

# **Catalysts of Regional Innovation: How Foreign Firms allow New Places to Join the Global Innovation Contest**

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## **Abstract**

Innovation is highly geographically concentrated and its spatial distribution tends to remain stable over time. However, the process of technological development still opens new windows of locational opportunity for new innovation centres to emerge around the world. What makes it possible for some cities and regions to join the exclusive ‘world innovation club’? What are the fundamental differences between innovative and non-innovative regions? While the existing literature has focused its attention on internal indigenous characteristics at the national, regional or city level more limited remains the analysis of external foreign linkages and collaborations in explaining local innovation performance. Existing evidence in this regard is largely limited to case studies on individual regions or countries. This paper looks at the regions of the entire world in order to estimate the impact of Foreign Direct Investment on the innovation performance of the host cities and regions. Using US patent data over nearly four decades (1975-2012), this paper contributes to the existing literature in four ways. It first suggests an estimate of the impact of the internationalisation of economic activity on local innovation. Second, this paper shows that this impact occurs through two channels: knowledge flows to domestic firms and the attraction of new foreign firms in the region. Third, foreign top-innovation multinationals have a significantly smaller impact on local innovation than other multinationals. Finally, we show that knowledge flows to local firms are smaller when regions host top-innovator MNEs. Conversely, relatively less innovative foreign multinationals show the strongest impact.

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