm locations in the UK, we move on to assess the importance of Assisted Area schemes by analysing new Japan investment cases vis-à-vis the support scheme revision in 2000. Then we conduct an analysis and comparison of the Poisson distribution for the following timeframes: 1993 to 1999; 2000 to 2006; and 2007 to 2013. Grants made available via Objective 1 and Objective 2 schemes were merged and used as a dependent variable for further contextualisation.

The presumed ‘nascent’ gravitation of Japanese-owned operations in the UK towards the south of the country is analysed by inter-regional (NUTS 1) and inter-county (NUTS 3) variation in the number of firm establishments. Our firm count analysis spans observations in four-year iterations from 1991 to 2010 and therefore captures both the heyday and decline of Japanese investment in the UK. As firm counts by region potentially disguise the realities of agglomeration effects – county borders are only an arbitrary proxy for sub-national economic externalities – our analysis is complemented by geographic proximity considerations. Capturing firm counts within a concentric buffer of the focal Japanese firm (including prior investment and divestment cases) informs understanding of de-agglomeration and agglomeration effects over the specified time periods.

In order to obtain an accurate picture of the evolution of Japanese investment and divestment cases in the UK, annual editions of the Japanese Overseas Investment Directory (or *Kaigai Shinshutsu Kigyô Sôran*), published by Tôyô Keizai, were used to identify the presence and location of Japanese firms in the UK for the years 1991, 1995, 1999, 2003, 2007, 2009 and 2010.⁶² For triangulation purposes, and to explore the possibility of missing cases, the dataset was complemented using the ICC Plum Information management database and the Company House register (which, to our knowledge, are the most comprehensive and accurate firm-level databases available for UK-based firms). These sources also helped us to identify firm dissolutions, an aspect easily overlooked by databases compiled from single sources. Firm-level data were also collected using the Tôyô Keizai’s Company Group (or *Kigyô Gurûpu*) handbook (from 2010) and UKTI data on inward investment location of Japanese firms.⁶³ Postcode data enabled us to compute the exact location of each company onto the UK national grid system, using the postcode directory available online from UKBorders. GIS software (Mapinfo Professional) enabled us to link each firm to location-specific economic data at

stay' spectrum is more diverse than anticipated. This does not necessarily equate to a lack of local commitment amongst Japanese firms. Arguably, the reasons for withdrawal are likely to be varied, for example as a consequence of industry effects, home market performances and competitive pressures, amongst other things.

Our analysis of firm locations vis-à-vis Assisted Areas mirrors the various ways in which Japanese corporations have responded to development schemes at the regional level. Table 2 shows the number of new entrant firms based outside or inside Assisted Areas for the most recent time frames of industrial policy implementation (as revealed by our GIS analysis). Since firm numbers vary substantially over time, it would be a mistake to characterise a consistent Japanese reaction to business support schemes in the UK. In contrast to research findings pertaining to the pre-1993 RSA scheme, we observe that the majority of Japanese firms in fact located *outside* of those areas eligible for investment aid during the 1993–99 period. A possible explanation is that the net geographic coverage of Assisted Areas in the UK was reduced as a consequence of policy, in contrast to previous periods.⁶⁴ The location profile of firm entries between 2000 and 2006 saw a reverse in this trend, with a majority of Japanese firms locating in the Assisted Areas. New Japanese investment cases falling into the geographic boundaries of the new 2007–13 Assisted Area map indicates a further modified attitude towards business support schemes as a location determinant. Again, new entrants mainly located outside the Assisted Areas during this period.

If we take into account divergent subsidy levels, we arrive at a more nuanced profile of Japanese sub-regional investment locations in the UK. During the first period of our assessment, 12.1% of Japanese firms were located in Development Areas (those identified as being highly deprived, with a maximum of 30% investment subsidy) and 16% in Intermediate Areas (slightly deprived, with a maximum of 20% investment subsidy). The high percentage of Japanese firm locations in areas eligible for regional assistance between 2000 and 2006 is put into perspective when taking eligibility criteria into account. Only 3.5% of Japanese entrants located in the post-2000 Development Areas (Tier-1 areas, most deprived), whereas 66.5% located in post-2000 Intermediate Areas (Tier-2 areas, less deprived) where subsidy ceilings varied according to deprivation intensity. Post-2007 investments inside Assisted Areas were concentrated either on Intermediate Areas (with revised aid ceilings of 15% until 2010), or conversion areas with discretionary aid up to 10% of Gross Grant Equivalent (GGE) (see Table 3)

With the caveat of changes in eligibility criteria over the three RSA phases, significant differences between the periods of assessment (as measured by a chi-square test of associations) hint at shifts in the perception of Japanese firms towards regional assistance schemes at the sub-national level. As a proxy for sub-national institutional openness, our findings indicate an increasingly ambiguous attitude towards investment incentives.

The distribution of Japanese firms vis-à-vis the actual allocation of funds by region provides further evidence of how Japanese firms' attitudes towards Assisted Areas changed

Table 2. Location of Japanese Firms vis-à-vis Assisted Areas of the UK, three selected time periods

	1993-99	2000-06	2007-11
Outside Assisted Areas (%)	82.7	30.0	87.1
Inside Assisted Areas (%)	17.3	70.0	12.9
Development Areas (%)	12.1	3.5	0.0
Intermediate Areas (%)	16.0	66.5	12.9
Total (N)	307	230	31

Table 3. Regional Support Schemes in the UK (1993 to 2013)

Name	Period of scheme	Support available in 'Assisted Areas' and formal criteria for receipt	Eligibility criteria for recognition as an 'Assisted Area'	Maximum support available	Spatial units	Comments
European Regional Development Fund (ERDF)	2007 to 2013	The ERDF provided direct aid in the form of: (i) investments in companies (prioritizing SMEs) to create sustainable jobs; (ii) infrastructure project (especially when linked to research and innovation, telecommunications, environment, energy and transport; financial instruments (capital risk funds, local development funds, and so forth) to support regional and local development and to foster cooperation between towns and regions; and (iv) technical assistance measures.	Under the Convergence Objective, regions whose GDP is below 75 per cent of the EU average. Areas outside Convergence Objective Areas were 'targeted', based on the following indicators: structural, economic performance, innovation and knowledge economy, access to transport, access to TLC/ICT, energy sustainability, transportation impact, natural/rural assets, natural and technological risk, and on 'territorial cooperation'.	Support up to 50% of the eligible costs of a project, with remaining funding found by the applicant from a range of public, private and voluntary sources, and only available to projects that would not have taken place without support.	NUTS profile-based.	This scheme sought a more balanced sub-national distribution of funding, with targeted support depending on sub-national needs.
Regional Selective Assistance (RSA) (revised in 2000)	2000 to 2006	As for the 1993 to 2000 period.	Formal indicators of disadvantaged areas were: (i) low levels of per capita GRP (gross regional product), (ii) labour market performance, (iii) share of manufacturing, (iv) residence-based unemployment, (v) work force-based unemployment (relative to other EU countries).	The maximum proportion of a firm's investment which could be subsidized by government was the Net Grant Equivalent (NGE), determined by European Union policy and guidelines. Support of up to 35% NGE was available in very deprived or (now) 'Tier 1 Areas' and from 10 to 30% NGE in less deprived	Ward- (or electoral district-) based.	This was the main business support scheme in the UK at this time. Tier 1 Areas were Cornwall and the Isles of Scilly, Merseyside, South Yorkshire and West Wales and the Valleys. Tier 2 Areas were more scattered.

<p>Regional Selective Assistance (RSA)</p>	<p>1993 to 2000</p>	<p>Discretionary grants available to firms to assist with (i) establishing a new business, (ii) expanding, modernizing or rationalizing an existing business, (iii) to set up R&D facilities, or (iv) to move from development to production. Supported projects were required to involve: (i) a manufacturing or related sector, (ii) capital expenditure on property, plant or machinery, (iii) the creation of new jobs or the protection of existing ones, (iv) improvement to firm competitiveness, (v) need (assistance necessary for the project to proceed), (vi) the majority of project finance met by the applicant or other private sector sources, and (vii) receipt of a formal offer of assistance before implementation.</p>	<p>Formal indicators of disadvantaged areas were: (i) low levels of per capita Gross Regional Product (GRP), (ii) persistently high unemployment levels, (iii) employment participation rates, (iv) decline in local industries, (v) demographic changes, (vi) major firm closures, (vii) geographic distance from major markets, (viii) population density, and (ix) urban problems (compared with the UK average).</p>	<p>or 'Tier 2 Areas' (a 10% ceiling if GRP per capita was higher and unemployment lower than the EU average, a 20% ceiling if they adjoined a Tier 1 Area, and a 30% ceiling if they were geographically distant and sparsely populated). Support of up to 30% NGE was available in very deprived or 'Development Areas' and up to 20% NGE in less deprived or 'Intermediate Areas'.</p>	<p>Based on 322 "Travel to Work Areas" in which 75% of the economically active population must work.</p>	<p>This was the main business support scheme in the UK at this time.</p>
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Sources: Criscuolo, et. al (2012); European Commission (2012); British Government (2012).

in the UK over the period under examination. In contrast to grant ceilings per region, the level of financial support reflects a more powerful institutional incentive to overcome location disadvantages (such as unemployment, industrial deprivation and so forth). We find consistently negative correlations between the numbers of investing JMNEs and the allocation of structural funds per NUTS 1 region.⁶⁵ In other words, in the case of the UK, financial investment incentives do not automatically translate into greater regional attractiveness. On the contrary, the negative values indicate that they seem to have deterred Japanese investment. One explanation for this finding is that Japanese companies have developed a more sophisticated understanding of the implications of regional assistance schemes. That is, with the spatial reorganisation of Assisted Areas, government support more or less explicitly indicates disadvantageous location determinants. This trend can be demonstrated across all years since the implementation of the 2000 EU funds reference framework and it points towards a consistent location disincentive for Japanese firms at the sub-national level. Our findings also add an important perspective to the general consensus about the positive effects of sub-regional, institutional stimulants on Japanese investment propensity. As these effects are regularly reported for transitional economies, it is plausible to argue that Japanese attitudes vis-à-vis investment subsidies are either changing or they need to be contextualised in respect to other location endowments which may have stronger influence on the investment decisions of Japanese firms.

The aim of investment support policies such as the RSA is to promote sustainable growth (e.g. employment, productivity) in recipient regions. Because access to credible information is problematic, it is notoriously difficult to establish the positive (or spill-over) effects that foreign firms have on local economic development by source country. Monitoring firm exit rates from Assisted Areas allows us, however, to gauge the long-term impact of institutional openness on Japanese investment. Focussing on the RSA and RDA support policy frameworks, about two-fifths of Japanese entrants during the 1993–99 period and 22.6% of the 2000–06 period ceased their UK operations (Table 4). For each period, the distribution of Japanese exits highlights significant location discrepancies. In particular, a goodness-of-fit (chi-square) test for both periods reveals substantial differences in firm exits by location. The relatively low departure rate from Assisted Areas during the initial period (1993 to 1999) is contrasted by a substantial firm exodus of entrants during the 2000–06 framework. These findings hint at changes in perceptions of sub-regional support policy among Japanese firms. A comparison of length of stay by region lends further evidence to these shifts. On average, Japanese firms locating in assisted areas (1993–99) exit after seven and a half years, whereas Japanese firms entering the UK during the latter period exit on average after five years. From the perspective of the stated goal of these schemes the early exits and average lengths of stays we have found give rise to questions about the interaction of institutional incentives and Japanese investment motives. These findings highlight the need for further qualitative and case-

Table 4. Japanese Firm Exits and Average Length of Stay by Regional Assistance Eligibility in the UK, three selected periods (% and years)

	1993-99	2000-06	2007-11
Outside Assisted Areas (%)	81.1	30.0	100.0
Inside Assisted Areas (%)	18.9	70.0	0.0
Average Length of Stay (in years)	7.5	5.2	
Exit Ratio	42.9	22.6	3.2

study research in order to understand better the nuances of the decision-making processes of Japanese firms in the UK, including on what basis location choices are made, and to discern the nature of formal and informal linkages between Japanese firms that have co-located in the UK and the motivations for doing so.

Agglomeration

Mapping investment cases against NUTS 3 regions (Figure 1), we can see that Japanese firms consistently concentrated within core areas in the south of the UK over the period under examination. We do detect some de-agglomerative trends, with Japanese firms increasingly locating outside of the traditional epicentre of investment (i.e. the South of England), and with numbers in London and the South East declining. However, despite this, it is clear that London and the South East continued to maintain their importance as investment locations. It has been persuasively argued that the dispersion of Japanese investment in the UK is a consequence of regional development policy.⁶⁶ However, an analysis of regional presence at the NUTS 1 level indicates that the RSA and RDA schemes were only moderately successful in balancing the attractiveness of locations across the UK for Japanese firms. Even though some areas have expanded their footprint relative to London (most notably the North West and West Midlands), the configuration of geographical location of Japanese firms is largely stable between 1991 and 2010. While some areas show substantial fluctuations, other peripheral areas such as Scotland seem to have lost their relative attractiveness as investment destinations and business hubs for Japanese firms.

A more fine-grained analysis at NUTS 3 level corroborates these initial findings. The geographical distribution of Japanese firms over time indicates a diffusion from an initial and strong concentration in London (particularly Inner and Western London) towards neighbouring regions, including Hertfordshire, Berkshire, Surrey, Hampshire and Milton Keynes. It is here that approximately two-thirds of Japanese investment cases are persistently located. A further cluster of Japanese firms can be found in the North East, where firms have spread from the Sunderland region into bordering Tyneside, Northumberland and Durham. The majority of investment cases are within a 20 km radius of Sunderland, coinciding with the presence of Nissan Motor Manufacturing (UK). Furthermore, the Greater Manchester region (particularly North and South Manchester, Halton and Warrington) also exhibits a distinct and sustained Japanese investment profile. Other regions of the UK have a broadly negligible number of Japanese firms or see substantial fluctuations in investment cases. Investment promotion efforts in Scotland and Wales and West Midlands have evidently led to a considerable Japanese firm presence during the 1990s, but for more recent times our findings indicate significant firm exits and regional peripheralisation. Thus, mapping of the geographical distribution of Japanese firms in the UK over time highlights not only the well-documented, sustained clusters of Japanese investment but also an initial sub-regional expansion (away from the economic epicentre of London), followed by a contraction of activities post-2003. In other words, initial de-agglomeration (spatial expansion of investment during the 1990s) was succeeded by (re-)emergent agglomeration of Japanese firm activities. In contrast to a continuing focus on the South of England, the regions of Scotland, Wales and Central England (e.g. Staffordshire, Derbyshire and Warwickshire) were particularly affected by the consolidation of Japanese investment in the UK. Despite intermittent agglomeration, investment levels in 2010 in these regions are at or below 1991 levels. At the same time, we note that southern areas of the UK were not unaffected by the recent trend for

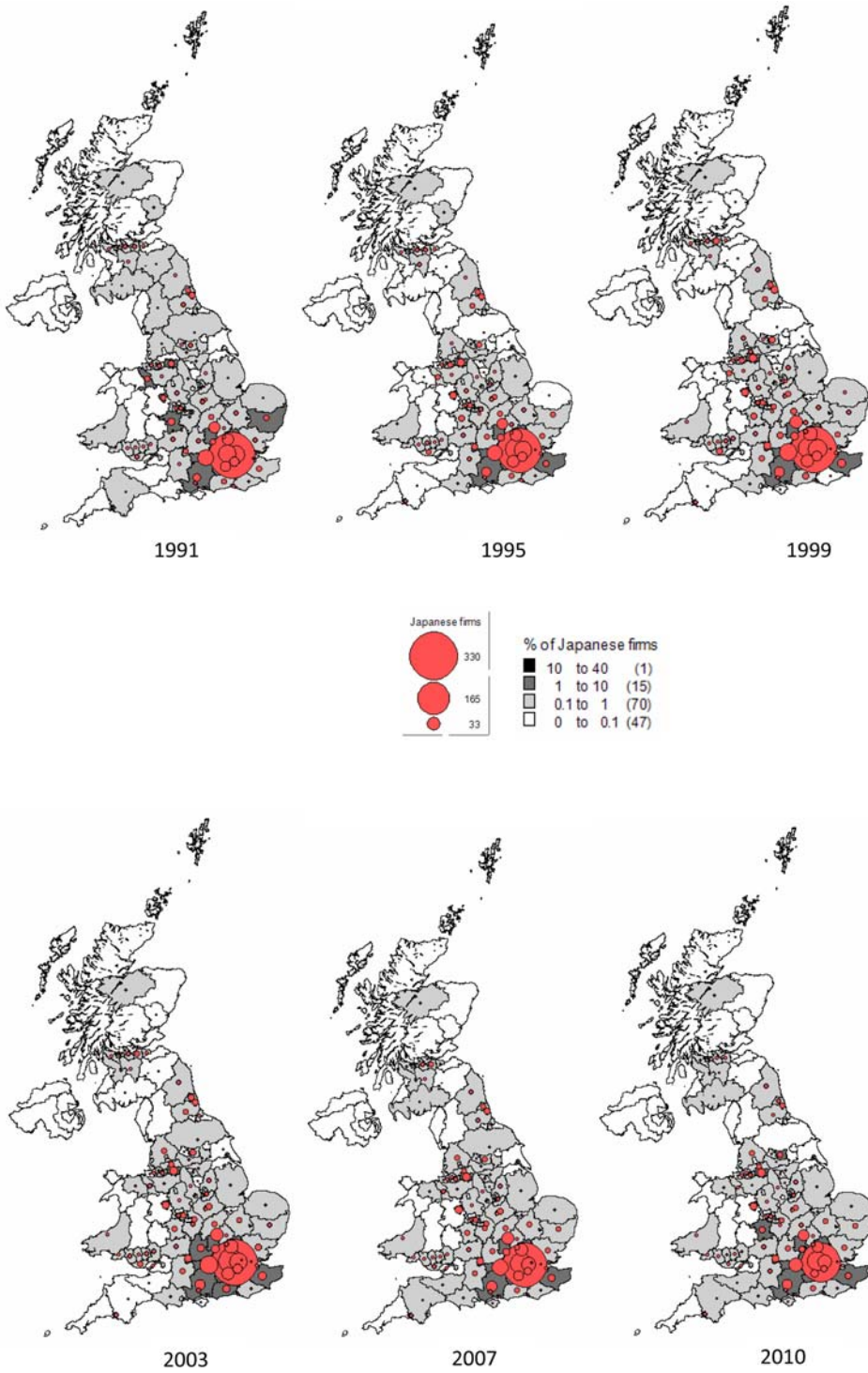


Figure 1. Sub-National Distribution of Japanese Firms in the UK by NUTS 3 Region (1991-2010)

withdrawal, indicating that it may be premature to assume a return to the status quo. A goodness-of-fit (chi-square) test reconfirms these gravitational effects. Testing for the assumption that the spatial distribution of Japanese investment is equally distributed across UK key regions, we detect significant discrepancies between observed and expected firm presences, irrespective of the time periods concerned. This emphasises not only persisting concentrations of activity in the southern regions of the UK, but also the strong agglomerative behaviour of Japanese firms in this part of the country.

Geographic variations in Japanese firm establishments also show the importance of prior investment as a trigger for Japanese firm agglomeration over the period under study. Table 5 presents the ratio of firm counts within a 25 km vicinity of the focal firm for 2010 categorised into quartiles with the headings 'low' (1–4 firms), 'low–medium' (5–27 firms), 'medium' (28–175 firms) and 'high' concentrations (176 or more Japanese firms located within 25 km of the focal Japanese firm). Charted against NUTS 1 geographies, this agglomeration measure reveals substantial differences in firm concentrations. The NUTS 1 regions of the East of England, London and South East of England record the highest share of firm agglomeration. It is here that Japanese firms exhibit a high responsiveness to prior investment cases. This is contrasted by location behaviour in the remaining geographies, where a profile of low to low–medium concentrations of Japanese firms dominates. With the exception of the West Midlands region (which exhibits some high concentration levels), prior investment cases seem to be a less decisive location determinant in these areas. These effects of variations in prior Japanese investment suggest perpetuating and self-reinforcing agglomeration trajectories resulting in an emergent core (broadly in the South of England) and peripheral geographies. This strong geographic concentration highlights a robust and enduring proclivity among Japanese firm to co-locate. Year-by-year comparison of the frequency distribution across NUTS 1 regions confirms the propensity to agglomerate. Consecutive chi-square tests reveal no significant differences between the respective years, firmly establishing the stability of gravitation effects of Japanese investment patterns over time. While some de-agglomeration took place during the 1990s, this is outweighed by a strong tendency towards concentrated investment in the southern core regions of the UK.

Table 5. Japanese Firm Concentration by NUTS 1 Region of the UK (% of all Japanese firms in 2010)

	Low	Low-Medium	Medium	High
North East	42.5	50.0	7.5	0
North West	39.7	55.6	4.8	0
Yorkshire and Humber	69.0	31.0	0	0
East Midlands	48.2	50.0	1.8	0
West Midlands	50.7	47.9	0	1.4
East of England	37.9	41.7	17.5	2.9
London	2.4	11.7	37.3	48.6
South East	27.4	40.4	29.6	2.5
South West	68.8	31.3	0	0
Wales	52.8	47.2	0	0
Scotland	71.1	28.9	0	0
Total (N)	353	427	401	394

Notes: Concentration is calculated as the number of Japanese firms within a 25 km vicinity of the focal Japanese firm, where 'low' is 1 to 4, 'low-medium' is 5 to 27, 'medium' is 28 to 175, and 'high' is 176 or more.

Subsequent analysis reveals considerable fluctuations in firm investments and exits. Table 6 presents the geographic distribution of total exits between 1991 and 2010 (at the NUTS 1 level). At the most general level, Japanese firms withdrew from all UK regions, with the majority of firm exits occurring in London and the South East. When focussing on the investment shifts since 2003 (the peak of Japanese firm presence) we observe that substantial exits have been balanced by new investments. However, the net deceleration of investment activities indicates not only that many Japanese firms indeed withdrew, but simultaneously that fewer Japanese companies found their way to the UK. As these developments are concentrated in the same regions, there seems to have been little effect on their regional dominance as investment destinations. This finding hints at high Japanese firm turnover rates and potentially short investment lifecycles. The net loss ratio (i.e. the share of firm exits and new investment cases vis-à-vis overall investment cases in 2003) confirms the regional reconfiguration of Japanese investment. The NUTS 1 areas particularly affected by the withdrawal of Japanese firms since 2003 are Scotland, Wales and the North East.

6. Discussion

Two recurrent themes of JMNE behaviour – agglomerative behaviour and responsiveness to regional industrial policy – help us to explore contemporary Japanese sub-national engagement in the UK. Our analysis points towards the need to recalibrate some of the commonly held assumptions about the modus operandi of JMNEs in the UK. As we have seen, the vast majority of academic research argues for the positive effects of regional policies, most notably in South Wales, Scotland and the North of England. It has been widely asserted that government incentives contributed to the channelling of Japanese investment towards specific regions of the UK. Our analysis shows that Japanese firms continue and have even expanded their presence in these regions throughout the 1990s, reflecting a largely similar location profile to the 1980s.⁶⁷ However, we note that most recent data point towards a thinning out of JMNEs in these areas. Set in the context of overall downgrading of the industrialised countries as attractive investment destinations by Japanese firms, these regions of the UK seem unable to attract further Japanese investment. In what could be described as an inverse of the ‘follow-the-leader’ concept,

Table 6. Japanese Exit and Investment Cases by NUTS 1 Region of the UK (% , 1991-2010)

	Total Exits (%)	Exits since 2003 (%)	Investment Cases since 2003 (%)	Net Loss Ratio since 2003 (%)
North East	1.9	2.5	0	-30.6
North West	2.3	1.1	3.6	0
Yorkshire and Humber	1.9	1.9	1.5	-23.8
East Midlands	2.7	2.0	2.9	-11.9
West Midlands	3.8	3.9	5.1	-18.5
East of England	5.2	5.2	8.0	-15.8
London	55.4	53.1	56.9	-7.9
South East	16.6	19.3	16.1	-27.8
South West	2.5	2.9	2.9	-22.5
Wales	3.7	4.1	0.7	-39.5
Scotland	3.8	4.3	2.2	-45.7
Total (N)	729	441	137	-25.7

the motivations driving exit strategies and the impact of exits on remaining and new investors deserve future academic attention. Considering the economic importance attributed to inward investment, the overall flexibility, fluidity and ‘looseness’ of Japanese engagement in the UK highlights a distinct knowledge gap on inherent investment volatility in the industrialised countries.

In the context of recent influx and efflux, the geographic expansion of Japanese firms should have resulted in de-agglomeration effects and therefore in more balanced regional investment patterns. Yet we observe significant gravitation effects towards southern England throughout our research timeframe (1991 to 2010). Despite intermittent expansion in the peripheral regions, this investment polarisation is strong and persistent. Based on the substantial flux of investment and divestment cases the answer to Proposition 2 is affirmative: we find compelling evidence that agglomeration economies continue to dictate much of the location behaviour of JMNEs in the UK. In other words, Japanese firms continue to follow an agglomeration trajectory. Moreover, **this agglomerative behaviour seems largely to override financial subsidy policies and institutional openness (confirming Proposition 1)**. The long-term trends of unchanging geographies of agglomeration in the UK place similar findings from JMNE behaviour in transitional economies into perspective.⁶⁸ Given the apparently persistent gravitation effects, the history of the sub-national distribution of Japanese firms over time emphasises once again the well-documented importance of early investments as anchor points and as a signal to future investors. Interestingly, these effects ‘survive’ substantial fluctuations in firm presence. **For traditional recipients of FDI, such as the UK, this may mean readjustment to intensified location competition and careful monitoring of the long-term effectiveness of industrial policy programmes**, particularly if aimed at geographical balancing, conversion and integration.

Our results throw an important light onto **how Japanese firms’ responsiveness to financial incentives is evolving**. Location strategies have been shown to vary in breadth and depth, and responsiveness to business support schemes changes over time. Our data lend evidence to immanent heterogeneities in Japanese firm responses to government support schemes. The analysis of our most pertinent question – **the interplay between industrial policy and location behaviour** – has produced mixed results. Based on our data exploration, there is little unanimous evidence of the often cited ‘success stories’ of Assisted Area schemes. Hence, Proposition 1 is supported. Investment geographies of the most recent time frames cannot reproduce earlier findings that attest to the success of Development Areas in attracting Japanese investment. Instead, **our data indicate that over the latest time periods (namely 1993–99, 2000–06 and 2007–13) Japanese firms have responded to the availability of financial incentives differentially over time**. Besides the notorious elusiveness of establishing relationships between investment and spill-over effects, it would be short-sighted to conclude that there exists a consistent Japanese strategy at the sub-national level. **Our findings indicate that, in the case of the UK, the facilitating role of the sub-national institutional framework and financial incentive schemes have become ever more negligible**. Rather than serving as a ‘lubricant’ and catalyst of sub-national location choice, these incentive schemes seem to serve rather as an investment disincentive for JMNEs. **One interpretation is that JMNEs have learned to distinguish between institutional openness to FDI at a national level, and incentive schemes directed towards the revival of economically disadvantaged regions at a sub-national one**. To ensure the long-term success of business support and investment promotion schemes, **policy-makers in the UK (and elsewhere) must be cognisant of the need to align industrial policy and investment incentives to the evolving requirements of investor firms**, especially JMNEs.

Notes

1. Blomström and Kokko, "Multinational Corporations and Spillovers," 247–277; Markusen and Venables, "Foreign Direct Investment," 335–356.
2. Vogel, *Japan as Number 1*, 225–256; Buckley and Mirza, "The Wit and Wisdom of Japanese Management," 16–32.
3. Buckley and Casson, *The Future of the Multinational Enterprise*; Hymer, *The International Operations of Firms*; Kojima, "A Macroeconomic Approach to Foreign Direct Investment," 1–21.
4. Anderson, "Europe 1992," 1539–1551; Chadee and Crow, "Impacts of Currency Fluctuations," 40–52.
5. Abo, *Japanese Hybrid Factories*, 1–35; Head, Ries, and Swenson, "Agglomeration Benefits and Location Choice," 223–247; Mody, Dasgupta, and Sinha, "Japanese Multinationals in Asia," 149–164.
6. Johansson and Yip, "Exploiting Globalization Potential," 579–601; Anand and Delios, "How Japanese MNCs," 50–62.
7. Czinkota and Kotabe, "Product Development the Japanese Way," 31–36; Delios and Beamish, "Regional and Global Strategies," 19–36; Head and Mayer, "Market Potential," 959–972; Iwasa and Odagiri, "Overseas R&D," 807–828.
8. Nguyen, *Japanese Manufacturing Investment*, 25–50; Morris, "The Who, Why and Where," 31–40; Aaron, *The Political Economy*, 45–65; Hill and Munday, "The Determinants of Inward Investment," 1761–1769; Sadler, "The Geographies of Just-In-Time," 41–59; Taylor, "An Analysis of the Factors," 1209–1224.
9. Dunning, *Japanese Participation in British Industry*, 84–152; Elger and Smith, "Exit, Voice and 'Mandate'," 185–207; Strange, *Japanese Manufacturing Investment in Europe*; Garrahan, "Nissan in the North East of England," 5–13; Stewart, "Out of Chaos Comes Order," 213–223.
10. Dicken, "Japanese Industrial Investment in the UK," 351–354; Hood and Truijens, "European Location Decisions," 39–63; Morgan and Sawyer, "A Modern Industry in a Mature Region," 383–403.
11. Nitsch, Beamish, and Makino, "Entry Mode and Performance," 27–43; Balasubramanyam and Greenway, "Economic Integration and Foreign Direct Investment," 175–193; Ford and Strange, "Where do Japanese Manufacturing Firms," 117–139; Mayer and Mucchielli, "Strategic Location Behaviour," 131–167.
12. Belderbos and Carree, "The Location of Japanese Investments," 194–211; Cassidy and Andreosso-O'Callaghan, "Spatial Determinants of Japanese FDI," 512–527; Delios and Henisz, "Policy Uncertainty," 227–241; Horn, Forsans, and Cross, "The Strategies of Japanese Firms," 341–378.
13. Tôyô Keizai, *Kaigai Shinshutsu Kigyô Sôran*.
14. UNCTAD, *UNCTADStat, Investment Database*.
15. Ibid.
16. UKTI, *UK Inward Investment Report 09/10*.
17. Belderbos and Zhou, "Foreign Investment, Divestment and Relocation," 1–27.
18. Morris, "The Who, Why and Where," 31–40.
19. JBIC, *Survey Report on Overseas Business Operations by Japanese Manufacturing Companies*. Various years. See: http://www.jbic.go.jp/en/about/press/2011/1202-01/English_120214.pdf.
20. UKTI, *UK Inward Investment Report 09/10*.
21. Borrus, Ernst, and Haggard, *International Production Networks*, 79–107; Brenton, Di Mauro, and Luecke, "Economic Integration and FDI," 95–121; Cieslik and Ryan, "Explaining Japanese Direct Investment," 12–37; Delios and Henisz, "Japanese Firms' Investment Strategies," 305–323; Farrell, *Japanese Investment in the World Economy*, 3–25.
22. Lazonick, "The Japanese Economy and Corporate Reform," 607–633; Matsuura *et al.*, "Institutional Restructuring in the Japanese Economy," 999–1022.
23. Morgan *et al.*, "The Future of Japanese Manufacturing," 1023–1044.
24. Chang, "International Expansion Strategy," 383–407; Nitsch, Beamish, and Makino, "Entry Mode and Performance," 27–43; Ackroyd *et al.*, "The Japansation of British Industry?" 11–23; Collis and Noon, "Foreign Direct Investment," 843–848; Peck, "Nissan in the North East," 354–357; Turnbull, "The Limits of 'Japansation'," 7–20; Young, Hood, and Peters, "Multinational Enterprises," 657–677.

25. Caves, *Multinational Enterprise and Economic Analysis*, 1–23; Buckley and Casson, *The Future of the Multinational Enterprise*.
26. Von Thünen, *The Isolated State*, chs 2 and 3; Weber, *Ueber den Standort der Industrien*, 1–35; Rugman and Verbeke, “A Note,” 761–771.
27. Buckley and Horn, “Japanese Multinational Enterprises,” 495–517; Dicken, *Global Shift*, 24–47; Gereffi and Korzeniewicz, *Commodity Chains and Global Capitalism*.
28. Caves, *Multinational Enterprise and Economic Analysis*, 1–23; Kogut, “Foreign Direct Investment,” 38–56; Vernon, “The Location of Economic Activity,” 89–114.
29. Hirsch, “An International Trade,” 258–270; Prescott and Vissher, “Sequential Location,” 378–393.
30. Collinson and Rugman, “The Regional Nature of Japanese Multinational Business,” 215–230; Vernon, “The Location of Economic Activity,” 89–114; Wells, *The Product Life Cycle*; Dunning and Lundan, *Multinational Enterprises*, 116–144.
31. Cantwell and Iammarino, “Multinational Corporations,” 317–332, Buckley, Devinney, and Louviere, “Do Managers Behave?” 1069–1094.
32. Coughlin, Terza, and Arromdee, “State Characteristics,” 675–683; Friedman, Gerlowski, and Silberman, “What Attracts Foreign Multinational Corporations?” 403–418.
33. E.g. Belderbos, Capannelli, and Fukao, “Backward Vertical Linkages,” 189–208; Delios and Henisz, “Japanese Firms’ Investment Strategies,” 305–323; Ford and Strange, “Where do Japanese Manufacturing Firms?” 117–139; Wakasugi, “The Effects of Chinese Regional Conditions,” 390–407.
34. Abegglen and Stalk, *Kaisha*; Aoki, “Towards an Economic Model,” 1–27; Aoki, “The Japanese Firm,” 11–40; Lincoln, Hanada, and McBride, “Organizational Structures,” 338–364; Nonaka and Takeuchi, *The Knowledge Creating Company*, 20–55.
35. Belderbos and Carree, “The Location of Japanese Investments,” 194–211; Delios and Henisz, “Policy Uncertainty,” 227–241; Ford and Strange, “Where do Japanese Manufacturing Firms?” 117–139; Head, Ries, and Swenson, “Agglomeration Benefits and Location Choice,” 223–247; Maskin, “Long-Term Investment,” 249–254; Nicholas, Purcell, and Gray, “Regional Clusters,” 395–405; Wakasugi, “The Effects,” 390–407; Yamawaki, “The Location,” 157–173.
36. Anand and Delios, “How Japanese MNCs,” 50–62; Belderbos, Capannelli, and Fukao, “Backward Vertical Linkages,” 189–208; D’Costa, “The Restructuring of the Indian Automobile Industry,” 485–502; Horn, Forsans, and Cross, “The Strategies of Japanese Firms,” 341–378.
37. Morgan *et al.*, “The Future of Japanese Manufacturing,” 1023–1044.
38. Meyer and Nguyen, “Foreign Investment Strategies,” 63–93; Nicholas, Purcell, and Gray, “Regional Clusters,” 395–405.
39. Taylor, Zou, and Osland, “Foreign Market Entry,” 146–163; Wakasugi, “The Effects,” 390–407.
40. Belderbos and Carree, “The Location of Japanese Investments,” 194–211; Head and Ries, “Inter-City Competition,” 38–60.
41. Belderbos, Capannelli, and Fukao, “Backward Vertical Linkages,” 189–208; Delios and Keeley, “Japanese Foreign Direct Investment,” 91–118; Friedman, Gerlowski, and Silberman, “What Attracts Foreign Multinational Corporations?” 403–418; Hill and Munday, “The Determinants of Inward Investment,” 1761–1769; Mody, Dasgupta, and Sinha, “Japanese Multinationals in Asia,” 149–164; Wakasugi, “The Effects of Chinese Regional Conditions,” 390–407.
42. Nicholas, Purcell, and Gray, “Regional Clusters,” 395–405.
43. Dicken, “The Changing Geography,” 633–653; Hood and Truijens, “European Location Decisions,” 39–63; Hood and Young, *Multinational Investment Strategies*; Taylor, “An Analysis,” 1209–1224; Young, Hood, and Peters, “Multinational Enterprises,” 657–677.
44. Alden and Boland, *Regional Development Strategies*, 1–13; Armstrong and Taylor, *Regional Economics and Policy*, 205–231; Girma, Greenaway, and Wakelin, “Who Benefits,” 119–133; Jones and Wren, “Assessing the Regional Impact,” 1–38.
45. For detailed information see Criscuolo *et al.*, “The Effect of Industrial Policy,” 4–9.
46. European Commission, *Structural Funds Regulation 2007–2013*.
47. Dicken, “The Changing Geography,” 633–653; Nguyen, *Japanese Manufacturing Investment*, 25–50; Taylor, “An Analysis,” 1209–1224.

48. Criscuolo *et al.*, "The Effect of Industrial Policy," 4–9; Driffield, "Regional Policy," 579–594; Driffield and Love, "Who Gains from Whom?" 663–686; Jones and Wren, "Assessing the Regional Impact," 1–38; Swales, "The Ex Post Evaluation," 859–865.
49. Matanle, "Forty Years On," 431–449; Morgan *et al.*, "The Future of Japanese Manufacturing," 1023–1044.
50. Buckley, Horn, and Cross, "Japanese Production Networks," 657–688.
51. Belderbos and Carree, "The Location of Japanese Investments," 194–211; Cheng and Stough, "Location Decisions," 369–387; Wakasugi, "The Effects," 390–407.
52. Bobonis and Shatz, "Agglomeration, Adjustment and State Policies," 30–43; Boudier-Bensebaa, "Agglomeration Economies and Location Choice," 605–628; Crozet, Mayer, and Mucchielli, "How do Firms Agglomerate?," 27–54.
53. Feldman, "The New Economics," 5–25; Fujita and Thisse, *Economics of Agglomeration*.
54. Aoki, "Towards an Economic Model," 1–27; Aoki, "The Japanese Firm," 11–40
55. Belderbos and Carree, "The Location of Japanese Investments," 194–211.
56. Abo, *Japanese Hybrid Factories*, 1–35; Belderbos, Capannelli, and Fukao, "Backward Vertical Linkages," 189–208; Ford and Strange, "Where do Japanese Manufacturing Firms?" 117–139; Fukao and Wei, "How do the Location?" 1–45; Horn, Forsans, and Cross, "The Strategies of Japanese Firms," 341–378; Kranias, 2000; Mody, Dasgupta, and Sinha, "Japanese Multinationals in Asia"; Ozawa, "International Investment and Industrial Structure," 72–89; Wakasugi, "The Effects of Chinese Regional Conditions," 390–407.
57. Balasubramanyam and Greenway, "Economic Integration and Foreign Direct Investment," 175–193; Barrell and Pain, "Trade Restraints and Japanese Direct Investment Flows," 29–45; Dicken, "The Changing Geography," 633–653.
58. Jones and North, "Japanese Motor Industry Transplants," 105–123; Sadler, *The Global Region*.
59. Dicken, "The Changing Geography," 633–653; Dunning, *Japanese Participation in British Industry*; Hill and Munday, "The UK Regional Distribution," 535–544; Jones and North, "Japanese Motor Industry Transplants," 105–123; Morgan and Sawyer, "A Modern Industry in a Mature Region," 383–403; Morgan *et al.*, "The Future of Japanese Manufacturing," 1023–1044; Morris, "Industrial Restructuring," 205–224; Morris, "The Who, Why and Where," 31–40; Strange, "Japanese Manufacturing Investment in the UK," 385–412; Sadler, "The Geographies of Just-In-Time," 41–59; Taylor, "An Analysis," 1209–1224; Turnbull, "The 'Japanisation' of Production," 193–206.
60. Head and Mayer, "Market Potential," 959–972; Hill and Munday, "The Determinants of Inward Investment," 1761–1769; Nguyen, *Japanese Manufacturing Investment*, 25–50; Peck, *Manufacturing Linkages in Tyne and Wear*.
61. Abegglen, *21st Century Japanese Management*, 24–55.
62. We note that FDI can take place in a number of ways, such as new plants, mergers, acquisitions, investments in existing plants, and so forth (but see Benito, "Divestment"). Unfortunately, data availability prevents us from distinguishing between these different modes of market entry.
63. UKTI, *UK Inward Investment Report 09/10*.
64. See Criscuolo *et al.*, "The Effect of Industrial Policy on Corporate Performance," 4–9.
65. Pearson's r coefficient for the years 2000: -0.303 ; 2001: -0.492 ; 2002: -0.432 ; 2003: -0.347 ; 2004: -0.462 ; 2005: -0.367 ; 2006: -0.553 ; 2007: -0.197 ; 2008: -0.335 .
66. Jones and Wren, "Assessing the Regional Impact," 1–38; Nguyen, *Japanese Manufacturing Investment*, 25–50.
67. Morris, "The Who, Why and Where," 31–40.
68. Horn, Forsans, and Cross, "The Strategies of Japanese Firms in Emerging Markets," 341–378; Buckley, Cross, and Horn, "Japanese Foreign Direct Investment," 657–688.

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