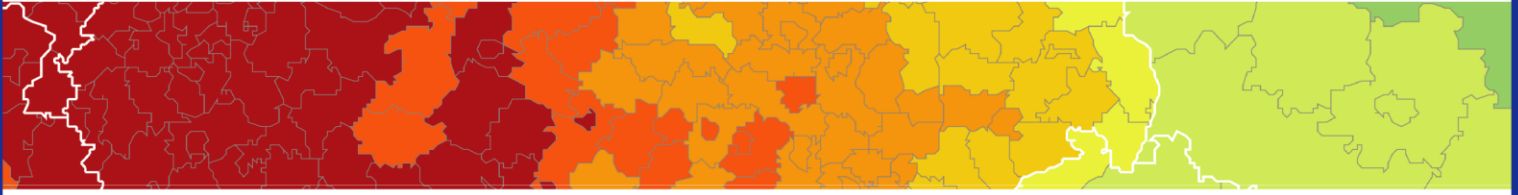


Inspire policy making by territorial evidence



# The World in Europe, global FDI flows towards Europe

Applied Research

**Synthesis Report**

March 2018

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#### **Authors**

Eva Rytter Sunesen, Tine Jeppesen and Christoffer Theilgaard (Copenhagen Economics)  
Iryna Kristensen and Julien Grunfelder (Nordregio)

#### **Advisory Group**

Project Support Team: Mathilde Konstantopoulou, Ministry for Economy & Development (Greece), Maria Ginnity, Department of Jobs, Enterprise and Innovation (Ireland)  
ESPON EGTC: Sandra Di Biaggio (Senior Project Expert), Laurent Frideres (Head of Unit, Evidence and Outreach), Ilona Raugze (Director), Piera Petruzzi (Senior Project Expert European Outreach), Vassilen Iotzov (Project Expert Press and Media Activity), Johannes Kiersch (Financial Expert).

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Professor Ronald B. Davies, University College Dublin (Ireland), Professor Holger Görg, Kiel Institute for the World Economy (Germany), Dr. Katariina Nilsson Hakkala, Aalto University (Finland), Dr. Pauline Plagnat Cantoreggi, Geneva University (Switzerland), Professor Asger Lunde from Aarhus University (Denmark).

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# The World in Europe, global FDI flows towards Europe

## Synthesis Report



## **WHY DOES FDI TOWARDS EUROPE MATTER?**

This synthesis report summarises the main findings and policy recommendations from the study *The World in Europe, global FDI flows towards Europe*. The overall objective of the study is to use detailed data on foreign direct investments (FDI) at a regional level to cast new light on the integration of Europe in the global economy. FDI takes place when a foreign firm establishes itself a region or expands an existing business (greenfield investments). FDI also takes place when a foreign firm acquires more than 10 per cent of the voting stock in an existing firm or merges with a local firm (M&A deals).

### ***What are the trends and patterns of FDI flows towards and within Europe?***

We have used two databases to analyse global FDI flows towards Europe and FDI flows within Europe. *First*, we built a unique and very detailed database on FDI inflows into NUTS3 regions in Europe from non-European investors (extra-European FDI) and European investors (intra-European FDI). In building this database, we have combined several data sources and carried out thorough cleaning and quality assurance procedures.<sup>1</sup> *Second*, we have compiled information about foreign companies from the Amadeus database to reflect the stock of global FDI into Europe, i.e. the foreign investors that have decided to invest (and possibly reinvest) and stay in Europe.

During 2003-2015, global investors carried out more than 128,000 FDI projects in Europe amounting to a total value of more than EUR 2,600 billion, cf. Figure 1. The majority of these FDI projects were in the service sector (56 per cent), and the average deal value of EUR 67 million was slightly larger than the average deal value of EUR 60 million for FDI projects in the manufacturing sector. The US is by far the largest investor and accounted for 25 per cent of the total number of FDI projects in Europe during this time period (23 per cent of the total deal value). The significant presence of US firms in Europe increases the exposure of the European economy to political and economic changes in the US, and any emergence of barriers to outward FDI in the US should be closely monitored by European policy makers.

Investments by public investors accounted for 1.5 per cent of the total number of FDI projects (5 per cent of the total deal value). While openness to foreign investment remains a key principle for the EU, there is growing concerns about foreign investors, notably state-owned enterprises, taking over European companies with key technologies for strategic reasons.<sup>2</sup> In light of this, the European Commission has put forward a proposal for establishing a framework for screening of FDI into the EU. The objective of the regulation is to “establish a framework for the Member States, and in certain cases the Commission, to screen foreign direct investments in

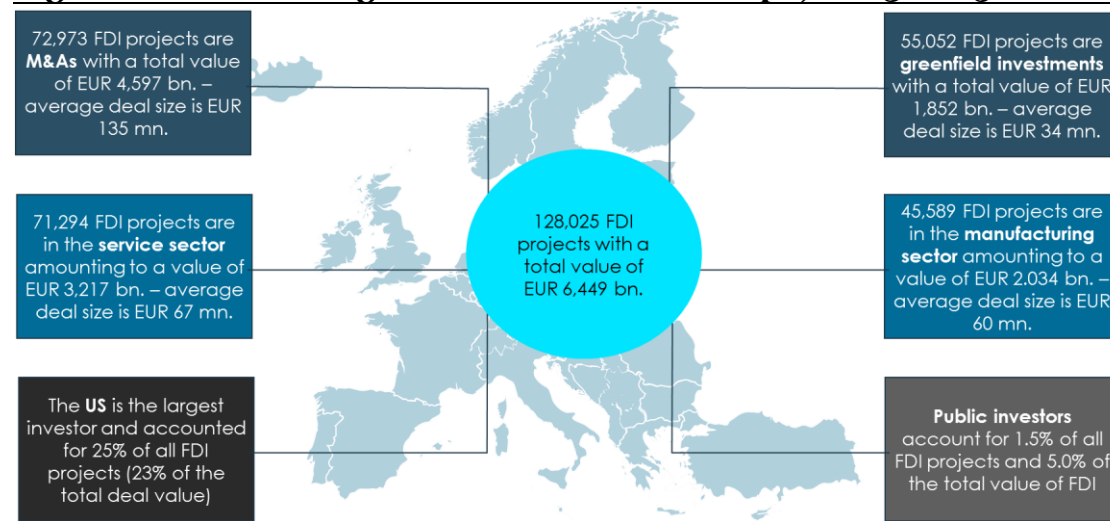
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<sup>1</sup> The methodology used to collect the data has been described in more details in the scientific report, *Collection of extra-European FDI flows*.

<sup>2</sup> European Commission (2017), *Harnessing Globalisation*. This was also reflected in a common letter from the German, French and Italian governments to the Trade Commissioner Malmström.

the European Union, while allowing Member States to take into account their individual situations and national circumstances.<sup>3</sup>

**Figure 1 Overview of global FDI towards Europe, 2003-2015**



Note: For M&As, the investor is classified as a public investor if the acquirer is labelled "Public authority, State, Government". It is assumed that no greenfield FDI is undertaken by a public entity. The average deal sizes are calculated using only the projects with a reported deal value. The sector classification is specified in the scientific report, *Trends and patterns in extra-European FDI towards Europe*. The figure includes both intra-European and extra-European FDI projects.

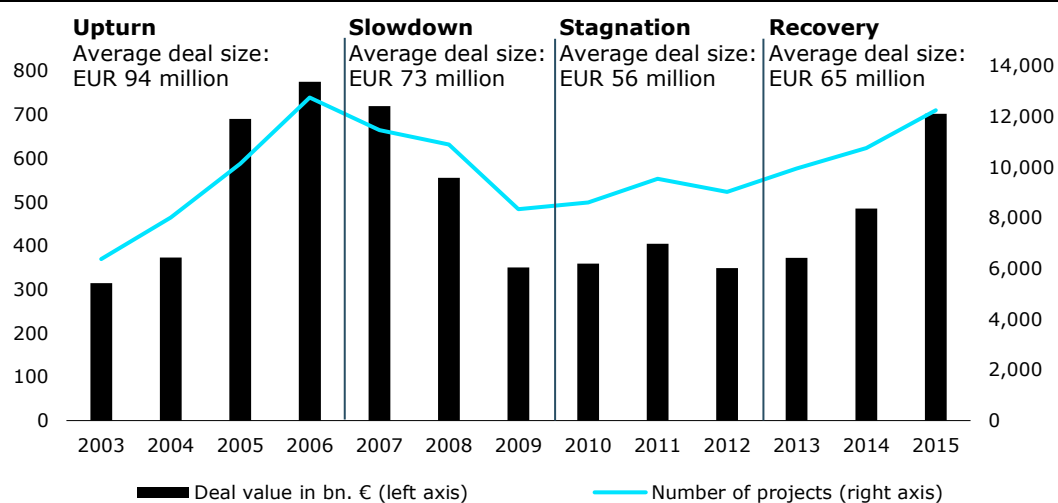
Source: ESPON FDI (2018) based on data from the BvD Zephyr and FT databases. See the scientific reports, *Collection of extra-European FDI* and *Collection of intra-European FDI flows* for further details

The average deal size and sectoral composition of intra-European FDI are similar to the extra-European FDI profile, but European investors more frequently conduct M&As, whereas non-European investors to a larger degree carry out greenfield investments. Also, FDI by public investors is less frequent in intra-European FDI compared to extra-European FDI.

European FDI inflows have undergone four major phases during the period 2003-2015, cf. Figure 2. The total number of projects and the value of FDI both experienced a sharp increase and peak during the pre-crisis years. In the years around the financial crisis in 2007-2009, direct investments in Europe undertaken by European and non-European investors experienced a slowdown and reverted almost to the 2004 level. In the following years, the level of FDI inflows towards Europe stagnated, before a recovery phase started in 2013 and continued towards 2015. After the crisis, the number of projects was the fastest to pick up, while the deal value only started to increase in 2014. The number of FDI projects thus started increasing in the recovery phase, the value of these investments were lower than before the crisis and during the slowdown. The average deal value of EUR 65 million in the recovery phase was still substantially smaller than the average deal value of EUR 94 million in the upturn period.

<sup>3</sup> European Commission (2017), *Proposal for a Regulation of the European Parliament and of the Council establishing a framework for screening foreign direct investments into the European Union*, {SWD(2017) 297 final}.

**Figure 2 Total FDI inflows towards Europe by number and value, 2003-2015**

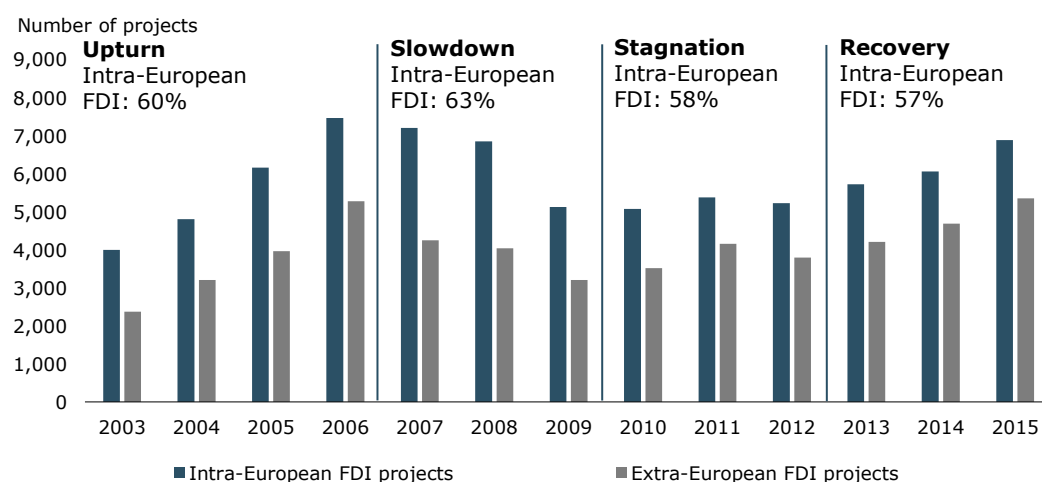


Note: The figure depicts the aggregate FDI flows into Europe in number of projects and values across the period 2003-2015 from both European and non-European investors.

Source: ESPON FDI (2018) based on data from the BvD Zephyr and FT databases

Both intra-European and extra-European FDI depict a peak in the number of FDI projects in the pre-crisis years followed by a slowdown, a period of stagnation and a recovery period, cf. Figure 3. The majority of FDI projects in Europe in every year were undertaken by European investors. However, intra-European FDI has played a smaller role during the most recent years, with the share of intra-European FDI projects accounting for 57 per cent during the recovery phase compared to 63 per cent in the slowdown phase.

**Figure 3 Number of FDI projects in Europe by origin, 2003-2015**

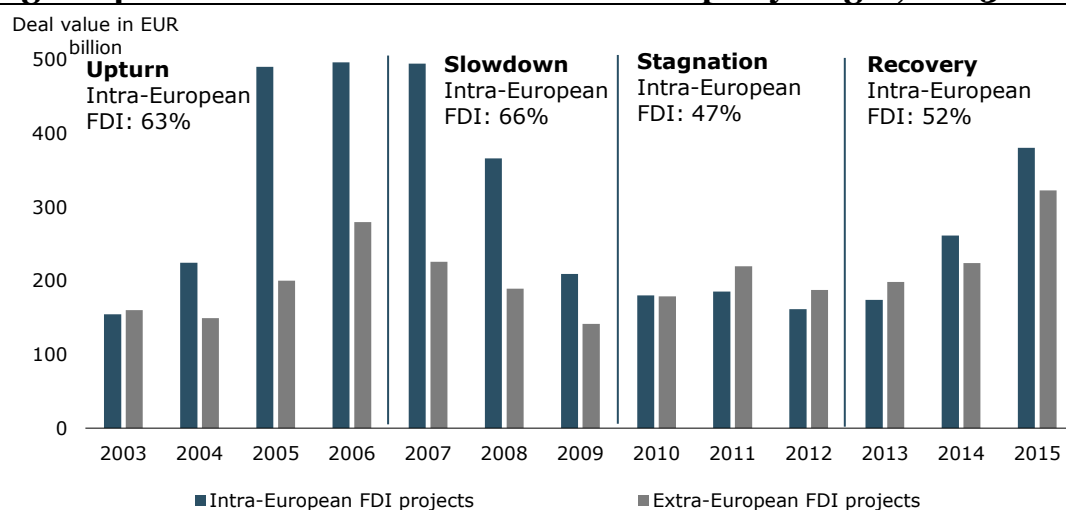


Note: The figure shows the number of M&A and greenfield FDI projects undertaken by European and a non-European investor, respectively. The numbers in the four periods report the share of intra-European FDI to total FDI in that period.

Source: ESPON FDI (2018) based on data from the BvD Zephyr and FT databases

The total value of intra-European FDI is higher than the total value of extra-European FDI in most years during 2003-2015, Figure 4. The upturn in FDI inflows towards Europe was driven mainly by intra-European FDI, while extra-European FDI was relatively more important for Europe following the crisis due to the faster recovery of extra-European FDI. From 2010 and forth, intra-European FDI has constituted around 50 per cent of the total value of FDI, while this share was above 60 per cent during the period 2003-2009.

**Figure 4 Value of FDI inflows towards Europe by origin, 2003-2015**



Note: Some M&As do not have a reported deal value. This can potentially distort the observed pattern as some years could be missing the deal value for the largest projects. The numbers in the four periods report the share of intra-European FDI to total FDI in that period.

Source: ESPON FDI (2018) based on data from the BvD Zephyr and FT databases

### ***What are the potential gains from FDI for regional economies?***

FDI inflows can benefit the regional host economies through various channels. *First*, foreign firms can have a direct positive impact on production and job creation in the host region. Greenfield investments stimulate economic activity in the region during the construction phase and expand the capital stock, and greenfield investments thus have the potential to increase production and create new jobs in the host region. The change of ownership associated with M&As may enhance productivity and spur growth in the target firm (e.g. by conveying new leadership principles, insights about foreign markets and advanced technologies). The take-over may also inject new capital into the firm and ease capital shortages that constrained the firm's long-term survival and growth prospects. M&As therefore also have the potential to contribute positively to the regional economy by maintaining or even growing production and jobs within the firm. For both types of FDI, increased production may stimulate demand for local supplies of goods and services, which will have a positive indirect impact on job creation in the host region.

*Second*, foreign firms can enhance the competitiveness and growth of local firms through so-called productivity spillovers. Foreign firms generally comprise large amounts of technical, operational and managerial knowledge. This knowledge can 'spill over' to local firms via



knowledge transfers, increased competition and via vertical (buyer-supplier) linkages with foreign firms.<sup>4</sup>

FDI **outflows** to other European as well as non-European countries can also benefit the home region of the firm. Investing abroad can help European firms enter new markets, benefit from scale economies, access key production factors and in other ways increase their efficiency. The home region gains when local firms become more productive and increase their international competitiveness.

While the main focus of the study is on FDI inflows, we have also used the data to provide an overview of FDI outflows by European small and medium-sized enterprises (SMEs). SMEs are highly important for the European economy. They account for around 7 per cent of all firms, 37 per cent of the total employment and 36 per cent of total value added.<sup>5</sup> Furthermore, growth in value added for the European SMEs was 3.8 per cent in 2014 and 5.7 per cent in 2015, which illustrates the importance of SMEs for future European economic growth. Expanding abroad can help European SMEs realise their growth potential. Due to their smaller economic size, SMEs find it more difficult to cover the fixed costs associated with investing abroad and securing capital to finance the investment. While the Single Market has brought down the fixed costs of investing in the EU, our study finds that more can be done to support outward FDI by European SME, such as improving the integration of SMEs with foreign firms to stimulate learning, bringing down the fixed costs of investing abroad to make smaller investments profitable and ease capital constraints.<sup>6</sup>

**Extra-European FDI** can thus bring new capital into Europe, support job creation and enhance local firms' productivity in the host region. In the same way, **intra-European FDI** can benefit both the host region (as FDI inflows) and the home region (as FDI outflows). Intra-European FDI therefore holds the potential to enhance European productivity levels in both the host and home regions and should not be seen as a mere reallocation of capital across countries and regions.

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<sup>4</sup> The scientific report, *Impacts of extra-European FDI towards Europe*, includes a detailed description and literature study of the different spillover channels.

<sup>5</sup> See the main report, *FDI by European SMEs*.

<sup>6</sup> The main report, *FDI by European SMEs*, analyses European SME's engagement in global FDI and degree of internationalisation based on a unique database on SME investments that has been established as a part of this project. The database has been described in the scientific report, *Collection of FDI by European SMEs*.

### ***How does the study contribute to the policy debate in Europe?***

While FDI has the potential to enhance economic growth in Europe, a net positive impact of FDI should not be taken for granted. Local firms who are in direct competition with the foreign firms may lose market share and reduce their production capacity, which means that new jobs in the foreign firm to some extent reflect a replacement of jobs in local firms. If the foreign firm furthermore uses domestic suppliers to a lesser extent than the local firm that it replaces, the net impact on job creation may even be negative. The knowledge spillovers may also be limited, e.g. if the local firms have limited interaction with the foreign firm or have low absorption capacity. This report conveys new knowledge about the extent to which these productivity spillovers in fact materialise and how employment in local firms is affected by the presence of foreign firms.

FDI also has the potential to support convergence across regions in Europe. Overall, FDI will tend to support convergence if it flows mainly to disadvantaged regions with low levels of economic activity or if the impact of FDI in these regions is larger than for other regions. This report conveys new knowledge about the impacts of FDI inflows towards European regions measured by 1) the direct impact of FDI in terms of the number of foreign firms located in Europe and the jobs supported by these firms, and 2) the productivity spillovers to local firms that may improve the competitiveness and economic growth prospects of European firms.

FDI thus has the potential to increase productivity, enhance economic growth and support economic convergence in Europe. International competition for global FDI is intense, which highlights the importance of understanding the underlying drivers of FDI towards Europe and identifying policies that can strengthen the competitiveness and attractiveness of Europe as an investment location. This study identifies policies at the EU, national and regional levels that can help attract more FDI and increase benefits to local firms from such investments.

### ***The study looks across different types of regions***

We have analysed the impacts of FDI for different groups of regions in order to assess the extent to which FDI inflows support economic convergence across regions in Europe. This is important because FDI patterns and potentials for FDI spillovers will depend on regional and territorial characteristics of the host economy.

*First*, the location decisions of foreign firms are influenced by their underlying motives for investing abroad. Firms may wish to pursue business opportunities in local or nearby markets and will choose the location that offers the best access to the largest market at the lowest cost of trade and transportation (market-seeking FDI). Firms may also wish to improve their productivity by diversifying production to take advantage of different factor endowments and other FDI attraction factors such as investor incentives, economic policies and market structures (efficiency-seeking FDI). Alternatively, firms may locate in foreign markets to secure access to critical resources such as human capital, technology and natural resources (resource-seeking FDI). Finally, FDI may be motivated by strategic considerations where the firm seeks to sustain or advance its long-term global competitiveness (strategic FDI).

FDI inflows will thus differ in their composition and job content for different types of regions. In this study, we use three different typologies to categorise European regions (Figure 5).

**Figure 5 Overview of regional typologies used in the study**

The rural-urban typology from Eurostat	The metropolitan typology from Eurostat	The level of economic development
<ul style="list-style-type: none"> <li>• <b>Rural regions:</b> Regions where the population in rural grid cells accounts for 50% or more of the total population.</li> <li>• <b>Intermediate regions:</b> Regions where the population in rural grid cells accounts for a share between 20% and 50% of the total population.</li> <li>• <b>Urban regions:</b> Regions where the population in rural grid cells accounts for less than 20% of the total population.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Capital metropolitan regions:</b> Regions that host the capital city.</li> <li>• <b>Other metropolitan regions:</b> A single or a combination of NUTS3 regions, which cover agglomerations of at least 250,000 inhabitants across a city and its commuting zones.</li> <li>• <b>Non-metropolitan regions:</b> All other regions.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>More developed regions:</b> Regions where the average GDP per capita over the period 2010-2013 was more than 90 per cent of the EU28 average.</li> <li>• <b>Transition regions:</b> Regions where the average GDP per capita over the period 2010-2013 was between 75 per cent and 90 per cent of the EU28 average.</li> <li>• <b>Less developed regions:</b> Regions where the average GDP per capita over the period 2010-2013 was less than 75 per cent of the EU28 average.</li> </ul>

Source: ESPON FDI (2018) based on data from Eurostat

*Second*, the potential for spillovers will also differ across regions. Urban and metropolitan regions, for example, often have a higher population density, larger pools of labour and higher levels of education, which increase their capacity to absorb knowledge spillovers from foreign firms. These regions also often have more intense competition and stronger buyer-supplier linkages between foreign and local firms, which also increase the potential gains from spillovers.

The insights gained in this report will be used to develop tailor-made policy recommendations that can help spur FDI into European regions with different characteristics and optimise benefits from these investments. This report thus strongly supports a place-based approach to FDI promotion.

## HOW DO FDI INFLOWS IMPACT REGIONAL ECONOMIES?

We have used Amadeus data to assess the impact of FDI towards Europe. We find that foreign owned firms have a disproportionately large economic footprint in the European economy measured in terms of employment, production and value added. Foreign owned firms also bring positive spillovers to local firms within the same sector and across sectors, and these spillovers are larger for smaller firms.<sup>7</sup> Spillovers from non-European owned firms tend to be larger than spillovers from European owned firms.

<sup>7</sup> This conclusion holds for both intra-European and extra-European FDI. See the scientific reports, *Impacts of extra-European FDI towards Europe* and *Drivers and impacts of intra-European FDI*. In this study, we define an SME as a firm, which has a staff headcount (number of employees) between 10 and

We find no evidence to suggest that foreign owned firms affect employment levels among local firms. This finding suggests that any positive and negative impacts (through crowding out, replacements and productivity spillovers) that foreign firms have on employment among local firms net out on average, which means that the jobs created directly in the foreign firms do not merely replace jobs in local firms.

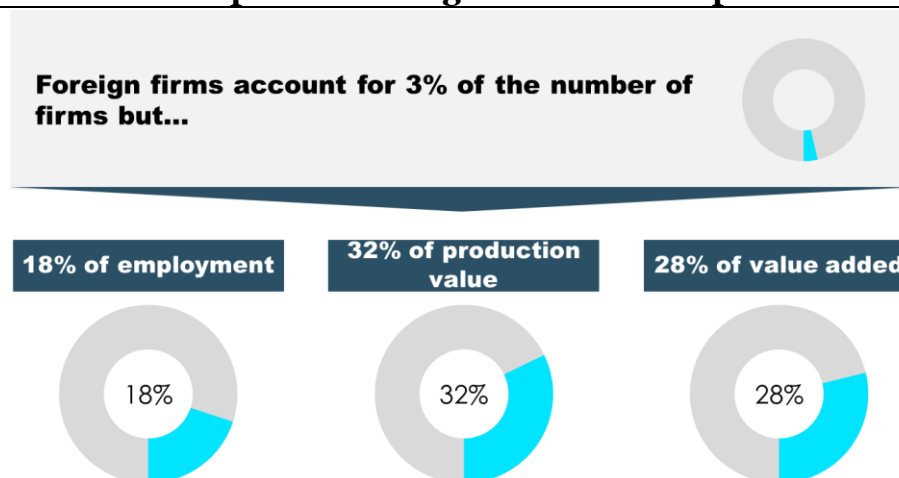
**Foreign firms have a disproportionately large economic footprint in Europe**

The direct economic impact of both extra-European and intra-European FDI in the 34 European countries covered in this study is significant:

- Non-European owned firms account for around 4.3 million jobs, which amount to five per cent per cent of total employment in these countries. Likewise, non-European owned firms account for 11 per cent of production and nine per cent of value added.
- European owned firms account for around 19.2 million jobs, which amount to 13 per cent per cent of the total employment in these countries. Likewise, European owned firms account for 21 per cent of production and 19 per cent of value added in these countries.

Overall, foreign firms (both non-European and European owned) account for three per cent of the total number of firms but 18 per cent of total employment and thus have a disproportionately large footprint on the European economy, cf. Figure 6.

**Figure 6 Direct footprint of foreign firms in Europe**



Source: ESPON FDI (2018) based on Amadeus data

**Local firms benefit from productivity spillovers from FDI inflows**

The potential for productivity spillovers arises because foreign owned firms comprise large amounts of technical, operational and managerial knowledge that may ‘spill over’ to local firms and enhance their productivity and growth. Foreign owned firms may impact local firms within the same industry differently than local firms in other industries. Foreign and local firms within the same industry often share the same pool of labour and customers, which means that they

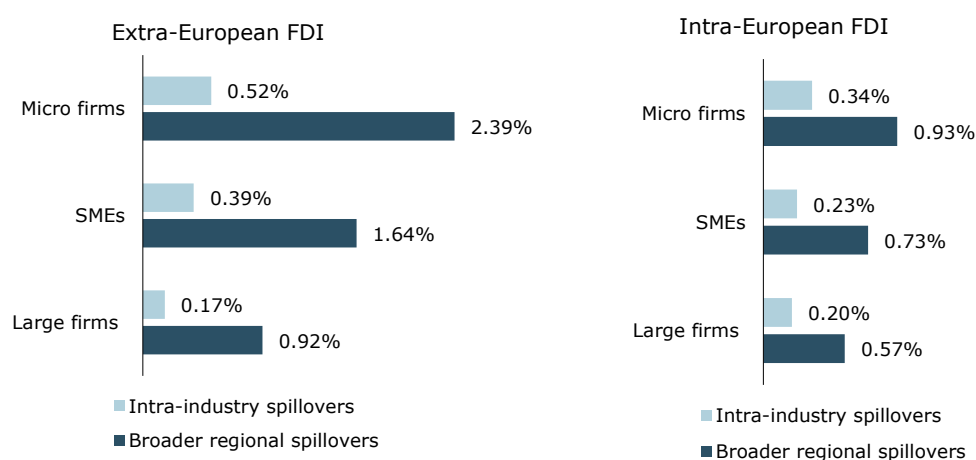
250 or turnover (operating revenue) between EUR 2 and 50 million, or balance sheet total (total assets) between EUR 2 and 43 million.

are more direct competitors but also that the knowledge inherent in the foreign firms may be more directly transferable to local firms within the same industry.

We find that local firms benefit from spillovers arising from FDI *within* their own industry and region (intra-industry spillovers) as well as from FDI in *other* industries within their own regions (broader regional productivity spillovers), cf. Figure 7. Broader regional spillovers tend, however, to be largest, underlining the importance of buyer-supplier linkages between foreign and local firms. This is true for SMEs, as well as for micro firms and larger firms.

We also find that productivity spillovers from extra-European FDI tend to be larger than comparable spillovers from intra-European FDI. There are a number of possible explanations for this. *First*, investment barriers may be larger for extra-European FDI than for intra-European FDI, which means that non-European owned firms that have managed to locate in Europe will be closer to the knowledge frontier and thus contains a larger potential for knowledge spillovers. *Second*, knowledge may flow more freely between countries within European than between European and non-European countries, which again suggest that the learning potential from non-European firms will be larger. *Third*, differences may be due to underlying differences in investment patterns for European and non-European investors across sectors, types of investments, origins and destinations.

**Figure 7 Productivity spillovers from inward FDI**



Note: The figure to the left shows the average percentage increase in labour productivity for SMEs and other firms associated with a one percentage point increase in the employment share of non-European owned firms within a given industry and region in Europe. The figure to the right shows the equivalent spillovers arising from European owned firms (e.g. intra-European FDI). See the scientific report, *Impacts of extra-European FDI towards Europe*, for details on the estimation methodology and results.

Source: ESPON FDI (2018) based on data from the Amadeus database

## DOES FDI SUPPORT CONVERGENCE ACROSS EUROPE?

We have used the data on FDI inflows to analyse the extent to which FDI supports convergence across European countries and regions, i.e. if investments flow mainly to locations with low economic activity (larger direct footprint) and if benefits of FDI in less advantaged regions are larger (larger productivity spillovers).

Overall, we find that FDI does not support convergence across Europe. Extra-European FDI flows mainly to large and economically mature destinations within Europe, and the benefits to the regional economies in terms of jobs supported by the foreign firms and the productivity spillovers to local firms are also smaller. While intra-European FDI tends to be more evenly distributed across Europe and thus to a larger extent than extra-European FDI seems to support convergence, the results point to a genuine challenge of less advantaged regions.

***Extra-European FDI flows mainly to large and economically mature European countries***

There is a clear tendency for extra-European FDI to flow to large and economically mature countries. The five largest countries in terms of GDP (Germany, the UK, France, Italy and Spain) accounted for almost 60 per cent of total extra-European FDI flows towards Europe over the period 2003-2015 (51 per cent of greenfield FDI and 61 per cent of M&As). Luxembourg and Cyprus are also large recipients, which is mainly due to their competitive tax regimes.<sup>8</sup> Taking the size of the economies (measured by GDP) into account, the Netherlands and Ireland are the most successful countries in terms of attracting FDI.

The UK alone attracted 30 per cent of the total value of extra-European FDI towards Europe (of which 49 per cent originates from the US). Brexit is likely to have an impact on FDI flows towards both the UK and other EU Member States, but the extent to which Brexit will influence the location of future FDI inflows towards Europe and cause reallocations of existing investments between the UK and the EU remains to be seen. Some of the mechanisms through which Brexit may impact on FDI towards Europe are summarised below.

*First*, higher uncertainty and lower growth may make the UK a less attractive location relative to the EU in the short term. Likewise, the Single Market will be reduced in size (the UK accounts for 16 per cent of the combined EU GDP<sup>9</sup>), although it will remain a large market. This may make it more difficult for EU Member States to compete for global FDI flows relative to other parts of the world, including the US, Singapore and the emerging markets in the BRIC countries. In the long-term, the UK's attractiveness will depend on the new policy regime that will be put in place after Brexit. Similarly, the ability of the remaining EU Member States to further harmonise and remove barriers to trade and investments within the Single Market can impact the attractiveness of the remaining Member States.

*Second*, trade between the EU and the UK is likely to become less frictionless, which will increase cross-border trade costs. Increased costs of intermediate goods trade may disrupt cross-border value chains, and increased costs of final goods trade will tend to make it more profitable to locate production closer to consumption. Firms based in the UK that are either highly integrated in European value chains or dependent on selling to the EU market will likely

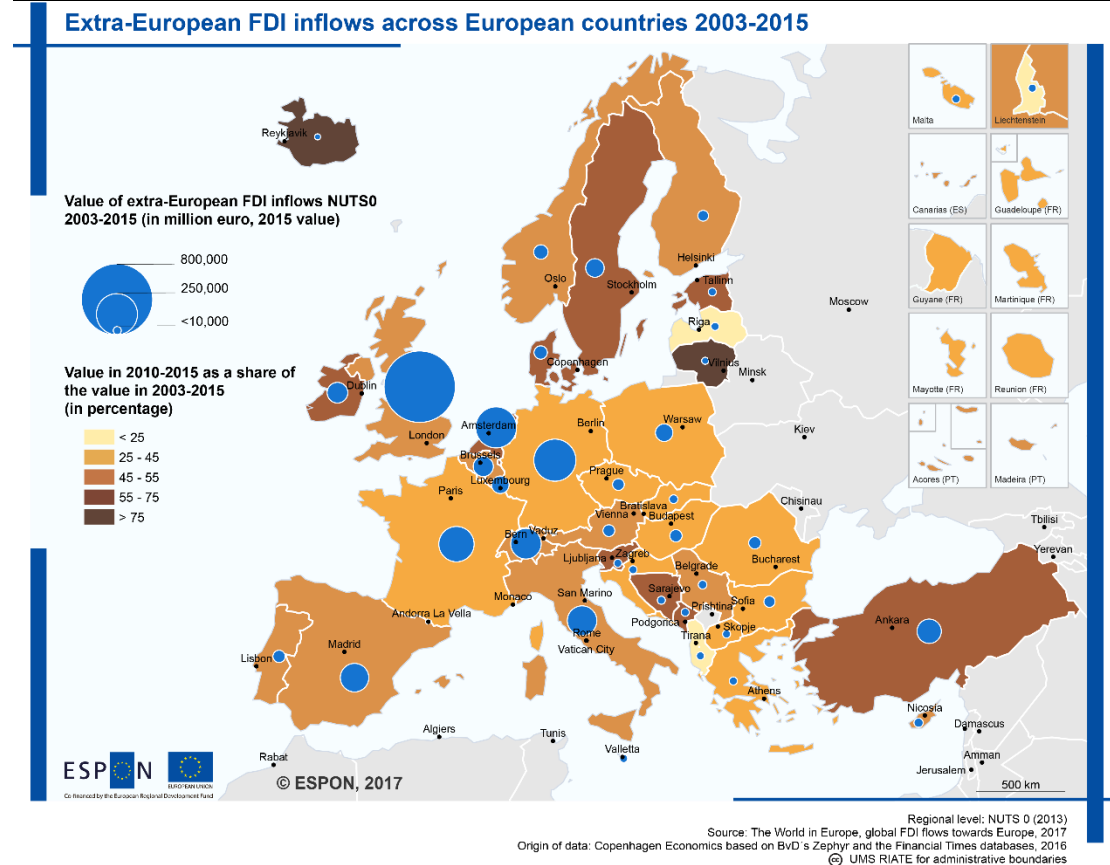
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<sup>8</sup> See the scientific report, *Trends and patterns in extra-European FDI towards Europe*, for more details on the trends and patterns in FDI inflows into individual countries.

<sup>9</sup> Based on data from Eurostat, <http://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20170410-1>.

find the EU relatively more attractive after Brexit. The opposite is the case for firms based in the EU that are dependent on trade with the UK. Higher trade costs between the EU and the UK will also tend to make the EU more attractive relative to the UK for firms from third countries that seek access to consumers in the Single Market.

## Map 1 Extra-European FDI inflows across European countries, 2003-2015



Note: FDI values cover both greenfield investments and M&As. Not all M&As listed in the database have a deal value recorded. Of the 28,209 projects recorded, 14,389 have a deal value and are included in this figure. More information about the regional FDI data can be found in the scientific report, *Collection of extra-European FDI flows*.

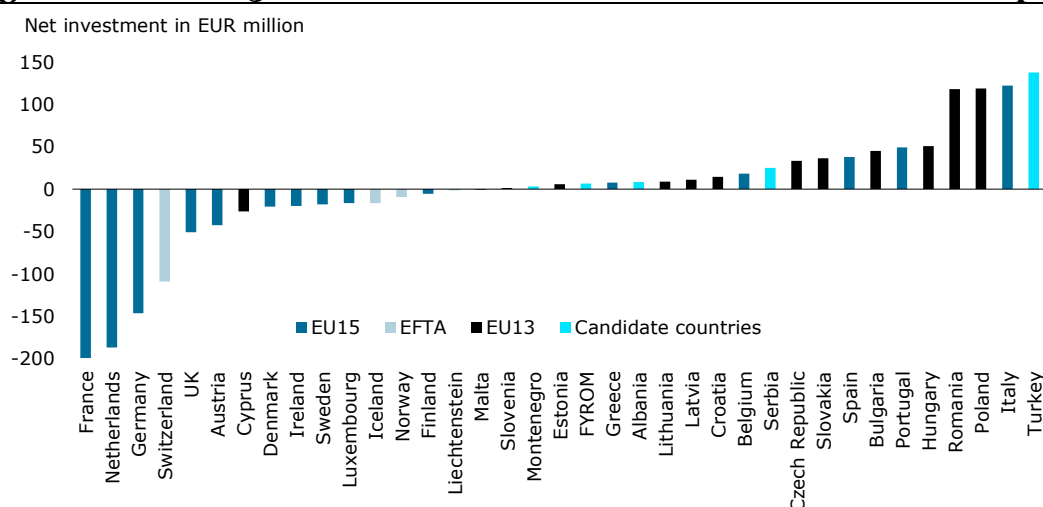
Source: ESPON FDI (2018) based on the BvD's Zephyr and the FT databases

### ***Intra-European FDI is distributed more evenly across countries***

We find some indications that intra-European FDI stimulates convergence across European countries. The old Member States (e.g. France, the Netherlands and Germany) and the EFTA countries (e.g. Switzerland and Iceland) are generally net investors, while the new Member States (e.g. Hungary and Romania) and the candidate countries (e.g. Turkey) are generally net recipients of intra-European FDI, cf. Figure 8. Some of these net investments can be explained by offshoring of production from high-wage to low-wage countries. Also, the large outward FDI

flows from the Netherlands reflect extra-European FDI invested into other European countries through Dutch holding companies.<sup>10</sup>

**Figure 8 The EU15 and EFTA countries are net investors in Europe**



Note: Bosnia-Herzegovina has been excluded as it is classified as a "Potential candidate" by Eurostat as the only country in our sample. The figure shows the net investment in EUR million, i.e. the value of FDI into a country net of the value of FDI into the same country.

Source: ESPON FDI (2018) based on the BvD's Zephyr and the FT databases

### **Benefits from extra-European FDI are unevenly distributed across regions**

Looking across the different measures, our overall conclusion is that the **direct impact** of extra-European FDI appears to be smaller in rural, non-metropolitan and less developed regions (less advantaged regions) than other regions and, consequently, that the contribution to convergence from the direct impact of extra-European FDI is likely to be limited. Less extra-European FDI flows to these regions, and the non-European owned firms that do locate in these regions tend to have a smaller average number of employees than in the more advanced regions. Extra-European FDI inflows into the transition regions do, however, seem to have had a large, direct impact on jobs and economic growth, which has stimulated convergence between the transition and more developed regions.

From the empirical analysis we find that extra-European FDI is associated with positive **productivity spillovers** to local firms within the same industry and region (intra-industry productivity spillovers) and within a given region more broadly (broader regional productivity spillovers) in the urban, capital metropolitan and more developed regions (advantaged regions). Productivity spillovers are lower in rural and non-metropolitan regions, and even zero in the less developed regions. These findings suggest that productivity spillovers should not be expected to spur convergence across regions.

<sup>10</sup> See Copenhagen Economics (2016), *Towards an FDI Attractiveness Scoreboard*.



While we find that local firms of all sizes benefit from productivity spillovers, we find that smaller local firms, i.e. micro firms and small and medium-sized firms (SMEs) benefit the most. One reason for this may be that these the firms are further away from the knowledge frontier and therefore have relatively larger scope for learning from foreign firms, compared to larger firms that may be closer to the knowledge frontier.

***Benefits from intra-European FDI are more evenly distributed across regions***

We find that intra-European FDI stimulates convergence across regions to a greater degree than extra-European FDI. *First*, we find that intra-European FDI is more evenly distributed across regions than extra-European FDI. While capital cities, urban regions and more developed regions still receive the majority of intra-European FDI, the less advantaged regions receive a larger share of intra-European FDI than extra-European FDI. *Second*, rural, non-metropolitan and less developed regions receive a greater share of intra-European greenfield FDI relative to their economic size. This type of FDI expands the capital stock and is more likely to create new jobs directly in the firm than M&As (at least in the short term). *Third*, while less advantaged regions receive the least investment both from within and outside of Europe, European owned firms are significantly more frequent and support more jobs in the less advantaged regions than non-European owned firms. *Finally*, intra-European FDI is associated with productivity gains for local firms in all groups of regions, also in less developed regions where no productivity spillovers are recorded from extra-European FDI.

***Genuine challenge for less advantaged regions***

In combination, these results show that less advantaged regions are challenged in terms of attracting and benefiting from FDI flows. The finding suggests that cohesion policies have be a role to play in terms of stimulating more FDI into the less advantaged regions, scaling up existing foreign firms already located in these regions and enhancing the absorption capacity of local firms to benefit from productivity spillovers. It should be kept in mind, however, that new jobs and productivity spillovers may be more valuable in regions with low existing economic activity and poor growth prospects than in more advantaged regions.

## WHAT ARE THE MAIN DRIVERS OF FDI TOWARDS AND WITHIN EUROPE?

Overall, the results show that there are some common factors that increase the attractiveness of European regions towards foreign investors, and policy initiatives addressed to these factors should be expected to increase FDI inflows:<sup>11</sup>

- In terms of magnitude, **the strength of industry clusters** is the most important driver. Strong industry clusters are associated with a number of positive externalities that arise when similar firms locate together, and these externalities make individual firms more productive. In areas with strong industry clusters, pools of specialised labour and inputs will thus often be available, and new ideas and innovation spread more easily across firms. Building strong clusters can thus kick-start a positive spiral by attracting foreign firms that will enhance the strength of the cluster even further.
- **Labour abundance** and a high share of the population with a **tertiary education** are also important FDI drivers. These factors matter mainly for firms that establish abroad to secure highly qualified labour at a competitive cost and for firms in knowledge-intensive sectors wishing to secure key expertise.
- Regional **accessibility** (physical and digital) is also an indicator of FDI attractiveness because it is highly correlated with transportation cost and the ease of travelling to and from the region. Good connectivity can also enhance the size of the local market by improving access to nearby markets (particularly to more developed regions).
- A high **level of innovation** also makes European regions more attractive to foreign investors, as the scope for acquiring new knowledge and hiring R&D workers will be greater. The size of the impact is quite small, and we find that further research on the importance of innovation as a driver of FDI towards Europe could be useful.
- A high **FDI concentration** sends a signal of low risk and high profitability to other potential investors, and regions with a large stock of foreign firms will find it easier to brand themselves internationally and attract even more FDI. A higher FDI concentration can therefore also trigger a positive spiral of sustained FDI inflows.
- The regional **market size** attracts foreign investors that locate abroad to sell their products locally (market seeking FDI). In most cases, the relevant market is not limited to the regional market but also nearby markets in other regions and sometime neighbouring countries. A region with a small market size but with good accessibility to other markets may therefore still constitute an attractive investment location.
- The regional **population density** also attracts foreign investors seeking new business opportunities abroad as a dense regional market means that firms can reach a large number of potential customers within a limited geographic range.
- **Border regions** are, on average, disadvantaged because barriers to doing business across borders may limit the size of the local market and increase costs of doing business across borders. Looking across types of regions, we find that capital metropolitan regions can, in fact, benefit from being a border region.

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<sup>11</sup> See the scientific reports, *Drivers of extra-European FDI towards Europe* and *Drivers and impacts of intra-European FDI*. Based on an in-depth literature survey, we have identified the main drivers of FDI and tested their impact on the location of FDI across regions in Europe. In some cases, some sector-specific or even firm-specific drivers will be highly important but cannot be assessed in a large-scale econometric model.

- Regions with a high **dominance of incumbent firms** are less likely to attract foreign firms because the local market will be perceived as less attractive and more risky competition from a strong, incumbent firm is likely to be intense.

We find that extra-European and intra-European FDI are largely driven by the same factors although there are a few differences. *First*, European investors place relatively *more* emphasis on strong industrial clusters and large regional markets. *Second*, European investors place relatively *less* emphasis on the regional FDI concentration, population density, labour abundance and the share of the population with a tertiary education.

### **WHAT CAN BE DONE TO SPUR FDI FLOWS TOWARDS AND WITHIN EUROPE?**

As barriers to cross-border trade and investments have been dismantled during the past two decades, worldwide competition for attracting multinational firms has intensified. Investors have historically been attracted to the EU due to its large market size, the high degree of stability and the skilled labour force.<sup>12</sup> Before the crisis, the EU was the destination for almost half of the global FDI flows, but the EU share was only around 25 per cent in 2015.

Global FDI flows into Europe dropped by 53 per cent after the financial crisis, whereas FDI into the US dropped by only 36 per cent and FDI to the BRIC countries dropped by 6 per cent. Within Europe, the impact of the crisis was particularly severe for countries that are under the austerity measures (i.e. reductions in government spending, increases in tax revenues or both in order to lower deficits and avoid a debt crisis).

An important driver for the shift in global FDI flows is the opening up of new emerging markets with high economic growth, light regulation and more active use of state aid than the EU. The low growth prospects make Europe a less attractive location for FDI than the US or the BRIC countries, and Brexit adds unpredictability and instability to the picture. Restoring its position as a main recipient of global FDI is thus likely to require new policies at the EU, national and regional levels.<sup>13</sup>

#### ***EU policies can make Europe more attractive for foreign investors***

The results from this study underline the importance of the Single Market as a driver of extra-European FDI. The Single Market offers access to 500 million high value consumers and is thus a huge attraction factor for non-European firms seeking business opportunities abroad. The study also shows that many European SMEs make their first (and in some cases only) cross-border investment within the Single Market.<sup>14</sup> EU policies that make it easy for firms to establish themselves in Europe and do business across borders will stimulate FDI inflows –

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<sup>12</sup> For more details on the drivers of FDI towards Europe, see the scientific reports, *Drivers of extra-European FDI towards Europe* and *Drivers and impacts of intra-European FDI*.

<sup>13</sup> The policy recommendation listed in this synthesis report are explained in more detail in the main report, *Extra-European FDI towards Europe*.

<sup>14</sup> See the main report, *FDI by European SMEs*.

both from within and outside Europe. In particular, EU policy makers could improve the attractiveness of all European regions by implementing initiatives at the EU level that:

- **Reinforce the Single Market.** The Single Market offers access to 500 million high value consumers and is thus a huge attraction factor for firms seeking business opportunities abroad. Initiatives to strengthen the Single Market could include a digital single market, an energy union or a capital markets union as described in the Juncker Plan. In terms of improving the digital single market, enhanced transparency and standardisation of consumer and data protection rules could be a way forward, and the same is the case for improved possibilities for cross-border licensing and transferring of copyrights.
- **Ensure political, regulatory and legal predictability.** FDI typically involves large fixed investments (e.g. in buildings, production plants and equipment), and investors are therefore sensitive to any factors that cause a risk to their investment. A stable political, regulatory and legal environment reduces the risk of undertaking FDI in Europe (particularly in light of Brexit). For cross-border investments by non-European owned firms, investor protection secured by EU investment treaties can be particularly important.
- **Integrate Europe globally.** EU transport policies that improve accessibility to and from Europe will give firms placed in Europe better opportunities to optimise their global value chains, which will make it more attractive for non-European owned firms to locate in Europe. Likewise, accessibility to foreign markets ensured by EU trade agreements will make Europe a more attractive location for multinational firms with global operations and client bases. These initiatives will also make it more attractive for European owned firms to expand in Europe and serve foreign markets through exports.
- **Support sustainable growth.** EU policies can support job creation, business competitiveness, economic growth, sustainable development and improve citizen's quality of life. Such initiatives include cohesion policies and initiatives to improve competitiveness, such as research and innovation, education and training, trans-European networks, social policy, economic integration and accompanying policies.<sup>15</sup> Sustainable growth throughout Europe will make Europe as a whole more attractive for firms looking for new business opportunities abroad.

#### ***More can also be done at the EU-level to stimulate intra-European investments***

In addition to the above, the analysis of intra-European FDI shows that the following initiatives can help stimulate cross-border investments within Europe:<sup>16</sup>

- **Improving regulatory harmonisation in the service sector.** In the service sector, divergence in national regulations poses a barrier to FDI. Based on an empirical analysis of bilateral FDI flows across OECD countries, Fournier (2015) thus found that services is one of the areas in which divergence in regulations matters the most.<sup>17</sup> Significant progress to reduce cross-border barriers within the service sector was achieved with the Services Directive from 2006. However, as noted by Business Europe (2015) in their list of priorities for enhancing the internal market, many barriers remain due to a “diverse

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<sup>15</sup> See [http://ec.europa.eu/budget/explained/budg\\_system/fin\\_fw0713/fin\\_fw0713\\_en.cfm](http://ec.europa.eu/budget/explained/budg_system/fin_fw0713/fin_fw0713_en.cfm) for more information about the EU budget and composition of current expenditures.

<sup>16</sup> See references in the main report, *Intra-European FDI*, for more details.

<sup>17</sup> Fournier (2015), *The negative effect of regulatory divergence on foreign direct investment*.

interpretation and application” of the directive.<sup>18</sup> Improving the implementation of the Services Directive may therefore help remove some of the remaining obstacles to intra-EU FDI.

- **Increasing labour mobility across borders.** There continues to be limited labour mobility across borders. Business Europe (2015) suggests that labour mobility can be enhanced by improved recognition of professional qualifications. According to the OECD, part of the problem in terms of the recognition of professional qualifications lies in slow decision making. Introducing a silence-is-consent rule in areas without major safety or environmental concerns may thus help to increase labour mobility (OECD, 2016).<sup>19</sup>
- **Reducing country specific regulation.** Regulatory heterogeneity across countries remains a barrier to cross-border FDI that increases both the costs and risks of investing abroad. As stated by Fournier (2015), “each regulation is indeed likely to induce country specificities and procedures with which local firms are more familiar”, which will be a relative hindrance for non-local firms. In fact, OECD (2016) finds that 77 per cent of firms at the EU level report that “the lack of predictability and stability of legislation remains an important obstacle to their activity”. Furthermore, Business Europe (2015) notes that “addressing remaining obstacles does often not require new EU legislation but rather more consistent application or clarification of existing rules”.
- **Increasing capital mobility.** Capital availability is a necessity for cross-border investments. OECD (2016) finds that lowering regulatory barriers, widening of the investor base and deepening financial integration could stimulate cross-border investments, particularly by SMEs. In addition, OECD (2016) finds that supporting tools to match SMEs to funding sources can be a way to reduce barriers to capital movement. Another area where the Capital Markets Union proposes deregulation is through burdensome withholding tax procedures, which remain a long-standing barrier to cross-border investment (OECD, 2016).
- **Strengthening the digital Single Market.** By stimulating and replicating innovative ideas, digitalisation and information and communication technology are likely to remain the main drivers of productivity growth in mature economies in the years to come (OECD, 2016). Business Europe (2015) points to two main aspects of improvements for the digital Single Market. First, consumer and data protection rules need be transparent and standardised. Second, better cross-border licensing and transfer of copyright across national borders are recommended.

### ***National policies set the overall frame for FDI attractiveness***

There are several preconditions at the national level that are important for any region to attract and maintain foreign investments. These factors include both fundamentals (demand, quality of institutions, concentration of foreign firms and global cities) that are difficult for policy makers to influence in the short term as well as policy variables (tax rates, wage levels, physical infrastructure, human capital, clusters and cost of location) that can be changed more easily.

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<sup>18</sup> Business Europe (2015), *BUSINESS EUROPE's contribution to the upcoming Internal Market Strategy for Europe Priorities and recommendations for a better functioning single market*, position paper.

<sup>19</sup> OECD (2016), *OECD Economic Surveys - European Union*.

National policy makers can improve the attractiveness of all regions in the country by implementing initiatives that:

- **Ensure efficient collaboration between different layers of public administration.** High-quality institutions (e.g. stable politics, legal certainty, clear timeframes, low corruption and conditions that support personal security) are important for a country's attractiveness. In terms of FDI promotion, it is important that the agility of the regional unit is not compromised by unclear timeframes and rules at the national level as well as duplication of responsibilities at different governance levels. The case studies show that various "one-stop shops" for new investors have proven particularly valuable in locations with less efficient administration and multiple layers of public administration.<sup>20</sup>
- **Ensure labour market flexibility and integration.** Flexibility in the labour market gives an important incentive for firms to hire new employees, particularly in high-risk business, in times of crisis and for new start-ups. Flexible labour laws that make it possible for companies to scale up and down are highlighted in both the Danish and Irish case studies as drivers of FDI and start-ups. Supplementary initiatives to improve the accessibility of urban centres from related rural territories can increase mobility and help prevent bottlenecks in the labour market. Such initiatives will also reduce regional disparities because benefits are spread to other locations in the functional region.
- **Implement and enforce efficient competition policies.** Enforcement of competition policies and equal treatment of foreign and domestic firms provide a level playing field that reduces the risk for foreign firms to establish a business in the region. This is important in most types of regions, and competition policies could thus benefit from being enforced efficiently by competition authorities at the national level.

### ***Regional factors shape FDI attractiveness***

The case studies and quantitative analyses carried out as part of this study point to a set of initiatives at the **regional level** that can stimulate FDI inflows:

- **Strengthen existing clusters or build new clusters around existing strengths.** Initiatives to build strong industry clusters can be a way to ensure sustained regional growth, particularly for less advanced regions where the local market is less attractive and in manufacturing (particularly technology-intensive) sectors. Depending on the characteristics of the specific region and industry, such initiatives could involve public R&D, collaboration between universities and private firms, and various education programs. Strong clusters can also benefit local SMEs and spur entrepreneurship, which will support sustainability and growth in the region. However, to serve as a magnet for foreign investors, a high level of agglomeration maturity is important. A place-based approach to building clusters that takes existing strengths into account and is aligned with existing regional development strategies will be particularly efficient.<sup>21</sup>

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<sup>20</sup> Seven case studies have been carried out as part of this study to identify best practices in FDI promotion and provide inspiration on new policy initiatives that can spur FDI inflows towards Europe. The case studies can be found in the scientific report, *Case studies of best practices in FDI promotion*.

<sup>21</sup> This is also one of the key conclusions in the European Commission (2013), *The role of clusters in smart specialisation strategies*. Both cluster policies and Smart Specialisation Strategies are policy approaches with a place-based dimension, aiming at exploiting advantages of proximity to promote economic growth and competitiveness.

- **Secure a competitive skills base.** The existence of a strong skills base in the region is an important prerequisite for benefiting from knowledge spillovers and attracting FDI in the more knowledge-intensive sectors. A high level of tertiary education, for example, is thus a particularly strong driver for FDI into urban, capital and other metropolitan regions as well as more developed regions. Likewise, regions with high level of innovation attract more FDI in the more knowledge-intensive sectors.
- **Attract foreign talents.** Regions with a combination of labour abundance and high skill levels attract more FDI, and continued inflows of FDI thus require an abundant pool of qualified labour. Education policies and initiatives to increase labour supply can support this, but many countries and regions also have initiatives in place to attract foreign talent and thereby expand the pool of qualified labour. Classic factors such as affordable housing, international schools, information and activities available in foreign languages, good accessibility for people and strong industry clusters support the attraction of foreign talent, but the case studies also find that economic factors (e.g. tax incentives and wage premiums) play a role in attracting high-level professionals. The case studies also point out that more targeted initiatives are often required, such as investments in a rich cultural environment and accelerated application procedure for highly skilled migrants or knowledge migrants.
- **Invest in accessibility.** Many non-European investors look to the European Single Market as a whole or to large territories within Europe (e.g. North and South) as the end market. Accessibility in terms of transporting goods will be important for regions that brand themselves as production and transportation hubs into other regions and countries. A developed physical infrastructure for transporting goods is found to be particularly important for manufacturing firms, whereas good accessibility for people is more important for firms in the service sectors. Investments in physical infrastructure seem to pay off particularly well in less advantaged regions, e.g. when such investments ensure access to more developed markets, but also in capital metropolitan regions where congestion can create bottlenecks for continued economic growth. In the capital metropolitan regions, accessibility in terms of the mobility of people (e.g. airline connections) is also important. Digital accessibility becomes increasingly important, and initiatives to stimulate and increase benefits from digitisation are highlighted in all seven case studies.
- **Stimulate internationalisation and targeted regional branding.** Regions that already host a large number of foreign companies are more likely to attract even more FDI, particularly FDI from the same origin. This is particularly important for less advanced regions (i.e. rural regions, non-metropolitan regions and less developed regions). Targeting investment promotion activities to partners where bilateral relations are already established could be an efficient way to use these regions' FDI promotion resources, and such initiatives could be coordinated at the national level in smaller countries. In addition, international events in key strategic sectors can help strengthen existing clusters. Finally, as English is the main business language in extra-EU FDI transactions, a high level and use of English will stimulate FDI inflows.

### ***Special initiatives are needed to support less advantaged regions***

What comes out clearly in the study is the genuine challenge faced by the less advantaged regions. Overall, we find that less FDI flows to these regions and that spillovers tend to be smaller relative to other regions. Special initiatives are needed to attract more foreign firms, secure expansions of existing foreign firms and increase spillovers.

We find that the strength of industry clusters and FDI concentration are particularly important for rural, non-metropolitan and less developed regions. The case studies show that developing sectoral ecosystems requires the engagement of a number of government departments to enhance the business environment, as well as collaborative firm-level initiatives that bring together different cohorts of companies and the research community. Initiatives to improve the institutional quality and ensure efficient collaboration between different layers of public administration are therefore particularly important for the less advantaged regions.

We also find that regions that are allowed to use **financial investment incentives** under EU rules on state aid are more likely to host non-European owned firms than regions where incentives are not allowed.<sup>22</sup> The use of such incentives may therefore be one way forward for disadvantaged regions with a low presence of foreign firms to start building up a stock of foreign firms. The extent to which financial investment incentives are actually used, how these incentives work and how effective they are in terms of stimulating FDI that would not otherwise have taken place is outside the scope of this analysis. The case studies show that investor incentives are generally perceived as “cherry on top” and cannot compensate for an unattractive investment climate.

This finding suggests that investor incentives should be used selectively and be aligned with other initiatives in a place-based approach to FDI attraction and regional growth. The strong signalling effect, for example, suggests that there are certain rigidities in the way that foreign investors locate, and that investor incentives may help break the vicious cycle for some regions (e.g. supporting processes and costs of land remediation and real estate requirements to spur greenfield investments). Also, the importance of clusters for the less advantaged regions suggests that incentives directed towards strengthening existing clusters or building new clusters around regional strengths would be particularly beneficial. Irrespective of which incentives are being used, however, it is important that they are adjusted to the regional context, and that the incentives do not discriminate against local firms.

Overall, our findings also suggest that cohesion policies can have a role to play to improve the integration of less advantaged regions in the world economy and that such policies could be used to:

- Strengthen industry clusters around existing strengths, e.g. by using the Smart Specialisation Platform to help the regional and national authorities develop and implement smart specialisation strategies (possibly encompassing a branding and internationalisation strategy).

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<sup>22</sup> More information about which regions are allowed to use financial investment incentives under EU rules are can be found in the scientific report, *Drivers of extra-European FDI towards Europe*.



- Improve the absorption capacity in local firms (e.g. by offering customised training or R&D packages) and build administrative capacity in the public administration (e.g. by supporting reform of institutions (systems and structures) and assistance to staff of institutions<sup>23</sup>).
- Integrate foreign companies better in regional value chains, e.g. by facilitating inter-firm collaborating and strengthening business networks across regions.
- Improve access to nearby markets, e.g. by investing in infrastructure that improve the region's connectivity to more developed regions.
- Use financial investment incentives selectively, preferably to amplify impacts of a smart specialisation strategy for the region.

## **WHAT CAN BE DONE TO INCREASE BENEFITS FROM FDI?**

While the traditional focus of FDI promotion strategies on job creation prevails, more emphasis is now placed on the contribution of foreign firms to the economic development in the region and the competitiveness of local firms. Initiatives to increase benefits from FDI include:

- **Integrate foreign firms in the local economy to optimise knowledge spillovers.** Frameworks for cooperation between different regional economic actors can promote innovation and expand regional value chains. Likewise, events that bring people from different sectors and different types of businesses together can facilitate knowledge-sharing and the introduction of new technologies, products and services. This will be particularly beneficial for SMEs.
- **Offer after-care support to established foreign firms.** Given that new jobs and investments in many cases emerge from expansions of foreign firms already located in the region, after-care support is a key ingredient in making a region more attractive and increasing the benefits from FDI. Ensuring maximum benefit from FDI for the region and building a strong regional “brand” require ongoing contact with firms, even after they are well established in the country. This will stimulate expansions of existing firms and enhance the signalling effect of FDI. Given that the decision to expand and relocate production is not always made by the local management team, after-care can also involve close dialogue with the upper-level management team at the head quarter.

### ***There is also a potential for increasing benefits from M&As***

M&As accounted for more than 70 per cent of the total FDI inflows towards Europe during 2003-2015. For M&As to have a positive direct impact on economic development across the European regions, it is thus important that the foreign firms grow and continue to support jobs after the take-over. More research in this area could bring new knowledge about what happens to employment and revenue in the firms after take-over, and what can be done to preserve economic activity in the region. In particular, after-care support can also be relevant to offer to local firms that have been taken over by a foreign multinational company.

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<sup>23</sup> See, for example, European Commission (2014), *Guidance Document on Indicators of Public Administration Capacity Building*, Programming Period 2014-2020, Monitoring and Evaluation of European Cohesion Policy, European Social Fund.

## **A PLACE-BASED APPROACH IS NEEDED**

The regional diversity in Europe, where regions have different territorial characteristics, opportunities and needs, requires going beyond a “one size fit all” strategy for FDI attraction. In fact, the findings in this study suggest that it is the combination of the attractive investment climate created by EU, national and regional policies and the application of unique “best practices” strategies fitted to the territorial context that have stimulated FDI inflows in successful regions. It is important to emphasise that it is up to the individual region to put these elements into their own context and add relevant aspects of FDI promotion that fit the specific characteristics of the region. The place-based approach to FDI attraction is thus in line with the Smart Specialisation approach introduced by the European Commission.<sup>24</sup> In attempting to replicate success from other regions, policy makers should thus carefully consider existing territorial factors and specific strengths and weaknesses of the region.

FDI is not a goal in itself. It is the value it creates for local firms and businesses that concerns policy makers. A *first element* in a place-based approach to FDI promotion is therefore a mapping of the economic structure, comparative advantages as well as growth drivers and restraints in the region. The purpose of the mapping is to identify the region’s needs, which will vary from region to region. Job creation may be a key need in one region, whereas lack of qualified labour limits growth in another. Capital may constrain private firms’ growth in one region, whereas lack of entrepreneurship limits the number of firms in another. The mapping can be used to develop a regional development strategy with concrete actions that can stimulate economic development in the region going forward. Some of the needs are specific to the region, whereas other needs are more national. It is therefore important that the regional development strategy builds on and is aligned with national strategies.

A *second element* is a mapping of the FDI attractiveness of the region. Understanding the drivers of FDI across sectors, types of FDI and territorial contexts makes it easier for policy makers to develop high-impact FDI promotion initiatives, and benchmarking the region against peers on these drivers of FDI will help reveal potentials. FDI drivers can be influenced at the EU, national and regional levels. In this study, we have combined quantitative and qualitative analyses to identify policy initiatives to increase FDI inflows that may give inspiration to policy makers at all levels. The mapping of strengths and weaknesses, and the identification of FDI potential, can be used to develop an FDI promotion strategy with concrete actions that can stimulate increased FDI inflows into the region.

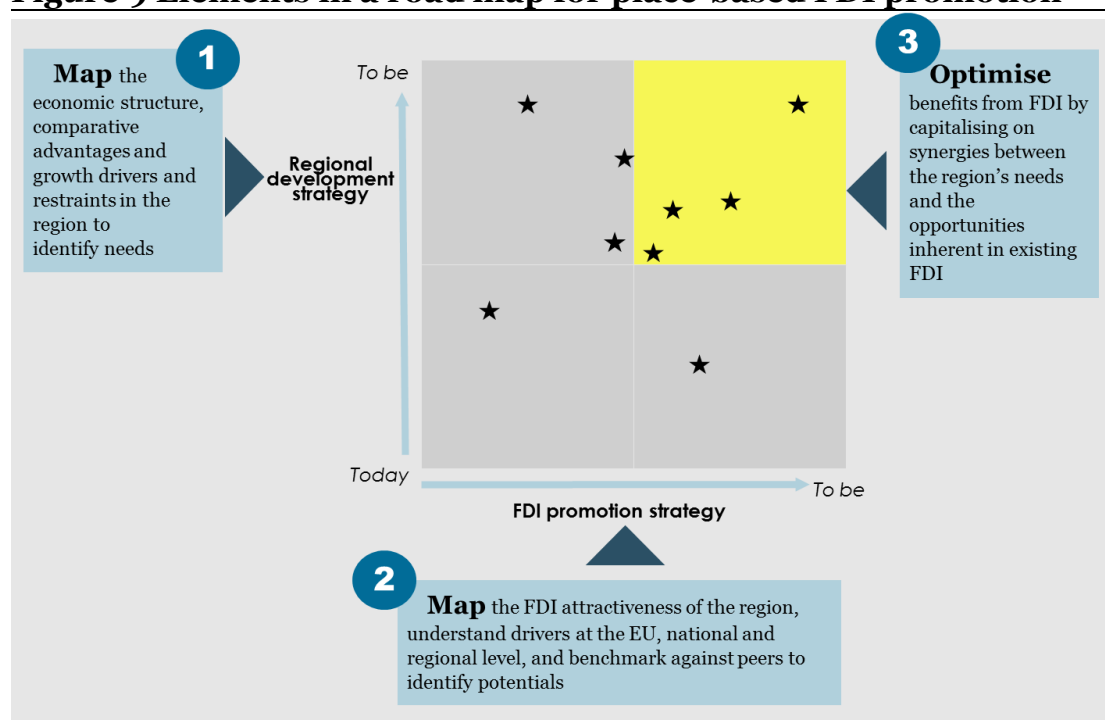
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<sup>24</sup> Since 2011, the European Commission has provided advice to regional and national authorities on how to develop and implement their smart specialisation strategies via a mechanism called ‘Smart Specialisation Platform’. Smart specialisation is an approach that aims to boost growth and jobs in Europe, by enabling each region to identify and develop its own competitive advantages. Through its partnership and bottom-up approach, smart specialisation brings together local authorities, academia, business spheres and the civil society, working for the implementation of long-term growth strategies supported by EU funds.

A *third element* is optimising benefits from FDI inflows by capitalising on synergies between the region's needs and the opportunities inherent in the FDI inflows to the region. Synergies could also relate to after-care support and stakeholder involvement in policy development that can make it more attractive for existing foreign companies to expand in the region and thereby support even more jobs.

These elements in a place-based approach to FDI promotion are illustrated in the road map in Figure 9, where policy makers are encouraged to search for initiatives that support both the implementation of the regional development strategy and the FDI promotion strategy (illustrated by stars in the upper right corner). It should be emphasised that the effectiveness of certain initiatives in some case hinges on the implementation of other initiatives. Infrastructure investments that improve the physical accessibility of a region, for example, are more likely to attract foreign companies looking for ways to optimise their value chains if initiatives to strengthen value chains in the region, streamline border procedures and cut red tape are implemented simultaneously.

**Figure 9 Elements in a road map for place-based FDI promotion**



Note: The stars are illustrative and represent different initiatives, which the regional authorities can consider implementing. "Today" is the current situation, whereas "To be" reflects the expected situation once new initiatives have been implemented. Stars in the upper right corner reflect initiatives that support both the implementation of the regional development strategy and the FDI promotion strategy.

Source: ESPON FDI (2018) based on the quantitative and qualitative analyses carried out in this study

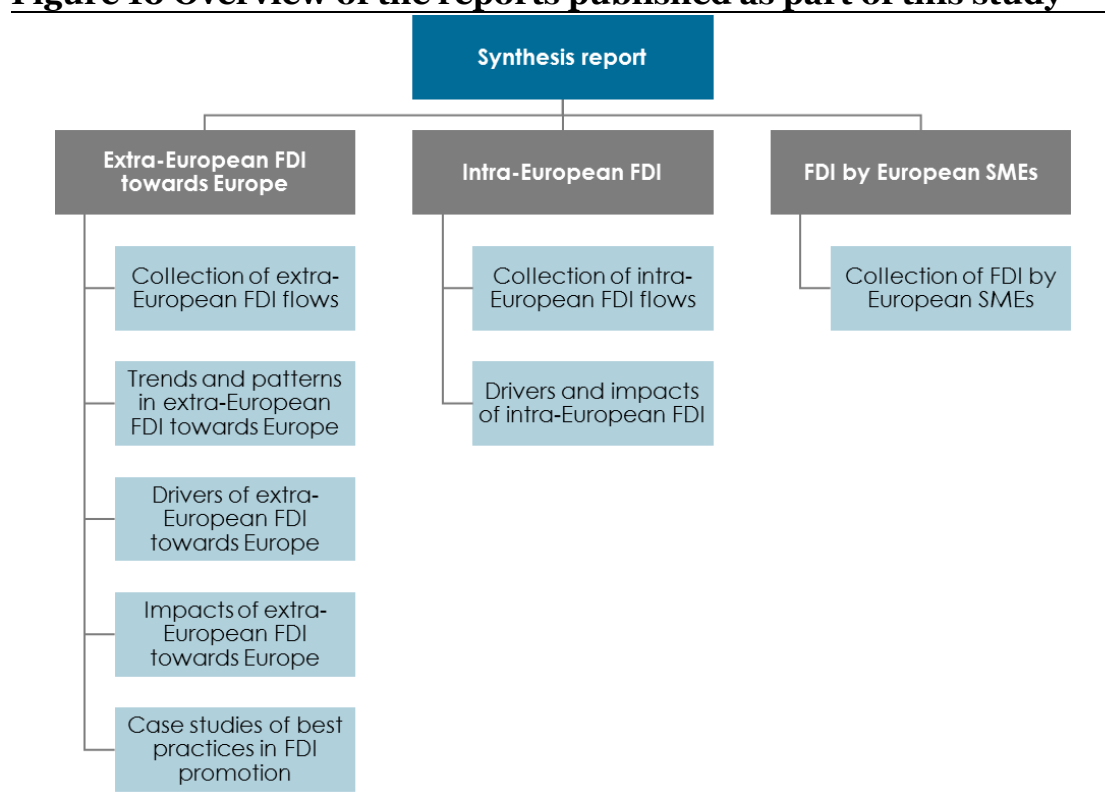
## CONCLUDING REMARKS

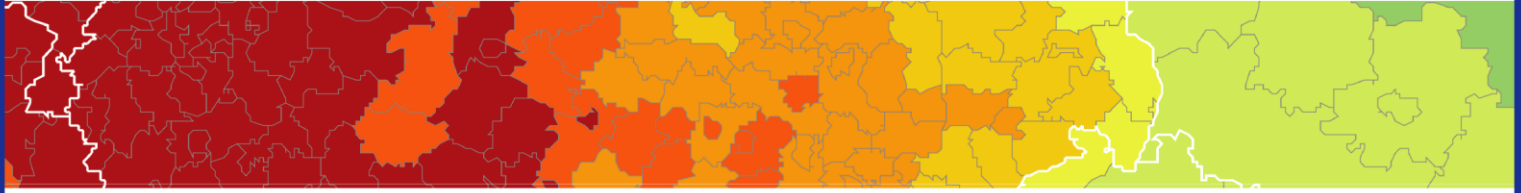
FDI has the potential to create new jobs directly in the foreign firms, increase production and stimulate economic development. Foreign firms will in most cases increase demand from local suppliers and support sustainable development in the region. Foreign firms also hold technical, operational and managerial knowledge that local firms can tap into and thereby improve their productivity. This explains why European countries, like other nations around the world, make significant efforts to attract foreign companies.

This study combines solid econometric models with insights from a new database on regional FDI inflows and detailed case studies on best practices in FDI promotion. The overall purpose is to identify initiatives that improve the integration of European regions in the global economy. The study consists of three parts, where detailed findings from each part can be found in the associated main reports each containing an executive summary. The applied data and methodologies are described in eight associated scientific reports as illustrated in Figure 10.

What comes out clearly is that all regions and cities can implement initiatives that will help realise their potential, but also that there is no “one size fit all” strategy for FDI attraction. Rather, it is the combination of the attractive investment climate created by EU, national and regional policies and the application of unique “best practices” strategies fitted to the territorial context that have stimulated FDI inflows in successful regions. With the right policy framework and a place-based approach to FDI promotion, FDI inflows towards Europe can thus support financial stability, promote economic development and enhance the well-being of societies.

**Figure 10 Overview of the reports published as part of this study**





### **ESPON 2020 – More information**

ESPON EGTC

4 rue Erasme, L-1468 Luxembourg - Grand Duchy of Luxembourg

Phone: +352 20 600 280

Email: [info@espon.eu](mailto:info@espon.eu)

[www.espon.eu](http://www.espon.eu), [Twitter](#), [LinkedIn](#), [YouTube](#)

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