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The geography of British exports: Country-level versus firm-level evidence

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Summary This study investigates the degree of regionalization of UK exporters. The firm-level findings, based on an original set of primary data of 356 UK exporters, are contrasted with the UK national trade flows as well as with the geographic spread of the UK, European and the world's largest MNEs. The analysis produced consistent findings of regionalization regardless of the classification thresholds or sales matrices employed. The findings also imply that country-level data supports the firm-level findings of regionalization. While the analysis presents relatively strong corroborating evidence of regionalization of UK exports, it also indicates that UK exporters might be more multi-regional and global oriented than previously thought.
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Introduction

Emerging empirical evidence indicates that economic integration of national markets is more of a regional than a global phenomenon, both at a country-level and firm-level. In a recent study, country-level data suggests that ''the surge of trade [and FDI] in the second half of the 20th century was driven more by activity within regions than across regions'' (Ghemawat, 2005, p. 100). Ghemawat (2003) refers to this phenomenon as semi-globalization — a condition of incomplete market integration across borders where ''... neither the barriers nor the links among markets in different countries can be neglected'' (Ghemawat, 2003, p. 139). Challenging the widespread beliefs about the true level of globalization, Rugman and Verbeke (2004, 2007) argue that at the firm level we are witnessing regionalization rather than complete market integration across national boundaries, where the majority of the company's sales are in its home region of the Triad (broadly defined as Europe, North America and Asia-Pacific).

Alan Rugman's ''The end of globalization'' (2001) could be considered as a beginning of a new and radical research programme investigating the real depth and spread of globalization at both, macro (country) level and micro (firm) level. In a number of subsequent articles and books Rugman and his co-authors have presented considerable empirical evidence on the predominantly home region orientation of the world's largest multinational enterprises (MNEs) (e.g. Rugman and Verbeke, 2004, 2007, 2008; Rugman, 2005). A formal model in the form of regionalization theory has been put forward intended to explain why firms' international

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activities are significantly constrained to the home region. The essence of Rugman and Verbeke's regionalization theory is that the evident inability of the MNEs to deploy and exploit their firm-specific advantages (FSAs), even the non-location bound, indiscriminately across the world is due to the *(home-)region boundedness of FSAs* — i.e. the highly restricted transferability and acceptability of the firm's FSAs beyond the home region (Rugman and Verbeke, 2004). The restricted transferability and acceptance of FSAs beyond the home region is explained by the significant difference in expansion costs: ''*the liability of intra-regional expansion appears to be much lower than the liability of inter-regional expansion*'' (Rugman and Verbeke, 2007, p. 201, original emphasis). It is argued that the higher liability of inter-regional expansion stems from the higher costs of product/service adaptation to host region markets (especially at the downstream side of the value chain), management constraints in managing operations in host regions (incremental costs associated with cultural, administrative, geographic and economic differences), and costs associated with higher risk due to significant (one-sided) resource commitment in the host region (especially in the case of downstream FDIs).

In light of these recent regionalization debates, this study is intended to make an empirical contribution by investigating the degree of regionalization of UK exporters and assessing the extent to which country-level data supports or contradicts the firm-level findings of regionalization. The study makes several novel contributions. First, previous research has focused predominantly on examining the regional nature of the world's largest MNEs. The decision of MNEs as to where to locate their investments is one of the most extensively researched areas of international business (Aharoni, 1966; Green and Smith, 1972; Dunning, 1980; Nigh, 1985; Loree and Guisinger, 1995). Even though financial transactions, such as direct and portfolio investments, and international technology transfers have become increasingly important, traditionally international trade in goods and services has been regarded as the principal channel for economic integration. Given this critical role of exporting and the increasingly active role played by small and medium-size enterprises (SMEs) in international markets, the focus of this study is on SMEs engaged primarily in exporting activities. In view of the recent evidence on the predominantly regional nature of the MNEs, the general perception is that the SMEs would have even less internationally diversified operations. By examining a sample of 356 UK exporters we determine the degree of SME regionalization following Rugman and Verbeke's (2004) classification of regional and global firms. Our analysis indicates that SMEs might be less regional in their geographic orientation than previously thought.

Second, the majority of prior empirical findings relating to regionalization are based on analysis of secondary firm-level data, constraining researchers in employing different regionalization concepts and metrics or limiting their focus on a specific region where more detailed data is available making their findings country/region specific and hard to validate. Hejazi (2007), for example, examines the global, regional and national concentration of US MNE activity and reports inability to obtain such data on MNE activity for any of the OECD countries. We bridged this gap by using primary data on 356 UK exporters collected by an electronic survey technique. The primary data enable us to derive and compare different measures of regionalization.

Furthermore, we contrast the firm-level data of our sample of UK exporters with the firm-level data from the UK, European and world's largest MNEs and determine if there are significant differences in the regional orientation between large international companies and the smaller exporting firms.

In order to achieve these objectives the paper is organized as follows. We start with an analysis of the regional distribution of UK trade flows. Next, the evidence of the regional nature of UK exports at country level is related to the regional scope of other country-level empirical evidence. We proceed with firm-level data by analysing the geographic spread of the exports of a sample of 356 UK exporters over the broad Triad regions of Europe, North America and Asia-Pacific and contrast these findings with the geographic dispersion of international activities of the UK, European and world's largest MNEs. We further relate the regional nature of the UK exporters in the sample to their organizational characteristics. Conclusions and implications conclude the paper.

Regionalization of UK exports — country-level evidence

At a macro level, globalization is broadly defined as a process leading to a worldwide integration of economic, cultural, political, religious, and social systems across geographical boundaries. Even though the financial transactions such as direct and portfolio investments, and international technology transfers have become increasingly important, traditionally, international trade in goods has been regarded as the principal channel for economic integration. As such, the rapid growth of international trade flows in the second part of the 20th century from 9% of GDP in 1960 to 26% of GDP in 2007, has contributed greatly to the globalization process.

However, both country-level and sectoral studies in recent years have found more evidence that ''... increasing economic integration through international trade has been accompanied by increasing rather than decreasing regionalization'' (Ghemawat, 2005, p. 101). Ghemawat (2005) in his analysis of intra-regional trade as a percentage of a region's total trade in the period from 1958 to 2000 found that in many parts of the world, intra-regional trade increased steadily, rising globally from about 47% to 55% between 1958 and 2000. More recent data proves this to be true in the case of the North America and Asia Pacific regions where the intra-regional trade flows have increased by 12% and 9%, respectively, from 1990 to 2006 (IMF, Direction of trade statistics, 2008).

Table 1 represents the intra- and inter-regional trade flows in each Triad region's total merchandise exports (WTO, International Trade Statistics 2006). The data in Table 1 confirms that the world's trade is controlled by the Triad, i.e. 86% of the world exports in 2005 originated from the three broad Triad regions: Europe (43%), Asia-Pacific (28%) and North America (15%), and 89% were destined for a country in one of the triad regions. According to the 2005 data, the majority of world trade (57%) is intra-regional,

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