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State accumulation projects and inward investment regimes strategies

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Introduction

Localities face challenges attracting Multinational Enterprise (MNE) investment. Power asymmetries favouring MNEs, increasing competition for FDI and its greater governance complexity, can lead to problems maximizing spillovers and the corporate capture of domestic institutions (Phelps and Fuller 2000; Phelps and Wood, 2006; Coffey and Tomlinson, 2006; Phelps, 2008; Christopherson and Clark, 2009; Almond et al, 2014; Driffield et al 2015). Recently, research has also stressed how local Inward Investment Regimes (IIRs) ‘translate’ MNE investment and influence cluster spillovers (Phelps and Wood, 2006; Driffield et al, 2015).

Drawing on the above literature and Jessop (2015) and Smith (2015), we examine the Canadian case and address four related themes. The first is how institutionalized compromises underlying state accumulation projects shape IIRs, via the state (i) strategically selecting key MNE value chain segments; (ii) developing policies to maximize FDI spillovers, and (iii) selecting and empowering IIR participants. In Canada the federal government remains a significant actor, but we argue that Ontario and Quebec contrasting competition and developmental state projects¹ have attracted new technology FDI, while renewing investment in more traditional automotive and metal transformation segments.

In our second theme, we examine how state projects embed local IIR actors and institutional experimentation. In Kitchener-Waterloo (K-W), Ontario and Saguenay-Lac Saint Jean (Saguenay), Quebec, local experimentation has produced dense private and public networks working with provincial and federal governments to attract and retain MNE investment around distinct clusters which include domestic firms. However, because of the

sovereignty project's institutionalized social compromises, the Quebec developmental state (QDS) is more empowering of labour in IIR coalitions and has stronger levers to maximize FDI spillovers than Ontario's more business-led competition state (OCS). Yet as we stress in our third and fourth themes respectively, both cases reveal the limits of state projects and local experimentation. Multi-level governance has complicated Canadian FDI attraction and aftercare, with state projects confronting power asymmetries *vis a vis* MNEs. Finally, local institutional experimentation had only mixed impacts on MNE attraction and retention, while the weakening/takeover of domestic champions is reducing spillover policy effectiveness.

FDI, Inward Investment Regimes and State Accumulation Projects

As global investment regimes become more liberalized, the role of FDI in fostering national and local competitive advantage through technology and knowledge spillovers, has been increasingly stressed (UNCTAD, 2007; Dicken, 2011). However, as Driffield et al (2015, 32) emphasize, "there is a clear distinction between maximizing inward investment and maximizing its benefits" (see also Phelps and Fuller, 2000; Phelps, 2008). FDI projects with high levels of technology transfer typically do not create significant employment, whilst the latter feature relatively little technology transfer (Driffield et al, 2015). Two thirds of FDI involves merger and acquisitions (M+A),² generating concerns over the 'hollowing out' of formerly domestic firms (Murray et al 2014). Furthermore, shortening cycles of investment have increased the importance of FDI aftercare (Phelps and Fuller, 2000; Driffield et al, 2015).

A central issue is tensions between MNEs internalization strategies and state policies maximizing FDI spillovers (Phelps, 2008). Thus, FDI 'global pipelines' can stimulate clusters (Bathelt et al, 2004). MNEs can increase skilled labour stock, while regional institutions supporting training, learning and positive labour relations can reduce MNE 'regime shopping' (Almond et al, 2014). Yet, FDI can also undermine clusters by internalizing local assets (Rutherford and Holmes, 2008; Phelps, 2008). Excessive technological uniformity increasing regional vulnerability (Cowling and Tomlinson, 2011, 16) and 'strategic splitting' strategies playing-off workers in different locations, can also occur (Coffey and Tomlinson, 2006). MNE can also 'capture' labour market institutions and 'poach' skilled workers from local firms (Phelps and Wood, 2006; Almond et al, 2014, 251). Few regions can manage MNEs' 'high road' and 'low road' strategies and thus risk disinvestment and job loss (Christopherson and Clark 2009, 4; MacKinnon, 2012, 231).

Researchers are thus paying greater attention to how state policies influence FDI spillovers (Coe et al, 2004; Coe and Yeung, 2015; Phelps, 2008; Driffield et al, 2015). In the Global Production Networks (GPN) approach, FDI occurs via 'strategic coupling' (Coe and Yeung, 2015, 221-222), with regional state policies attracting GPNs by providing conditions for the creation, enhancement and capture of value (Coe et al., 2004; Coe and Yeung, 2015, 215). The GPN approach is paying greater attention to the state (see Smith, 2015), but it is principally firm-focused and its policy prescriptions remain narrowly mainstream (see Coe and Yeung, 2015, 222). Nor does the GPN approach fully recognize what Mackinnon (2012) terms the 'dark side' of strategic coupling, including corporate capture of regional institutions and the negative impacts of corporate restructuring, stemming from power asymmetries favouring MNEs.

An alternative approach is the Inward Investment Regime (IIR) (see Phelps and Wood, 2006). This stresses how subnational political coalitions mediate FDI and MNE power is ‘translated’ by the coincidence and conflict of different actor interests (Phelps and Wood, 2006, 495). This reflects two factors. Firstly, MNE subsidiary autonomy *vis-a-vis* IIRs varies, allowing managers to make alliances with local actors (see Almond et al, 2014). Secondly, increasing convergences in state and private management practice contribute to local rule bending to obtain and maintain FDI. Thus IIR governance varies considerably and, given shortening FDI life-cycles, is in frequent reformation (Phelps and Wood, 2006, 511).

The IIR approach rightly recognizes FDI as a multi-scalar, politically constituted process, but it does not fully account for wider state policies. Thus we draw upon Jessop’s (2015) strategic relational approach as part of state accumulation strategies (see also Smith, 2015). Strategies are driven by both accumulation and political projects which are strategically selective of groups and places and ‘set the rules’ under which IIRs compete for investment. Moreover, the “configuration of social forces underpinning state support for particular policy directions” (Smith, 2015, 299), are highly differentiated (Jessop, 2015, 480), path-dependent and are subject to ongoing political debate.

The state thus actively selects different global value chain segments, chooses policies to maximize FDI spillovers and empowers and adjudicates between different IIR actors. Yet this leads to three major challenges for the state: first, to make policy instruments sophisticated enough to distinguish between different investors and produce desired results in specific locations (Driffield et al 2015, 332); second, to select and co-ordinate the IIR actors participating at different scales; third, to manage debate on state policy and, potentially, crises regarding institutionalized social compromises (Jessop, 2015).

These challenges are reflected in the post-2008-09 crisis revival of industrial policy (Cowling and Tomlinson, 2011). The state increasingly targets high value functional segments such as R+D to better integrate them into national technology strategies (Cowling and Tomlinson, 2011) and regional ‘smart specialization’ policies (Radovsevic and Ciampi, 2015). The latter are also linked to the growing importance of local economic governance (Driffield et al, 2015, 339). Local “creative incoherences” exist within national systems (Crouch et al, 2009, 674), facilitating experimentation (Kristensen and Morgan, 2012) and ‘recombinations’ of existing institutions promoting new growth paths (MacKinnon, 2012, 233). Localized ‘soft industrial policy’ is viewed as better enhancing FDI impacts on cluster innovation and productivity (Warwick, 2013, 21), but Phelps and Fuller (2000, 229) argue that local policy initiatives “have little bearing on the quality of mobile investment ... in comparison to general supply side factors such as labor skills”. The EU and NAFTA use value-added regulations to localize sourcing (Dicken, 2011), yet MNE follow-sourcing strategies can by-pass local associative initiatives and domestic suppliers.

To best promote regional recombinations from FDI, interventionist state policies combining FDI aftercare with support for strong domestic firms in clusters has been emphasized (UNCTAD, 2007; Phelps, 2008; Driffield et al, 2015). Public procurement and technology transfer policies supporting domestic suppliers’ innovative capacity can assist MNE’s secure higher value production mandates (Humphrey and Schmitz, 2002; Warwick, 2013), while public intervention into local labour markets can also promote lower skilled worker inclusion and reduce skilled worker poaching. (Bailey and Driffield, 2007). Yet such state policies, are subject both to how liberalization favours MNEs and to ‘government failure’, including rent seeking behaviour by inward investors and other actors (Warwick,

2013, 23). Moreover, state projects can confront IIR "governance difficulties", stemming from the increasing numbers of state and non-state actors operating across multiple scales.

These insights/debates, open up four related themes underlying our Canadian case studies: first, is the importance of institutionalized compromises underlying state projects to policies to attract/retain FDI; second, how can state projects embed IIR experimentation to maximize FDI spillovers; third, what are the limits of state projects *vis a vis* MNE internalization strategies and finally, what are the limits local institutional experimentation.

Methodology

Our study entailed 66 interviews --45 in Quebec and 21 in Ontario. We interviewed MNC managers (n = 13), unions (n=10), government representatives (n=21), economic development agencies (n = 14) and employer associations, local technology incubators and other promotion agencies (n = 8). We focused principally on provincial institutions and actors; and one sub-region in each province, Kitchener-Waterloo (K-W), Ontario and Saguenay, Quebec (see Map One). These sub-regions were chosen because they have been (i) highly successful in attracting FDI (ii) highlight differences between the two provinces (iii) illustrate how regional and sub-regional actors shape their IIR regimes and (iv) have significant clusters in which there is a large Canadian, or recently Canadian owned, MNE (see Table One). Semi-structured interviews were taped and transcribed. No software applications were used, but interviews were analyzed for network formation, key actors, governance and power asymmetries. Our snowball sample introduced biases and respondent views expressed subjective perceptions. Since our study examines how social

compromises institutionalized in state projects underlie IIRs, it is less focused on the specific policy effects.

Table one about here

Canada in Perspective

Canada has long been reliant upon inward investment (Jenson, 1989). National Policy tariffs attracted US branch plants, with Southern Ontario receiving higher value added FDI especially in the automotive industry, whereas Quebec drew more labour-intensive textile investment and primary extractive industries. With free trade agreements with the United States (the FTA in 1988) and with Mexico (NAFTA in 1994), Ontario and Quebec moved from branch plants towards securing MNE North American or global product mandates (Belanger et al, 2013). This restructuring and rise of the Quebec sovereignty movement was accompanied by increasingly shared federal-provincial powers, including FDI attraction and immigration (Atkinson, et al, 2012). Nonetheless, the federal government continues to have important strategic capacity stemming from its “enduring fiscal and spending power” (Atkinson et al, 2012 155; Haddow, 2015). Indeed, to attract manufacturing FDI the federal government has made Canada the first G-20 nation to be a nation-wide free trade zone (Silverman and Beauchamp, 2015).

The Canadian federal state thus remains a critical IIR actor. Its Invest in Canada Bureau of the Department of Foreign Affairs and International Trade, mobilizes 170 agents located in 21 key markets and focuses on skill intensive sub-sectors, most notably in aerospace, business and financial services, ICT and life sciences, (UNCTAD, 2011, 9). Canada also exploits its NAFTA membership to negotiate bilateral agreements with European and

Asian partners. For Federal officials, “Canada... is an innovation-based economy. We’re not looking to attract low-level manufacturing and resource extraction jobs...” (25-02-2015). However, IIR governance is complicated by multiple federal economic development agencies including FEDDEV for Southern Ontario, which use grants and loans to private firms (18-02-2015). Furthermore, programs are subject to political lobbying, while overlapping FDI responsibilities between federal, provincial and local governments lead to “a lot of ownership issues” (Ontario official, 17-02-2015).

The federal government thus plays a critical role in shaping Ontario and Quebec IIRs. In 2012 Ontario was the North American leader in FDI investment projects per capita, however Canada’s overall share of global FDI is declining. Moreover, Ontario and Quebec’s Canadian share of greenfield investment has fallen since 2000 (Conference Board of Canada, 2014). FDI competition is intensifying for key Quebec sectors such as aerospace and aluminium transformation and Ontario’s share of NAFTA investment in the critical auto industry has fallen considerably since 2005 (Rutherford and Holmes, 2014). These trends further intensify pressures on regional and sub-regional actors in IIRs.

Ontario

The Provincial Accumulation Project and FDI policies

Between 1985-1995 Liberal/NDP governments in Ontario promoted a ‘progressive competitive’ strategy (Bradford, 1998; Haddow, 2015), emphasizing labour-business collective learning and investments in (i) post-secondary education, (ii) Ontario Centres of Excellence (OCE) promoting university-industry linkages and technology transfer, and (iii) sectoral partnership funds developing firm co-operation in high value added ICT sectors

(Wolfe and Gertler, 2001). Some initiatives, such as union-management training boards ended under the neoliberal Harris Conservative government (1995-2003), reinforcing Ontario's competition state 'voluntarist' training regime deferential to managerial prerogatives (Bradford, 1998). Nonetheless, a high skilled – high value added economy emphasis has remained (Wolfe, 2010), reflecting an institutionalized social compromise recognizing the state's role underwriting innovation, especially in manufacturing and high-tech oriented Southern Ontario (see Ontario Chamber of Commerce/Mowat Centre for Policy Innovation, 2012).

One of Ontario's major FDI attraction policies is that combined federal-provincial corporate tax rates are 13% below the United States average (Financial Times FDI intelligence, 2013). Canada, Ontario and Quebec also aggressively underwrite R+D costs, which are over 10 per cent lower than in the United States (Hill et al, 2013, 17). The key Ontario FDI attraction agency is the Ministry of Economic Development and Growth (MEDG) which has offices mostly in the US, Japan and Germany. The MEDG viewed Ontario's greatest FDI challenges as "moving Ontario from being here to attract call centres to securing our place in the global supply chain" (MEDG official 30-6-2011). However, Ontario still lacks visibility even for automotive MNEs. Thus, "many global OEMs are unaware of what Canada does – we had to convince BMW that we have critical suppliers here" (Auto Parts Manufacturing Association official, 18-12-2013).

Such challenges are partially offset by Ontario's talent advantage stemming from a strong public education system and skilled immigrant policies which attract knowledge intensive FDI. Thus 57 percent of Canadians have a tertiary education compared to the

OECD average of 39 per cent (OECD, 2015). In Southern Ontario talent is concentrated in leading universities and government research labs with the province also using subsidies to create R+D hubs around MNEs CISCO and UBISOFT (MEDG, 19-02-2015), while in Ottawa, federal photonics research labs secured Alcatel-Lucent's global design mandate (NRC, 25-02-2015). In terms of immigration policy, one R&D manager noted that US immigration policy was so restrictive that it was more advantageous to recruit skilled candidates to their Canadian operations where immigration was more easily negotiated (25-02-2015).

Ontario FDI aftercare policies include R+D collaboration between MNEs and universities via the OCE to win new global mandates. They also involved provincial and FEDDEV financial incentives to assist new investments for the Ford Oakville assembly plant and a \$200 million IBM Southern Ontario Smart Computing Innovation Platform (SOSCIP) (OCE official 17-02-2015). Ontario extensively evaluates FDI projects: for some government ministries a primary measure was employment creation (OCE respondents, 17-02-2015); ICT R+D attraction was also linked to the retention of university graduates in the province (MEDG, 19-02-2015).

Kitchener-Waterloo

Main IIR Governance Actors

The Kitchener-Waterloo (K-W) region located 100 km west of Toronto, has a strong collaborative history of industrial development with a distinctive civic capital (Wolfe, 2010). These support both high tech and more traditional manufacturing clusters centring on the automotive industry led by Toyota, with each having approximately 20,000 employees (Bathelt, et al, 2013; Vinodrai, 2016). The University of Waterloo and its co-op program

were instrumental in the development of a high tech cluster. By the early 2000s the emergence of the domestic IT champion Blackberry, made the region one of the fastest growing in Canada.

Underwritten by the federal and Ontario governments, the region is an agent of institutional experimentation (Wolfe, 2010). The Waterloo Region Economic Development Corporation (WREDC) established in 1987 co-ordinates regional responses to FDI opportunities, including land assembly and infrastructure. Communitech which is part of the OCE and was founded in 1997, supports high tech entrepreneurship, in particular by mentoring and infrastructure provision. K-W now has 1,100 start-ups- the second-highest concentration in the world (Compass, 2015).

The WREDC uses foreign missions and relationship building with local MNE managers to create “an eco-system of support”. Investor awareness of K-W means that the WRED is often involved in MNE attraction before federal and provincial officials (WRED official, 28-6-2011). One Ontario official stated: “... the WREDC are involved in investment attraction – sometimes they in the forefront, sometimes us, [but they] –are much better than other regional bodies” (MEDG official 30-6-2011). Communitech and the WREDC also engage in aftercare to secure additional MNE investment and mobilizing local government and higher educational institutions if firms are considering leaving the region.

Communitech’s strategy emphasizes ‘creating fantastic start-ups’ attracting talent and raising capital (Communitech official, 30-5-2013). Communitech also stresses network formation, based on a hybrid ‘collaborative capitalism’ in which “Proximity is critical –we promote lots of informal conveying to ‘create collisions’ and connect hubs” (Communitech

official 30-5-2013). Communitech is a major reason the region has attracted MNEs such as Google and General Motors. One official stated: "Communitech is a huge draw. They have great resources so they are a great partner to pull in...a foreign direct investment opportunity in the tech sector" (MEDG K-W, 19-02-2015). Communitech is also a publicity hub for politicians- a fact that local IIR actors exploit adroitly (see Dingman, 2015).

The WREDC and Communitech are heavily dependent on public funding, but are effectively private sector forums for the K-W IIR. Consistent with Ontario's competition state orientation they managed their operations like a "start-up", so they could be much more "business to business in orientation" than a government agency. However, the K-W IIR also revealed tensions. While Blackberry helped found Communitech it also aggressively protects its IP against startup spin-offs from the firm. It had also initially not joined the WREDC, since it viewed the agency as recruiting competitors for high tech talent (WREDC official 29-06-2011). The local IIR also largely excluded non-business actors (Nelles, 2014) most notably, organized labour. One local federal official stated: "We don't actively seek them [unions]...they're just not thought of as an investment vehicle for these types of companies" (Federal 18-02-2015).

Interviewed MNEs emphasized proximity to the Greater Toronto Area (GTA) and the United States, the local workforce's work ethic and links to higher educational institutions. Yet as Phelps and Fuller (2000) stress, the importance of regional collaborative networks for MNEs is not always apparent. One automotive manager stated that the WREDC is "...viewed as something of a social contribution rather than a partnership...we expect to get something out of..." (manager MNE, 28-6-2011). Moreover, the relative lack of discretion given to MNE

managers limited their interaction with local institutions (see Almond et al 2014). Almost all reported research and development was undertaken in the US and this centralization was also evident in HR strategies: “Human resources has some core values which you depart from at some peril, [such that]...the local qualities of the workforce may not be that important” (manager MNE, 28-6-2011), while another noted: “The local plant managers try to ally with the union, but ... local HR managers have no real autonomy...” (union local official, US MNE, 30-6-2011). Ontario's geographic and cultural proximity to the US, appeared to reduce subsidiary autonomy, although one manager thought that access to government programs provided a buffer from MNE head offices (automotive MNE, 17-02-2015).

Furthermore, as Christopherson and Clark (2009) argue, MNEs could also have mixed labour market impacts. Japanese MNEs were viewed as “more articulate and focused on training’ than Canadian and American firms (MEDG, official 10-12-2013). However, MNEs often poached skilled labour from other firms. One manager admitted: “We are the shark at the top of the food chain. Usually our parts suppliers are the ones losing the skilled labour...” (automotive MNE, 17-02-2015). Firms were also reluctant to access government training money because of “... the bureaucracy and also firms have to ‘open the books’ – they will only do this if they are on the verge of bankruptcy” (union official, 30-6-2011)

Restructuring has also weakened formal union apprenticeships. Skill sets were changing quickly and training was more company specific since “firms don’t want to lose good employees and employers are very mercenary” (College official, 29-6-2011). Local institutions facilitated voluntarism, arguing that ““firms should train to the level of the job,

not some arbitrary trade standard” (Training college official, 29-7-2011). Furthermore, with regard to poaching, one economic development agency manager stated, “we don’t intervene –we let the market determine this” (30-05-2013).

Challenges confronting Ontario and K-W IIRs

Underwritten by the state, Ontario and K-W IIRs exhibit successful FDI attraction and institutional experimentation, but both confront challenges. The Toronto Cisco and UBISOFT projects have yet to fulfil their R+D commitments and domestic SMEs are often unable to access technology transfer from universities (APMA, 18-12-2013; OCE, 17-02-2015). There is also excessive ‘siloeing’ of aftercare responsibilities in different provincial ministries and their multiplication at the municipal level (Municipal FDI Ontario 25-02-2015). Skilled immigrant credentials are often not recognized in Ontario (see MEDG, 30-06-2011) and their admission required a favourable ‘opinion’ from the federal government, necessitating IIR agencies to engage in ‘quiet advocacy’ if not ‘rule bending’ on behalf of firms (Kitchener respondent 30-05-2013).

The K-W IIR reflected the OCS orientation, excluded labour, was largely private sector led and as Phelps and Wood (2006) suggest, vulnerable to corporate capture. K-W is remarkably successful in generating IT start-ups, which are attracting FDI, but the former have weak linkages with the local economy (Vinodrai, 2016, 218) and as in Ontario more generally, are often purchased by MNEs (Entrevestor Intelligence, 2016). As one municipal FDI official commented:

.....[local] companies need to understand that they are going to lose control of that technology [but] quite frankly that’s no different than working with a Google or an

American, European or a Korean company. They'll steal technology just as readily as the Chinese (25-02-2015).

Furthermore, in K-W, the once strong domestic firm Blackberry is declining and limited MNE capacity to engage with IIR institutions could reduce FDI spillovers. A voluntarist Ontario policy regime also gave inadequate support to domestic SMEs and deferred to MNE internalization strategies. In contrast to Quebec below, the OCS lacks the policy tools, such as large-scale equity investment to better promote domestic firms.

Quebec

The Provincial Accumulation Project and FDI policies

Quebec's FDI policies are shaped by the state accumulation project initiated by the 1960s Quiet Revolution and the movement for sovereignty from Canada. In contrast to Ontario, this initiated a developmental state pursued by all subsequent governments, who consciously embraced industrial policy, with a high density of coordinative links favouring Quebec-based firms (Haddow, 2015). Thus Quebec recently injected a billion Canadian dollars to underwrite the development of Bombardier's new C-series range of mid-sized aircraft (Van Praet, 2015).

Critical to Quebec's industrial policy is a state-owned hydroelectric utility, Hydro Québec. HQ's long term preferential electricity rates are a major feature of FDI attraction, especially for the province's second largest export industry of aluminium and metal transformation (10.4 % of exports). One interviewee described this as "the crux of any investment decision" in the aluminium industry, especially long-term price and supply

certainty (MNE manager, 19-4-2012). Another important state agency is Investissement Québec (IQ), which facilitates investment in Quebec firms to protect jobs and industrial capacity. Like Ontario's MEDG, IQ is the point of entry for FDI but IQ's agency status gives it an advantage over the MEDG ministry structure which makes its decision making more cumbersome (Ontario ministry director, 19-2-2015). The Ministry of Employment also has a regional and sub-regional presence, while agencies such as Montreal International also attract FDI and engage in aftercare.

A critical difference between Ontario and Quebec is also a distinct "capitalized" provincial public pension fund and a special agency (the Caisse de dépôt et de placement) promoting the "accelerated" development of the province's public and private sectors. It has often made significant investments in domestic capital, notably when faced with foreign takeovers. IQ can also make equity investments in strategic projects. No other IIR agency in Canada plays a similar role, reflecting Quebec's particular compromise concerning state industrial policy in favour of domestic capital.

Finally, in contrast to Ontario, Quebec unions play a significant role because of the cross-class nature of the sovereigntist movement. Quebec has stronger supports for unionization (Bélanger and Trudeau, 2010) and in 2014 collective bargaining coverage rate was 39.6% - twelve percentage points higher than in Ontario (Labrosse, 2015). Quebec unions have entered into long-term collective agreements (Laroche, 2013), and plant-level partnerships to secure new investments. Unions are also integrated into a range of state consultation bodies (Murray and Verge, 1999; 59-104), including a tripartite body overseeing training (Commission des partenaires), and sectoral training councils. Quebec

laws also mandate larger employers to spend one per cent of their payroll on training (Charest 1999).

A significant innovation by unions is the Fonds de solidarité FTQ, founded in 1983, a pension vehicle protecting and promoting employment through risk capital financing. Their industry expertise contrasts to the ‘rent a union’ investment funds in the rest of Canada (see Lincoln, 2000). By 2015, this fund had nearly 12 billion dollars, giving Quebec a higher proportion of risk capital than the larger province of Ontario (Niosi, 2014, 177). With government agencies, the FTQ Solidarity Fund has also created sub-regional “patient capital” development funds, making labour part of a wide range of FDI coalitions and investments (union official, 29-4-2014; Solidarity Fund manager, 16-4-2012).

Saguenay

Main IIR Governance Actors

Saguenay–Lac Saint-Jean (Saguenay), is located 200 kilometres north of Quebec City. The region’s abundant hydro-electric and water resources and deep water port, have led to one the largest aluminium smelting clusters in Canada, which employs approximately 7500. The region was dominated by Alcan a domestically-owned MNE, one of the world’s largest aluminium producers, but in 2007 it was bought by the Anglo-Australian mining conglomerate Rio-Tinto.

The Saguenay region’s challenges include securing new aluminium anchor investments and developing a higher value-added, more varied industrial structure. Overall, the region has been successful in attracting the former: La Grande Baie in 1980; Laterrière in

1989; Alma in 2001; and in 2014 the Arvida AP60 aluminium smelter, but has struggled to diversify. The region's economy remains dominated by Rio Tinto whose operations are highly profitable because Alcan was allowed to maintain its' electrical generation---amongst the least expensive in the world --- when hydro nationalization occurred in 1963. Rio Tinto has also been involved in multiple regional industrial diversification initiatives, notably secondary transformation. To foster diversification the regional innovative capacity has been reinforced. Alcan's corporate industrial research centre, the CRDA was created in 1946. After a regional university was established in 1969, a research centre on aluminium was also created, and in 1993 the Centre québécois de recherché et de développement de aluminium (CQRDA) was opened. In 2004 the National Research Council of Canada, established a national research centre for the aluminium industry. However, it is unclear if these investments are generating significant spin-offs, upgrades and economic development (former MNE manager, 10-4-2015).

State industrial policy has included R&D initiatives, tax credits and long-term concessionary electricity rates. The Government designated the region the Aluminium Valley in 2000 and in 2001 established a regional economic development agency, the SVA (Société de la Vallée de l'aluminium), to promote existing firms, attract new ones and local firm internationalization strategies (Manager, Economic Development Agency, 10-4-2015). The Government's strategic clusters program (ACCORD) identified aluminium equipment suppliers and higher value added activities as the region's strategic priority (Poulin 2008). In 2013, the Government created AluQuébec, a province-wide aluminium industry stakeholders' organization to support new investments, equipment suppliers and secondary transformations.

Secondary transformation efforts however, contend with the Midwest Premium, which assumes that aluminium is delivered to and stored in Detroit (Government of Quebec, 2015: 28). Saguenay firms have pressured the state to alleviate this disadvantage (Proulx, 2011; former manager MNE, 10-4-2015; trade union official, 9-4-2015) and Quebec's Alouette aluminium smelter, distributes some of its investment return to regional firms (former manager MNE, 10-4-2015). Quebec's recent agreement with Rio Tinto on the expansion of its Arvida smelter makes a similar arrangement and its sectoral industrial policy indicates that this approach will continue "so that processors can benefit further from this proximity factor" (Government of Quebec, 2015: 26).

In contrast to Ontario, Quebec MNE subsidiary managers reported a higher degree of discretion. One stated, "Of course, there's corporate headquarters but we have a nice autonomy [but] ... we have to fight ferociously to convince headquarters to invest here rather than elsewhere." (10-4-2015) Or, as expressed by another manager, "Investment in Quebec starts from....where the management team has delivered over many years....you then negotiate a good electrical rate with long-term guarantees of our supply". (MNE manager, 19-4-2012) One factor is that metal transformation entails huge sunk costs, but one manager also noted that language (i.e. local managers are French-speaking) perhaps gave them increased autonomy (19-4-2012). Yet it was unclear whether greater local manager autonomy contributed to regional alliances or even MNE 'dynamic capabilities' (see Phelps and Fuller, 2016), since some observers feel Rio Tinto imposes its own priorities on local supplier networks (Proulx, 2011, p. 156) and its interests have shifted from economic development to public relations (former manager MNE, 10-4-2015; trade union official, 7-4-2015).

A further contrast to K-W is labour's strong presence. Union density exceeds 45 per cent, and they are important actors in Saguenay's IIR. Regional unions consistently lobby politicians and governments, arguing that Rio Tinto's highly profitable hydro-electric rates, must include investment and diversification commitments (see Syndicat des métallos 2015). Unions have also made concessions, including in 1998 a unique framework agreement with Alcan in return for the promise of new smelters (union official, 7-4-2015), but union strength is also underwritten by large sunk and low hydro electricity costs reducing firm strategic splitting options (Coffey and Tomlinson, 2006).

Thus like K-W, Saguenay's IIR governance are frequently multi-actor networks. Soccrent, created to finance start-ups and industrial diversification, was readily accomplished since Alcan, a domestic private bank, the FTQ Solidarity Fund, and a couple of regional municipal pension funds were already working together (Tremblay, 2013; trade union official, 7-4-2015). However, unlike K-W, labour is a major institutional actor with members on the SVA and unions involved in the industrial diversification fund set up between the FTQ Solidarity Fund and a municipal pension (regional economic actor, 9-4-2015). Labour leaders have promoted the worker venture capital funds and because of Quebec's tripartite training institutions, unions are important in skill development. They have thus blended their traditional militancy with strategic engagement with FDI.

Another important feature of Saguenay's IIR governance is the region's solid nationalism. It voted 69.6% in favour of the 1995 sovereignty association referendum (Gagnon and Lachapelle, 1996) and in provincial elections from 1976 to 2014, the region's five electoral ridings were won by the nationalist Parti Québécois 83.3 per cent of the time.

Key provincial and federal ministers come from the region, including two Quebec Premiers. The provincial state is sensitive to sovereigntist politics (see Government of Quebec 2015) and the federal government is similarly attentive given the National Research Council's presence and the Canada Economic Development for Quebec Regions investing in secondary transformation. Following Jessop (2015), this continuous need to manage the sovereignty issue reinforces the role of an activist state.

Challenges confronting the Quebec and the Saguenay IIRs

Institutional innovation in the Saguenay IIR is embedded in the Quebec sovereigntist project. Like K-W, Saguenay has its own distinctive 'territorial ideology' (see Phelps and Woods, 2006, 499), but is underwritten by the QDS. However, some respondents felt that the multiplicity of Quebec agencies compared negatively with the more direct access to US state governors' offices (FDI attraction consultant, 04-1-2012). More significantly, Quebec "applies far greater bureaucratic and financial resources to achieving desired outcomes" (Haddow, 2015, 264) than Ontario, but MNE restructuring is making it more difficult to maintain Quebec's FDI share. Thus in the Saguenay, the state promotes FDI spillovers, however, Saguenay still relies on anchor investments, just as MNEs are abandoning secondary transformation. Moreover, with ownership of the dominant MNE no longer in the region, the effectiveness of state policies and possible new growth paths are now more uncertain.

Table Two about here.

Discussion

This paper has addressed four central themes (see Table Two above). The first concerns how following Jessop (2015) and Smith (2015) our case studies reveal that state FDI policies are not simply an adoption of ‘best practice’, but are embedded in institutionalized and sometimes volatile social compromises. In Canada, from these have emerged federal government, QDS and ODS policies targeting key GPN value chain segments, investments in education and R+D. Especially in Ontario, skilled worker-focused immigration policies are critical to attracting ICT and other high technology firms. The QDS also uses Hydro Quebec and equity financing in FDI attraction and retention.

Moreover, linked to our second theme, state projects facilitate local IIR actors to engage in institutional experimentation and recombinations, creating possible new cluster growth paths. In K-W, state intervention and public institutions embed FDI in innovation networks around the IT startup cluster, fostered by a ‘collaborative capitalism’. In Quebec, the Saguenay seeks FDI from global metal manufacturing MNEs to anchor, upgrade and diversify its economy. However, as Phelps (2008) and Driffield et al (2015) argue, developmental states like Quebec exhibit greater willingness than competition states like Ontario, to *shape* FDI outcomes. Driven by the sovereigntist project Quebec makes strategic use of preferential electricity rates, equity financing. The Quebec state also ensures labour’s presence on the Saguenay IIR, via multipartite training councils and patient capital investments. While unions have been traditionally strong in metal manufacturing, they also has a significantly wider presence in IIR governance (on Montreal, see Tremblay et al, 2016), than Ontario unions. Similarly, Quebec subsidiary managers due partly to language, culture

and state developmental levers, seemed to enjoy a greater autonomy than their Ontario counterparts (see also Bélanger et al., 2013).

Nonetheless our third theme reveals the limits of state policies. In both cases, overlapping FDI responsibilities are complicating IIR governance, while Ontario and Quebec confront power asymmetries favouring MNE internalization strategies which conflict with enhancing domestic innovation. Thus while some studies find a positive relationship between Canadian firm R+D performance and FDI inflows and that hollowing out fears are exaggerated (Hajazi, 2010), Canada's R+D performance remains significantly below peer competitor nations (Canadian Council of Academies, 2013), with most governments reluctant to fundamentally shape MNE R+D strategies (see Smardon, 2014). As one Ontario official commented, "We [Canada] are very much a branch plant economy and the research gets done at head office. So it's tougher for us to attract research dollars if our head office for companies aren't here" (17-02-2015). Likewise, the recent 'hollowing out' of Rio-Tinto HQ in Montreal (Marowits, 2015) limits subsidiary MNE managers scope to make the case for their Saguenay operations.

Finally, as explored in our fourth theme, it was not always clear how critical local experimentation was to MNE strategies. As Davies (2011) argues, the emphasis in much research on informal networks in local governance has understated the significance of hierarchical power and material incentives. Thus, in our study traditional locational factors such as MNE access to markets, and government incentives were often more important than local associational development. Furthermore, MNEs could use their superior financial resources to poach skills from smaller local firms. In the Saguenay, Rio Tinto's purchase of

the domestic MNE Alcan has weakened Quebec's policy levers and in K-W, not only is the domestic champion Blackberry in decline, but many innovative Canadian SMEs sell their operations to foreign MNEs, which internalize start-up technology.

Conclusions

Our study makes several contributions to FDI and economic geography research. The first is that it reveals the significance of wider state projects to IIRs. Following Smith (2015), 'strategic coupling' between MNEs and regions is not only a politically mediated process, but also a more contradictory one, than suggested by the GPN approach. Secondly, while most comparative institutional analysis is typically inter-national in focus, intra-national studies especially in federal states such as Canada can be equally revealing of significant variegation in state policies and IIRs. As our cases illustrate, state policies can influence local recombinations and new development paths, but it also suggests that in the absence of more direct state shaping of firm R+D and training strategies, does not necessarily maximize positive FDI spillovers. Nonetheless, our study has limitations. Thus while suggestive of the importance of state projects the direct links between these and specific policies and IIRs needs to be explored in greater depth and future research could focus on a comparative assessment of specific policies, especially at the cluster scale. Furthermore, while we have focused on how societal compromise and state projects *shape* MNE FDI strategies, our research also reveals how the latter's power is increasingly *disruptive* of such compromises and state projects. Future research should examine how such disruption is re-shaping policies and IIR experimentation.

ENDNOTES

1. Developmental state refers to how East Asian nations used state intervention to favour domestic firms vis a vis MNEs (see Johnson, 1982), while competition states is derived from Cerny (1997) on how globalization is transforming western nation-states into more market-oriented, 'quasi-enterprise associations'. Ontario and Quebec differences should not be overstated, as the former makes substantial economic interventions, while the latter is also neoliberally inflected (Haddow, 2015).
2. In 2015 total FDI between developed economies was estimated at \$936bn with cross border M+A's worth \$643.7bn or 68.8 per cent all investment (UNCTAD, 2016).

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Region	Main Inward Investment Regime Governance Actors	Main Clusters	Main Domestic Firms	Main FDI/spillover policies	Challenges to the Provincial and Local IIR
Kitchener-Waterloo, Ontario	<p>Federal- FEDDEV/ Industry Canada</p> <p>Provincial- MEDTI/ OCE</p> <p>Regional/local- Waterloo- Region Economic Development Corporation/ Communitech</p>	Automotive, Information Technology	Blackberry	<p>Arms-length loans/grants</p> <p>Training,</p> <p>R+D</p> <p>Networking/mentoring</p>	<p>Lack of support to domestic SMEs (tech transfer +equity)</p> <p>Purchase of start-ups by foreign MNEs</p>
Saguenay, Quebec	<p>Federal- Canada Economic Development for Quebec Regions/ NRC</p> <p>Provincial- IQ</p> <p>Local/Regional SVA/Soccrent</p> <p>Syndicat des metallos</p>	Aluminium/ metal transformation	Alcan (until 2007) taken over by foreign-owned Rio Tinto	<p>Direct equity investment</p> <p>Hydro-electricity rates</p> <p>Grants</p> <p>R+D</p> <p>Training</p> <p>Networking</p>	<p>Lack of diversification</p> <p>‘Hollowing out’ by Rio Tinto</p>

TABLE ONE: PROFILE OF THE KITCHENER-WATERLOO, ONTARIO AND SAGUENAY, QUEBEC CASE STUDIES

TABLE TWO: KEY THEMES –RESEARCH FINDINGS

<p>THEME ONE: HOW SOCIETAL COMPROMISES UNDERLYING STATE PROJECTS INFORM FDI AND SPILLOVER POLICIES</p> <p>ONTARIO COMPETITION STATE (OCS) BUSINESS-GOVERNMENT ALLIANCE; VOLUNTARIST MANAGEMENT/TRAINING REGIME WITH LITTLE FORMAL LABOUR INVOLVEMENT HIGH SKILL-HIGH VALUE ADDED ECONOMIC STRATEGY HIGH SKILL IMMIGRATION AND PUBLIC HIGHER EDUCATION POLICIES CREATE TALENT POOLS PUBLIC-PRIVATE PARTNERSHIPS/TECHNOLOGY TRANSFER VIA ONTARIO CENTRES OF EXCELLENCE (OCE) AND UNIVERSITIES QUEBEC DEVELOPMENT STATE (QDS) SOVEREIGNIST PROJECT CROSS CLASS ALLIANCE WITH BUSINESS AND LABOUR INTERVENTIONIST USE OF EQUITY INVESTMENTS AND ENERGY SUBSIDIES BY PUBLICALLY OWNED HYDRO-QUEBEC FEDERAL STATE, OCS + QDS USE OF RESEARCH CENTRES</p>
<p>THEME TWO: HOW STATE PROJECTS EMBED LOCAL IIR ACTORS AND INSTITUTIONAL EXPERIMENTATION</p> <p>OCS FUNDS BUSINESS LED K-W WREDC/ COMMUNITECH ‘COLLABORATIVE CAPITALISM’ STRATEGIES QDS SUPPORT FOR CROSS-CLASS ALLIANCES INCLUDING DOMESTIC METAL SUPPLIERS AND LABOUR SYNDICAT DES METALLOS IN SOCIETE DE LA VALLEE DE L’ALUMINIUM (SVA) EQUITY INVESTMENTS QDS SUPPORT FOR SUPPLIERS/SECONDARY TRANSFORMATION</p>
<p>THEME THREE: LIMITATIONS OF STATE PROJECTS VS. MNEs</p> <p>POWER ASSYMETRIES STEMMING FROM GLOBAL INVESTMENT LIBERALIZATION FAVORING MNEs DEFERENCE TO MNE INVESTMENT AND R+D STRATEGIES (ESPECIALLY BY OCS) DOMESTIC CHAMPIONS VULNERABLE TO FOREIGN TAKEOVER OR IN DECLINE (BOTH QUEBEC AND ONTARIO) MNE INTERNATIONALIZATION STRATEGIES ABSORB DOMESTIC START-UPS (ESPECIALLY ONTARIO)</p>
<p>THEME FOUR: LIMITATIONS OF LOCAL IIR EXPERIMENTATION</p> <p>MIXED EVIDENCE FOR ATTRACTING AND RETAINING FDI INVESTMENT (BOTH ONTARIO AND QUEBEC) VULNERABLE TO CORPORATE CAPTURE (IN ONTARIO) EXCLUSIONARY OF SOME ACTORS (E.G. LABOUR IN ONTARIO)</p>

Kitchener-Waterloo, Ontario and Saguenay, Quebec case study regions

Quebec
Ontario

CANADA

Waterloo/
Kitchener

Lake Ontario

UNITED STATES

Atlantic
Ocean

0 100 kilometers
0 100 miles